House of Commons
Culture, Media and Sport Committee

The Gambling Act 2005: A bet worth taking?

First Report of Session 2012–13

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Additional written evidence is contained in Volume II, available on the Committee website at www.parliament.uk/cmscom

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The Culture, Media and Sport Committee

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Committee staff

The current staff of the Committee are Elizabeth Flood (Clerk), Sarah Heath (Second Clerk), Victoria Butt (Senior Committee Assistant), Keely Bishop/Alison Pratt (Committee Assistants) and Jessica Bridges-Palmer (Media Officer).

Contacts

All correspondence should be addressed to the Clerk of the Culture, Media and Sport Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 6188; the Committee’s email address is cmscom@parliament.uk
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1 Introduction and context

1. The Gambling Act 2005 (‘the 2005 Act’), which came fully into force on 1 September 2007, was broadly designed not only to consolidate existing gambling legislation but also to update the regulatory structure for online gambling, casinos and what were known as Fixed Odds Betting Terminals (FOBTs), on which roulette and other casino games can be played in betting shops. The Act also created a new unified industry regulator, the Gambling Commission.

2. As had been the case for such legislation since gambling was first regulated in the UK, the 2005 Act was based on three key principles, which are set out in section 1 of the Act:

- Gambling should not be a source of crime or disorder, associated with crime or disorder or be used to support crime;
- Gambling should be conducted in a fair and open way;
- Children and other vulnerable people should be protected from being harmed or exploited by gambling.

The situation prior to the 2005 Act

3. Gambling has been a part of British culture for many hundreds of years. However, there has been considerable disagreement between those who believe gambling to be a fundamentally immoral and damaging activity—which should be severely restricted if not banned—and those who argue that individuals should be free to gamble with only those minimal restrictions needed to prevent crime and protect the vulnerable. Prior to 1960, governments’ attitudes to gambling were for the most part prohibitionist. In 1960, the Betting and Gaming Act liberalised gambling law, allowing those who wished to gamble to do so. The 1960 Act legalised betting shops and, despite its original intention to permit private gaming, it inadvertently led to an explosion of commercial gaming which could take place in locations such as restaurants, bingo halls and members’ clubs. Illegal gaming also took place in private residences: by 1968 there were at least 1,200 ostensibly private venues offering casino games. It was only under the 1968 Act that gambling was restricted to licensed premises. Largely due to the deficiencies of the 1960 Act (and the subsequent 1963 Betting, Gaming and Lotteries Act), commercial gambling quickly became a source of significant organised criminal activity. However, the Gaming Act 1968 largely succeeded in its aim of removing criminality from the gambling industry. This Act established the Gaming Board for Great Britain, which regulated the industry until it was replaced by the Gambling Commission under the 2005 Act.

4. Since the 1960s, the UK gambling industry has undergone significant change. This has been due partly to developing social attitudes and partly to technological innovations. Groups which previously took a prohibitionist stance now argue for what they see as appropriate regulation and consumer protection measures to combat problem gambling. On the other side of the debate, the industry accepts in principle that problem gambling is
a serious issue for some people. Successive reviews, including the Royal Commissions on Gambling (1932-33, 1949-51 and 1978) and the Gambling Review Report of 2001, all clearly state that it is the role of Government to treat the gambling industry in the same way as any other legitimate leisure industry whilst putting in place measures to prevent criminality and excess. Government policy has been to recognise the legitimacy of the gambling industry and to allow the consumer increasing freedoms whilst maintaining consumer protection largely through regulation. The restrictions imposed on various types of gambling have been calibrated to reflect their perceived potential harms, in particular the possibility of encouraging problem gambling, the large earning potential, opportunity to launder criminal proceeds and therefore attractiveness to organised crime. The text box below summarises the approach taken.

**‘Hard’ and ‘soft’ gambling**

Gambling is often broken down into “hard” and “soft” types. The level of stakes, prizes and the speed of play are the main factors deciding the hardness of gambling types. A fundamental aspect of protecting children and other vulnerable people from gambling-related harm is restricting access to gambling and, in particular, to harder forms of gambling. Venues like casinos and, to a lesser extent, betting shops are at the ‘hard’ end of gambling, while bingo and family amusement arcades are ‘softer’.

5. Gambling is now widely accepted in the UK as a legitimate entertainment activity. While we recognise the need to be aware of the harm caused by problem gambling, it seems to us that the rather reluctantly permissive tone of gambling legislation over the last 50 years is now an anomaly. Our general approach in this report has therefore been to support liberalisation of rules and delegation of decisions to those most knowledgeable about their likely impacts, local authorities, while keeping national controls to the minimum commensurate with protection of the vulnerable, in particular children.

6. One of the catalysts for the 2005 Act was the National Lottery Act 1993, which established the National Lottery and modernised and relaxed the regulation under which lotteries operate. Subsequent demands for a “level playing field” from the rest of the gambling industry led to piecemeal deregulation and the realisation that the existing laws were out of date and unable to deal with new technology. Because of these concerns, a Gambling Review Board chaired by Sir Alan Budd was set up and published its Gambling Review Report in 2001. Shortly afterwards the Government issued a consultation and policy document, A Safe Bet for Success—Modernising Britain’s Gambling Laws. The 2005 Act arose from these.

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2 Q 296

3 Gambling Review Report, Gambling Review Body, Department for Culture, Media and Sport, Cm 5206, July 2001, (hereafter ‘Gambling Review Report’) and A Safe Bet for Success, Department for Culture, Media and Sport, Cm 5397, March 2002 and PN 22, 26 March 2002

4 Ibid.
7. The 2005 Act replaced the Gaming Act 1968, the Betting, Gaming & Lotteries Act 1963 and the Lotteries and Amusements Act 1976, both consolidating this legislation and removing some of its anomalies. For example, it removed the membership requirement for casinos and bingo halls as well as the 24-hour waiting period for membership. It introduced a regulatory framework for online and remote gambling within the UK. Importantly, it also gave government the power and the gambling industry the responsibility to tackle problem gambling. The Act had the overall effect of expanding the consumer’s choice of betting and gaming products and making consumer protection measures an enforceable requirement. However, it did not break up the small number of existing near-monopolies within the industry and there have been no new entrants into the gambling market since 2005, other than in the remote sector.

8. Some of the provisions of the Gambling Bill (which became the 2005 Act) were controversial and the Bill underwent significant changes during its passage through Parliament. The provision to permit the development of Regional Casinos (also known as “Destination”, “Resort” or “Super Casinos”) became the most contentious part of the Bill. A significant amount of the debate on the Bill centred on this issue, which arguably led to inadequate Parliamentary examination of other aspects of the Bill.

9. The extent to which the 2005 Act brought about fundamental change to the UK gambling market is easily overstated. Prior to the 2005 Act, overseas-based providers were permitted to offer and advertise internet gambling, although UK-based providers were banned from advertising and offering online gaming products. Deregulatory measures like the reduction of casino membership waiting times from 48 to 24 hours, and measures which led to the increasingly widespread availability of gaming machines in pubs and fast food outlets had been introduced piecemeal before 2005. Betting shops were, for example, permitted to display odds and details of available bets in their windows from 1995 as well as to open on Sundays. B2 gaming machines—formerly known as Fixed Odds Betting Terminals (FOBTs)—had been introduced into the UK in 2001 and roughly 30,000 were already in place by the time the 2005 Act came into force.

**Criticisms of the 2005 Act**

10. According to our witnesses, the 2005 Gambling Act has failed in a number of respects:

- Several industry contributors argued that the “legitimate commercial interests” of some gambling companies were being interfered with by levels of regulation and that current legislation had failed to create a fair system of regulation and a level playing field for the UK gambling industry either nationally or internationally.  

- The presence of relatively high-stake category B2 (FOBT) machines in high-street betting shops was a source of considerable concern to groups which aim to combat problem gambling. They argued that B2 machines posed a greater risk of causing problem gambling than other forms of gambling.

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5 Ev 153, Ev 158, Ev 161

• The 2005 Act was criticised as being over-complex and difficult to interpret. There were reports of communication problems between the Gambling Commission, local authorities and certain sectors of the industry. Some commentators suggested that the Act had also failed to create a future-proofed structure for machine regulation.

• While the Act permitted UK-based companies to offer online gambling services and continued to allow non-UK providers to target UK consumers, only the UK-based providers were made subject to regulation by the Gambling Commission. The decision to regulate online gambling at the point-of-supply rather than the point-of-consumption and to allow non-UK regulated providers to operate into the UK was widely criticised. This together with significant tax increases had led to migration of online providers offshore. There was broad consensus that the 2005 Act has, thus far, failed to produce a future-proofed regulatory structure for the remote and offshore online gambling industry.

• The 2005 Act created anomalies in the regulatory regime for casinos and has failed to result in any licences for Regional Casinos and only one new Large 2005 Act Casino being built thus far. Since the launch of this inquiry, two more Large Casino licences have been granted.

**Our inquiry**

11. We announced our inquiry into gambling on 17 May 2011 in response to a large number of representations from gambling interests. Our decision coincided with the publication by the Department for Culture, Media and Sport of its Post-Legislative Assessment of the Gambling Act 2005. We decided to focus our inquiry on the key principles behind the Act which became the licensing objectives enshrined in the core aims of the Gambling Commission (see paragraph 2). Our inquiry also addressed:

• the financial impact of the Act on the UK gambling industry;

• the effectiveness of the Gambling Commission since its establishment, and whether it represents good value for money;

• the impact of the proliferation of offshore online gambling operators on the UK gambling sector and what effect the Act has had on this;

• why the Act had not resulted in any new licences for casinos or “super” casinos. (Since we announced our inquiry and to date one Large Casino has opened in the London Borough of Newham and two more Large Casino licences have been granted in Milton Keynes and Great Yarmouth);

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7 Memorandum to the Culture, Media and Sport Select Committee on the Post-Legislative Assessment of the Gambling Act 2005. CM 8188. October 2011.

8 The licensing objectives of the Gambling Act 2005. These are enshrined in the core aims of the Gambling Commission.
• the effectiveness of the classification and regulation of gaming machines under the Act;\(^9\)
• The impact of the Act on levels of problem gambling.

**The conduct of the inquiry**

12. We consulted a wide range of interested parties in the course of our inquiry. We invited 49 individuals to six oral evidence sessions and received 109 pieces of written evidence. We held one of our evidence sessions at the Mecca Bingo Hall in Dagenham, operated by the Rank Group. We concluded our evidence-taking with a session with the Minister responsible for gambling at the Department for Culture, Media and Sport, John Penrose MP, and the Economic Secretary to the Treasury, Chloe Smith MP.

13. We visited Brussels to find out how other European jurisdictions regulate online gambling and to examine proposals for a European regulatory regime for online gambling. We also visited Australia and Macao to discuss the casino industry (in particular, the impact of Regional Casinos), to explore the potential effects of deregulation of gambling machines and to study the relationship between gambling and tourism. The details of what we found are contained in Annex 1 of this Report.

14. In the UK, we also visited the new Aspers Casino at the new shopping centre complex in Stratford near the Olympic Stadium in the London Borough of Newham, which is the only casino to have been opened under the 2005 Act. We held a roundtable discussion with gambling industry stakeholders hosted by the National Casino Industry Forum followed by a visit to another London casino. In addition, we visited a Gala Coral betting shop and a bingo hall in Dagenham.

15. We were greatly assisted in our inquiry by two Specialist Advisers, Professor Peter Collins, now retired as Professor of Public Policy Studies at the University of Salford, and Mr Steve Donoughue, Gambling Industry Strategy and Communications Specialist. We are most grateful to everyone who submitted evidence or assisted during our visits.

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\(^9\) The 2005 Act defines a “gaming machine” as a “machine which is designed or adapted for use by individuals to gamble”.

2 The three objectives of gambling regulation

Gambling and crime

Licensing objective 1
Preventing gambling from becoming a source of crime or disorder, being associated with crime or disorder or being used to support crime.

16. We found no evidence that the 2005 Act has led to any significant positive or negative change in the levels of crime and disorder associated with the gambling industry. Many of our witnesses agreed with the Remote Gambling Association that “the British gambling industry has an excellent track record in combating crime and protecting the vulnerable”.10 There was a general consensus among industry contributors that the Gaming Act 1968 had already successfully controlled gambling-related crime and that the 2005 Act made minimal, if any, improvements in this regard. The casino and bingo operator Praesepe plc said that the 2005 Act had been “effective in maintaining the position that was already well established prior to the introduction of the Act”,11 while the Rank Group observed that “a ‘clean’ industry has been kept clean”.12

17. Some submissions indicated that the minimal improvements that there had been regarding the first objective involved the way illegal activity was dealt with as a result of the Act. Nikolas Shaw Limited, a small gambling company operating across the casino, betting shop and arcade sectors, stated that unlawfully sited gaming machines and illegal poker had been “curbed” under the 2005 Act, whilst the Remote Gambling Association suggested that the Act had “brought greater levels of consistency to how [...] threats [of illegal activity] are addressed”.13

A fair and open industry

Licensing objective 2
Ensuring that gambling is conducted in a fair and open way.

18. We heard no evidence that the onshore gambling industry is conducted in a way which is not fair and transparent to the consumer. Whether or not this is attributable to gambling

10 Ev 178, Ev 152, Ev 158, Ev 180, Ev W 44, Ev W 01, and Ev W 52
11 Ev W 06
12 Ev 180
13 Ev W 01 and Ev 178
legislation or is simply the outcome of a competitive market is not clear. Betfair held that the high levels of openness and fairness, which it said predominated in the online, offshore sector, existed “primarily because companies active on the UK market choose to operate to the highest standards”.14 “Multi-licensed companies”, it argued, elected to go beyond the customer protection standards enforced under the 2005 Act.15 However, Betfair also pointed to the fact that other jurisdictions required additional customer protection measures like Know-Your-Customer (KYC) and anti-money laundering checks across all sectors, whereas in the UK these were only required for land-based casinos.16

**Problem Gambling**

**Licensing objective 3**

Protecting children and other vulnerable persons from being harmed or exploited by gambling.

**Defining problem gambling**

19. The term “problem gambling” can be defined in different ways and can include excessive gambling, where an individual gambles more money than he or she can afford, which is a matter for subjective assessment, as well as compulsive gambling (where an individual suffers from an addiction). We use the term to mean that a person continues to gamble despite harmful negative consequences or a desire to stop.

20. Evidence from faith and community groups focused on the harm to individuals and society which they attributed to problem gambling. They argued that problem gambling was a significant and growing issue and that it had a negative impact on society that exceeded the benefits generated by the gambling industry. Quaker Action on Alcohol and Drugs argued that the “moral and practical question for legislators—which was not squarely faced when the Gambling Act was passed—is whether profit for the industry, and an increase in gambling opportunities for the consumer, are worth these human costs”.17 The 2001 Gambling Review Report cited a number of potential negative consequences of gambling, including: job loss, absenteeism, poor work/study performance, stress, depression and anxiety, suicide, poor health, financial hardship, debts, asset losses, exposure to loan sharks, bankruptcy, resorting to theft, imprisonment, neglect of family, impacts on others, relationship breakdown, domestic or other violence, burdens on charities and burdens on the public purse. The Gambling Review team recognized that levels of problem gambling might rise as a consequence of some of their recommendations.18 The then Secretary of State for Culture, Media and Sport, Tessa Jowell MP, gave assurances that:

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14 Ev 180
15 Ev 161 and Ev 167
16 Ev 161
17 Ev 193
18 Gambling Review Report p94
If evidence of harm emerges through the research and monitoring that is undertaken, we will act swiftly to toughen the controls. We have powers throughout the Bill to withdraw or move back from the liberalisation if there is evidence of harm.\textsuperscript{19}

**Extent of problem gambling**

21. Different sectors of the gambling industry told us that, although they accepted the principle that one problem gambler was a problem gambler too many, they believed that rates were low and had not increased significantly since the introduction of the 2005 Act. A number of submissions suggested that the risks of problem gambling were over-stated.\textsuperscript{20}

22. The most recent British Gambling Prevalence Survey (BGPS) (sponsored by the Gambling Commission) estimated the actual number of problem gamblers in the UK in 2010 at between 360,000 and 450,000 adults,\textsuperscript{21} though the accuracy of this figure is by no means certain. To put this figure in context, the number of adults who said that they had taken part in some form of gambling in the past year (in 2009/10) was about 35.5 million, which is 73\% of the adult population.\textsuperscript{22} The GREaT Foundation, which raises money from the gambling industry to fund research, education and treatment programmes aimed at reducing problem gambling, compared the number of problem gamblers to the rates for other public health issues in the UK saying that:

> The incidence of problem gambling [...] pales into social insignificance when compared to smokers (13 million), those with alcohol or drug problems (6 million) and obesity (16 million).

23. The 2010 BGPS, the third in a series of surveys,\textsuperscript{23} was the first to be carried out after the implementation of the 2005 Act and was meant to provide a benchmark for assessing the level of participation in gambling in the UK as well as the prevalence of problem gambling. However, it was not specifically designed to provide information about why any changes had taken place, so it can give no firm evidence about the effects of the 2005 Act on the incidence of problem gambling.

24. Some of the figures produced by the BGPS are set out below and illustrate the broad finding that levels of participation in gambling activities had increased between the second BGPS in 2007 and 2010.

- 73\% of people aged 16 and over participated in some form of gambling in the previous year—around 35.5 million adults—representing a return to the higher rates observed in 1999 from 68\% in 2007.

\textsuperscript{19} HC Deb, 1 November 2004, cols.31-32.

\textsuperscript{20} Ev 227 (Bingo Association); see also Ev 06 (Gala Coral Group), Ev 161, and Ev 186

\textsuperscript{21} See Annex 2 for a description of the methodology and an estimate of the robustness of this survey.

\textsuperscript{22} National Centre for Social Research, *British Gambling Prevalence Survey 2010*, p9

\textsuperscript{23} The others took place in 1999 and 2007. The 2005 Act was brought into force fully only in 2007, so the 2010 survey was the first under the new Act.
• 56% of adults participated in a form of gambling in the previous year, excluding the lottery. Comparable estimates for 1999 and 2007 were 46% and 48%.

• 4% of adults reported that their gambling involvement increased in the previous year, 13% that it decreased, and 82% that it had stayed the same.

• Findings suggested that the prevalence of problem gambling appears to have increased from about 0.6% in 2007 to 0.9% in 2009/10.²⁴

25. It is important to note that, whilst the increase in the number of problem gamblers observed between 2007 and 2010 is most likely to be 0.9% (a 50% rise), the increase could in fact lie within a range of between 0.7% and 1.2%.²⁵ In other words, the percentage increase could be in the order of between 16% and 100%. Whilst the most likely level of increase identified by the BGPS is 50%, this result is defined as only marginally significant due to factors such as the relatively small sample size.

26. Whilst it is agreed that the findings of the BGPS are significant in the sense that they are ‘statistically significant’, there is debate as to whether this translates into ‘real-world’ significance. Gambling industry representatives argue that little has changed, with the Bingo Association stating that: “levels of problem gambling remain broadly the same as before the Act was implemented”.²⁶ However, Professor Orford, from the University of Birmingham, argued against this view, saying that the increase was significant in real terms, and adding:

The best evidence is suggesting that it [the number of problem gamblers] is far from stable, that it has actually gone up significantly over the last three years.²⁷

Heather Wardle, from the National Centre for Social Research, said that:

On the balance of probability, the increase is real and likely.²⁸

27. The imprecise nature of these findings also results in part from the lack of any significant studies on the causes of problem gambling. Professor Orford told us that the increase in problem gambling levels was as a “consequence of the changes introduced under the Act”.²⁹ Whilst we recognise that the figures from the BGPS show a likely increase of 50% in the numbers of problem gamblers, we have seen no hard evidence to support the view that this increase was the result of the 2005 Act.

28. The BGPS was criticised by some as being a tick-box exercise and prone to classifying casual gamblers (who may place a bet only five or six times in a year) as problem gamblers.³⁰ Graham White and Phillip Brear, from the Jersey and Gibraltar gambling regulators, agreed that BGPS methodology was “suspect” as “you need to tick only three
boxes on the problem gambling scale and you are a problem gambler by definition”. Mr White gave the example of somebody answering “yes” to the question “have you ever lied about your gambling habits?” because they had told their spouse that they had bet £10 rather than £20 at Cheltenham. A lack of discrimination between enthusiastic and problem gamblers could therefore lead to a number of false positives. It is worth noting that the two approaches used in the 2010 survey identified different sets of respondents as problem gamblers. However, it is also worth noting that the methodology used remained the same for all three BGP Surveys. Therefore, although it may be unwise to extrapolate figures from the BGPS to the population as a whole, the successive surveys provide comparability across time.

On our visit to Australia, we were told that the most relevant statistic on problem gambling was the total proportion of gamblers who were problem gamblers, not the proportion of the total population who were problem gamblers. This was because the former measure allowed an assessment to be made of the likelihood of a gambler, or somebody who gambles in a certain way, becoming a problem gambler. The 2010 BGPS shows that—amongst those who had gambled in any form at least once in the past year—problem gambling prevalence rates were around 1% to 1.3%. The rate of problem gambling among those who gamble is, of course, higher than expressed as a percentage of the total population. However, around 1% remains a low figure, supporting arguments from the gambling industry that gambling should be seen as a legitimate leisure activity, though one for which appropriate safeguards should be in place to protect the vulnerable.

Further evidence on problem gambling comes from overseas studies, in particular those conducted in America and Australia. However, such studies must be treated with caution when attempting to draw conclusions about the UK gambling market. As Professor Griffiths of Nottingham Trent University commented in a study for the Gambling Commission, “the applicability of evidence from overseas needs to be assessed further because regulatory, geographic and venue information as well as machine characteristics (including the size of stakes and prizes) in other jurisdictions differ”.

An area of consensus between industry bodies, faith groups and academics alike was the need for more and better evidence on problem gambling and specifically about its causes. The 1978 Rothschild Royal Commission found that there was a “serious shortage” of information and recommended that a “Gambling Research Unit” be established by the Government. The then Culture, Media and Sport Committee produced a Report in 2002 noting that “the consensus was clear that not enough objective data [about problem gambling] had been collected or analysed”. It is now nearly five years since the 2005 Act was fully implemented in 2007 and this situation has changed remarkably little.

31 Ibid.
32 Ibid.
33 British Gambling Prevalence Survey 2010, p77
34 Impact of high-stake, high-prize gaming machines on problem gambling, 2008 Desk exercise by the Gambling Commission, Contributing Ed. Professor Mark Griffiths p2
35 The Royal Commission on Gambling, chaired by Lord Rothchild, CM 7200, July 1978, p20
32. In addition to the industry’s voluntary annual contribution of £5 million for Research, Education and Treatment programmes, the Government previously provided funding for the British Gambling Prevalence Surveys. The Government has now withdrawn funding for future British Gambling Prevalence surveys without giving any indication that it has considered other options, either for obtaining funding for similar studies elsewhere or for commissioning other forms of research. We recommend that the Government works with the Gambling Commission to provide a clear indication of how it intends to ensure that sufficient high-quality research on problem gambling is available to policy-makers. It is particularly important that research is seen to be independent and comparable over time to show whether or not there is a change in the levels of problem gambling.

**Under-age gambling**

33. An area of understandable concern for groups interested in the social impact of gambling is under-age gambling. A 2009 survey carried out by Ipsos MORI for the National Lottery Commission found that 2% of 12–15 year olds (about 60,000) were problem gamblers. This is a higher prevalence figure than for adults, despite being lower than in previous studies. The Methodist Church of Great Britain argued that research was needed to establish whether there was a link between “youth gambling and later problem gambling”, stating that “early exposure to gambling is linked to later patterns of problem gambling”. Both the 2009 Ipsos MORI survey and a further survey for the National Lottery Commission concluded that “exposure to gambling generally is [...] linked with higher rates of gambling”.

34. The Rank Group described the level of under-age gambling as “unacceptably high”, but said that the data on under-age gambling was “frustratingly inconsistent and, as a consequence, it was difficult to gauge either the extent or the trend in under-age gambling”. Business in Sport and Leisure (BISL) told us that the 2005 Act had reduced the risk of those under 18 gambling by restricting machines to licensed premises. DCMS’s position was that protecting children from gambling-related harm had been a notable success of the 2005 Act, and that it was now time for the industry itself to assume responsibility for monitoring and enforcing safeguards to protect children.

35. The bingo and casino sectors argued that they performed well in preventing under-age people from gambling with them. The Rank Group said that “licensed bingo clubs and casinos—which provide high levels of supervision, including regulated entry—jointly accounted for just 0.09% of all recorded incidents of under-age gambling in 2008/9, compared with adult participation rates of 8% and 5% respectively”.

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38 Ev 210
40 Ev 180
42 Ev 180
36. In May 2009, the Gambling Commission carried out a test-purchasing scheme covering about 80% of major betting shop operators to measure the success rate of industry safeguards against under-age betting. 98% of the under-18 year-olds involved in the test were permitted to gamble. The Association of British Bookmakers responded by signing up to a new Code of Practice and Action Plan, which entailed introducing a board-level ‘champion’, new signage, staff training and commissioning further test-purchasing exercises. On retesting, the 98% failure figure improved to a 65% failure rate out of 160 shops visited; and in 2010, one test recorded a failure rate of 26%. The Gambling Commission stated that it was encouraged by the positive reaction of the industry to its original poor performance.

37. More recent studies by the Commission focusing on other gambling sectors including Adult Gaming Centres show a significantly lower failure rate of about 29%. The figures from the Adult Gaming Centre sector were described by the Gambling Commission as “encouraging” but indicating that there was “still scope for further improvement”. DCMS argued that this was an area where the industry should assume responsibility for monitoring and enforcing safeguards.

38. We note the wide variation between sectors in the ease with which ‘under-age purchasers’ have been able to evade the safeguards designed to protect them from gambling. In particular, we are very concerned about the continuing comparatively high failure rate of betting shops (against other kinds of gambling premises), which—thanks to the 2005 Act—are now able to host casino-style roulette machines. We recommend that the Gambling Commission continue to monitor the ability of children to access gambling premises through regular test-purchasing schemes rather than handing the responsibility to monitor and enforce age-restrictions to the gambling industry. The Gambling Commission, working with local authorities, should also take swift enforcement action where an operator fails to introduce sufficient access and age-verification controls.

39. There has been insufficient data collected to establish whether or not the 2005 Act has been successful in its aim of protecting children from gambling. This highlights a particular need for more research in this area.

**Preventing problem gambling**

**The regulatory pyramid**

40. As already explained, gambling is often broken down into “hard” and “soft” types. We received many submissions arguing that some forms of gambling intrinsically pose a higher risk of causing or exacerbating problem gambling because of their speed of play and often high stake and prize levels. While Professor Orford cautioned that a link between

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43 Ev 186 and DCMS, Post-Legislative Assessment of the 2005 Gambling Act, October 2011, p11
45 Ibid.
46 See text box on p4
47 Ev 214, 210, 268, 193, and Ev W 71
gambling forms that feature fast, repeated play, including casino games and machine gambling, had been difficult to establish as “many people gamble on more than one activity”. 48 Professor Griffiths, a gambling specialist at Nottingham Trent University, noted in a study for the Gambling Commission that “compared to non-problem gamblers, problem gamblers tend to play on gaming machines more frequently and spend more time and money on them”. 49

41. The 1968 Act put in place a “regulatory pyramid”, meaning that harder forms of gambling were confined to locations with tighter controls on, for example, access. The 2005 Act, as well as more recent developments, have disrupted this ‘pyramid’, as online gambling—much of which is not subject to UK regulation—has developed and some ‘harder’ forms of gambling (such as casino-style gaming machines) have been permitted in traditionally ‘softer’ locations.

42. We deal with the various issues surrounding online gambling in the next chapter. We turn now to the issue of gaming machines.

**Gaming machines**

**Machine allowances**

43. Gaming machines are important to the gambling industry because of their revenue-producing potential, which is in part attributable to their low labour costs. The Gaming Act 1968 permitted three types of gaming machines.

- Jackpot machines were allowed only in casinos, bingo halls and in members’ clubs (all of which had restrictions on entry for non-members and, in particular, had age restrictions). Jackpot machines had a maximum stake of 50p (£2 in casinos); the maximum prizes varied according to where machines were located: £4,000 in casinos; £500 in bingo halls and £250 in clubs.

- Amusement With Prizes (AWP) machines were mainly found in arcades, but could be located in other premises, such as fish and chip shops, with the consent of the local authority. They had a maximum stake of 30p. The maximum prize was £5 in cash or £8 in tokens or another non-cash prize.

- All-Cash machines were located in arcades, bingo halls, pubs and betting shops and had a maximum stake of 30p, with a maximum prize of £25.

44. The classification system for gaming machines under the 1968 Act was, to say the least, complex: it was described by the 2001 Gambling Review Report as “incoherent and full of anomalies”. The review also noted that the then regulator (the Gaming Board for Great Britain) had no clear guidance on the classification of gaming machines.

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48 Ev 214

49 Impact of high-stake, high-prize gaming machines on problem gambling, 2008 Contributing Ed. Professor Mark Griffiths. See also Ev 210 and Ev 193
Britain) had within its jurisdiction only that minority of machines which were situated in casinos and bingo halls.  

45. The 2005 Act established a new system for categorising gaming machines (A, B, C, and D). The table below sets out the current categories and their associated stake and prize limits.

<table>
<thead>
<tr>
<th>Machine Category</th>
<th>Maximum stake (from July 2011)</th>
<th>Maximum prize (from July 2011)</th>
<th>Venues</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Unlimited</td>
<td>Unlimited</td>
<td>Regional Casinos (none available)</td>
</tr>
<tr>
<td>B1</td>
<td>£2</td>
<td>£4,000</td>
<td>Casinos</td>
</tr>
<tr>
<td>B2</td>
<td>£100 (in multiples of £10)</td>
<td>£500</td>
<td>Casinos, Betting Shops</td>
</tr>
<tr>
<td>B3</td>
<td>£2</td>
<td>£500</td>
<td>All licensed venues except pubs, clubs and travelling fairs</td>
</tr>
<tr>
<td>B3A</td>
<td>£1</td>
<td>£500</td>
<td>All licensed venues except pubs, clubs and travelling fairs</td>
</tr>
<tr>
<td>B4</td>
<td>£1</td>
<td>£250</td>
<td>All licensed venues except travelling fairs</td>
</tr>
<tr>
<td>C</td>
<td>£1</td>
<td>£70</td>
<td>All licensed venues except travelling fairs</td>
</tr>
<tr>
<td>D non-money prize (other than crane grab machine)</td>
<td>30p</td>
<td>£8</td>
<td>All licensed venues</td>
</tr>
<tr>
<td>D non-money prize (crane grab machine)</td>
<td>£1</td>
<td>£50</td>
<td>All licensed venues</td>
</tr>
<tr>
<td>D money prize</td>
<td>10p</td>
<td>£5</td>
<td>All licensed venues</td>
</tr>
<tr>
<td>D combined money and non-money prize (other than coin pusher or penny falls machines)</td>
<td>10p</td>
<td>£8 (of which no more than £5 may be a money prize)</td>
<td>All licensed venues</td>
</tr>
<tr>
<td>D combined money and non-money prize (coin pusher or penny falls machines)</td>
<td>10p</td>
<td>£15 (of which no more than £8 may be a money prize)</td>
<td>All licensed venues</td>
</tr>
</tbody>
</table>

Table 1: Source: Gambling Commission guidance  

50 Gambling Review Report, p129, paras 23.1 and 23.4. Local authorities were responsible for licensing and enforcement for the remainder of gaming machines.  
46. As illustrated above, the 2005 Act continues a regime of permitting different types of machine, and different numbers of permitted machines, in various types of venue (depending on whether they were seen as suited to ‘hard’ or ‘soft’ gambling). While the regime was always rather complicated, the 2005 Act has increased the complexity by introducing separate licensing categories for three types of new casino (Small, Large and Regional), while retaining a fourth category of the pre-existing (1968 Act) Casinos.

- The 2005 Act specified that category A machines, with unlimited stakes and prizes, should be allowed only in Regional Casinos. However, Regional Casinos were not introduced because the Bill was amended to allow only one Regional Casino and the Statutory Instrument needed to allow its development was then defeated in the House of Lords in 2007; as a result no category A machines are currently available in the UK.
- Other casinos are now permitted B1 machines—the numbers of which are limited by their ratio to gaming tables—with a £2 stake and £4,000 prize limit and B2s with a £100 stake and £500 prize limit.
- Betting shops are also allowed up to four machines, all of which may be B2s.
- Bingo clubs are allowed up to eight B3 or B4 machines, and an unlimited number of C and D machines.
- ‘Adult gaming centres’ are permitted a limited number of B3 or B4 machines, as well as machines from lower categories.
- Private clubs, pubs, and ‘family entertainment centres’ are permitted C and D machines. Members’ clubs and miners’ welfare institutes are the only places allowed to offer B3A machines.

47. When we asked Jenny Williams, Chief Executive of the Gambling Commission, about the rationale behind machine categorisation she told us that the “categories that were put in place were, essentially, a result of discussion—trade-off, whatever you call it—in Parliament at the time about how precautionary the then Government felt they wanted to be”.

48. We were told by the Gambling Commission and by DCMS that gambling policy must be evidence-based. It is apparent, however, that the allocation of gaming machines under the 2005 Act is complex and was not made on the basis of solid evidence about the risk of problem gambling.

Anomalies

49. The 2005 Act removed gambling opportunities from many public areas, such as food outlets, and there was general agreement among our witnesses that while the classification system was “somewhat rough and ready” it was broadly justifiable as it limited machines
with higher stakes and prizes to more controlled venues. However, in the view of a number of our witnesses, the regulatory pyramid had been undermined by the approach taken in the Act to one specific type of gaming machine, the B2. The Casino Operators Association argued that the measured approach to availability of gambling machines had been “completely negated by the fact that 8,800 Licensed Betting Offices have been allowed to offer four hard-core casino gambling machines in each of their shops.” The Methodist Church described it as “worrying” that, as it saw it, the distinctions between “gaming environments and hard gaming locations” were “increasingly being eroded”. Simon Thomas, a member of the gambling industry and trustee of GamCare, suggested that the Act could have reduced the prevalence of problem gambling: the “principles behind the Gambling Act were sound and if it had controlled hard gambling on the high street [...] appropriately then the issues related to problem gambling would be less.”

50. B2 machines (FOBTs) have proved the most controversial form of gambling machine in terms of their potential impact on problem gambling. While other category B machines have the same £500 maximum prize as B2s, it is possible to stake up to £100 on a single bet (most commonly a single spin of the virtual roulette wheel) on B2s whereas other category B machines have a maximum stake of £2. Prior to the 2005 Act, FOBTs were not classed as gaming machines under existing legislation so there were no limits on where they could be placed and in what numbers. Richard Caborn, former Minister for Sport and Tourism, said that if they had not been controlled, “you would have had wall-to-wall FOBTs in this country”. As a result of growing concern about the proliferation of these machines, a deal was reached between DCMS, the Gaming Board and the Association of British Bookmakers (which represents 85% of the UK’s betting shops): a Code of Practice for FOBTs was introduced, limiting the number of gaming machines, including FOBTs, per betting shop to four. It also set limits on stakes and prizes; banned all casino-type games except roulette; set a minimum time interval between bets; and introduced signage and help pages on machines to deter problem gambling and assist problem gamblers. A subsequent inquiry—commissioned by the Association of British Bookmakers at the request of DCMS—concluded that “there is no evidence in this study which suggests that FOBTs are closely associated with problem gambling”. As a result, FOBTs were effectively “taken off probation” under the 2005 Act and classed as B2 machines. The limit of four machines per premises was reached as a trade-off between the DCMS and the industry.
51. The betting shop sector argued that B2 machines do not pose a significant risk of problem gambling. David Steele from William Hill cited the fact that there was no difference between the rate of problem gambling between the 2001 and 2009 British Gambling Prevalence Surveys (0.6% for both years), despite about 30,000 B2s being introduced between those surveys. FOBTs had been available in betting shops, however, since 2001. On the opposing side, several faith groups, including Quaker Action on Alcohol and Drugs and the Evangelical Alliance, said that "a large body of research shows that gaming machines are one of the riskier forms of gaming [...] because of their strongly reinforcing features". 64 In evidence to the 2003 Joint Committee on the Draft Gambling Bill, GamCare said that it had noticed an upward trend in people requesting help on B2s (FOBTs). 65 Some of its witnesses said that B2 machines had been described as accelerants or catalysts to problem gambling and Gordon House said that an applicant for its help had called B2s "the crack cocaine of gambling". 66

1) Casinos

52. It was widely agreed that casinos, with their strict entry controls and regulation, are the appropriate location for hard gambling, including machine gambling. 67 Simon Thomas of the National Casino Industry Forum (NCiF) told us that "having operated seaside arcades, inland arcades, bingo halls, I can say with my hand on my heart there is no level of regulation and protection like we are getting in the casino industry, particularly money laundering and every single member of staff being certificated". 68 However, under the current regime some types of casino are permitted considerably lower stake limits than high street betting shops. The NCiF argued that casino-style gaming machines such as B2s should be allowed only in the heavily regulated environment of the casino:

Casinos, at the top of the regulatory pyramid are permitted only Category B1 machines with a maximum £2 stake. Of the 144,110 licensed slot machines in the UK, only 2400 or 1.6% are in casinos while there are over 32000 B2 machines in 8500+ high street betting shops offering £100 stakes on a game that plays every 20 seconds and nearly 12000 B3 machines in bingo clubs and seafront arcades also with a proposed £2 stake.

The NCiF’s spokesman, Simon Thomas, explained that the challenge faced by casinos was that “above us we have the internet with very high stake gaming machines available and below us we have the betting shops with £100 stake machines”. He therefore proposed a “£5 stake and a £10,000 prize” limit for the casino sector’s B1 machines. 69

53. Casinos are the most highly-regulated sector and they are therefore the most appropriate venue for hard, high-stake forms of gaming. This is not reflected fully in the current allocation of machines. We believe that it is illogical to restrict the games available in highly regulated land-based casinos when B2s, with high stakes and prizes,
can be accessed in betting shops. The Government should address the current imbalance by permitting casinos to operate up to twenty B2-type machines with a maximum stake of £100.

2) **Betting shops**

54. Decreasing the limits on maximum stakes on B2 machines in betting shops (£100 stake on roulette games) to something closer to those available in other high street locations such as arcades, pubs and bingo halls (£2/£1) could cause financial difficulties for betting shops. About 50% of the profits of betting shops derives from machines and their business model has become very reliant on them.

55. The betting shop industry argued for an increase in the current allowance for B2 machines. David Steel of William Hill told us that, because of physical restraints and levels of demand, “five or six (B2 machines) would certainly satisfy demand at the high points of the day for the vast majority of shops in the UK”.70 Witnesses from the Rank and Gala Coral Groups expressed the opinion that numbers of machines were not linked to problem gambling, as it was impossible to play more than one machine at a time. However, during the visit to Mecca Bingo in Dagenham, we noted the fact that some customers can, and do, play on a row of machines simultaneously. DCMS Minister John Penrose also stated the possibility that limiting machine numbers, for example, in betting shops could lead to players being unable to reach a vacant machine immediately, thus experiencing a cooling-off period.71

56. During the Second Reading of the Gambling Bill in 2004, Tessa Jowell MP stated that the Government would “monitor very closely any evidence that the availability of these [B2] machines is leading to an increase in problem gambling, in which case we will take action through the Gambling Commission to address the matter”.72 She also raised her concerns about the rate of play for B2 machines, saying that “if you play constantly for an hour, you could lose £18,000 an hour. I would be concerned about that”.73

57. **We recommend that research be commissioned by the Gambling Commission to assess the potential of types of gambling to contribute to problem gambling levels, in particular whether there is a link between features including speed of play, stake and prize levels, accessibility and numbers of gaming machines, and problem gambling.**

**Reasons for clustering of betting shops**

58. Whilst acknowledging that the geographical distribution of betting shops was changing, the Association of British Bookmakers (ABB) pointed out that there had been no net increase in the number of UK betting shops since the 2005 Act came into effect in September 2007. They also pointed to “several examples of LBO [betting shop] openings
being blocked in a number of London boroughs over the last twelve months” as evidence that no additional action or legislation was necessary in this area.74

59. However, we were informed of three possible factors contributing to the clustering of betting shops: one was simply related to the planning system; a second involved the interaction between the planning system and the 2005 Act; and the third related solely to a possible anomaly created by gambling regulation.

60. Betting shops are classed—under the current planning system—in the same category as banks and building societies. As a result, there is no requirement for a change-of-use permission from a local council to convert, for example, a bank into a betting shop. At present, local authorities have to use an “Article 4” planning direction to prevent a new betting shop from being established in converted premises. However, the Local Government Association (LGA) told us that this process was very time-consuming, expensive and complicated. Furthermore, it said that Government proposals to require 12 months’ notice of the use of an Article 4 direction—which reduces the likelihood of a local authority having to paying compensation to the planning applicant—risked further undermining the procedure’s effectiveness. The LGA proposed allowing local authorities to develop their own classification system for planning purposes in order to make it more sensitive to local circumstances.75

61. Some of our witnesses called for changes to local planning powers to make betting shops sui generis (a class of their own), so that local authorities could control their number in any specific locality, if they wished.76 This was the solution which was introduced by the 2005 Act in relation to casinos in order to allow local authorities to reject their development if they decided that they did not want a casino in their area. Placing betting shops into a use-class of their own was also a recommendation of the independent Portas Review into the future of UK high streets, published in December 2011.77

62. Secondly, prior to the Gambling Act 2005, the issuing of premises licences for betting offices, along with casinos and bingo halls, was subject to a demand test. The 2001 Gambling Review Report concluded that the demand test stifled competition and reinforced the situation whereby a small number of large firms could control gambling markets, particularly in the casino sector; and that demand was best assessed by potential operators on commercial grounds alone.78 The 2005 Act subsequently abolished the demand test and replaced it with an “aim to permit” clause. This meant that local authorities had a duty to license any premises which did not threaten any of the three licensing objectives set out in the Act.

63. Some of our witnesses argued that scrapping the demand test for gambling premises had made it easier for bookmakers to locate on high streets—mainly in inner city areas—which reflect the economic and ethnic mix which, they argued, operators target.79 Though

74 Ev 186
75 Ev 270
76 Ev 210, Ev W 93, Ev 255
77 http://www.bis.gov.uk/assets/biscore/business-sectors/docs/p/11-1434-portas-review-future-of-high-streets
78 Gambling Review Report, July 2001
79 Ev W 93, 78, Ev 10, Ev 186
the ABB strongly believed that the existing licensing process and legislation offered “enough protection to local communities”, residents’ groups argued that the abolition of the demand test “effectively removed the ability of communities to make substantive objections to any licence application”.\textsuperscript{80} The London Borough of Haringey said that there was now “almost no restriction on how many gambling premises [could] operate in an area”.\textsuperscript{81} The Casino Operators Association argued for the reintroduction of the demand test, saying that “the Gaming Act 1968 effectively halted the uncontrolled proliferation of casinos in the UK largely through its demand test and permitted areas regulations”.\textsuperscript{82}

64. The third potential factor in the clustering of betting shops was the restriction—negotiated with the industry in 2004 and codified under the 2005 Act—on the number of B2 gaming machines (one of the ‘harder’ forms of casino-style gambling) which are permitted in each betting shop. The decision to allow a maximum of four B2 machines per shop encouraged betting shops to proliferate in some areas because the demand for B2 machines outstripped supply in any one betting shop, making it economically viable for them to cluster together.\textsuperscript{83}

65. The Minister for Tourism and Heritage, John Penrose, told us that, if clustering proved to be a problem rather than a concern, Ministers would take the issue “extremely seriously”.\textsuperscript{84} Betting shop clustering is currently a local planning issue rather than one for the Gambling Commission, which would be expected to respond only if evidence emerged that betting shops or B2 machines were causing significant gambling-related harm. Mr Penrose informed us of a forthcoming consultation by the Department for Communities and Local Government which was likely to include some questions on the issue of gambling. He said that tackling this issue was “going to be a double action between DCMS and Communities and Local Government to make sure that the interplay between gambling regulation and planning is rightly based”.\textsuperscript{85}

66. \textbf{The 2005 Act has had the unintended consequence of encouraging the clustering of betting shops in some high streets by removing the demand test and limiting the number of B2 machines permitted in each premises. The clustering of betting shops is a local problem which calls for a local solution. We therefore recommend that local authorities be given the power to allow betting shops to have more than the current limit of four B2 machines per premises if they believe that it will help to deal with the issue of clustering. The limit of four B2 machines under current legislation should be maintained as a minimum limit to create certainty for operators. However, if problems arise with individual betting shop chains or premises in connection with B2 machine use, local authorities should have—as a safeguard—the right to require the removal of any machines over the minimum allowance.}
3) Bingo Halls, Arcades and Adult Gaming Centres (AGCs)

67. The adult gaming, bingo and arcade sectors argued that they had been most adversely affected by the 2005 Act. One of the key changes made by the Act was the removal of certain machines—known under the 1968 Act as section 16 and 21 machines—from arcades and bingo halls. Section 16 and 21 machines had a stake limit of £2 and prize limit of £25. They allowed up to 20 games to be played concurrently on the same machine meaning that the total prize could be £500. Section 16 and 21 machines were replaced with B3 machines with a £500 prize limit but a lower stake limit of £1. Therefore, previously a player had to stake £40 in order to have a chance of winning £500: now the stake for the same winnings could be as little as £1. The British Amusement Catering Trade Association (BACTA) told us that the removal of the section 16 and 21 machines from arcades had resulted in more than 200 amusement arcade closures in the previous 18 months, a fall in the number of amusement machines being manufactured from 55,000 to approximately 10,000 per annum, and hundreds of jobs being lost. Leslie MacLeod-Miller of BACTA told us that "arcade revenues are down somewhere between 20% and 30%". This view was supported by high street gambling company, Praesepe plc, and the British Association of Leisure Parks, Piers and Attractions (BALPPA).

68. Kevin Allcock from Mecca Bingo told us that his company probably lost about £0.5 million of income “overnight” as a result of this change. Although the limits on both the number of machines and the maximum stake payable were subsequently increased, some feared that this might have come too late for some operators that had already suffered losses.

69. We support the original vision behind the 2001 Gambling Review Report in which bingo halls were to be maintained as social, soft gambling environments. In the case of Adult Gaming Centres we believe that they provide a controlled adult environment and have robust access controls, as demonstrated by their low failure rate in the Gambling Commission’s test-purchasing scheme. We therefore recommend that Adult Gaming Centres are permitted B2 machines on the same basis as betting shops.

4) Commercial Snooker Clubs

70. The commercial snooker club operator, Rileys, argued that its business was specifically damaged by the removal of B3 machines from its premises under the 2005 Act, as well as by other factors such as the smoking ban. The company told us that the machines it had prior to the Act, which offered a maximum £500 prize, were “critical to the profitability” of its business, adding that, when they were removed, its revenues immediately dropped by £888,000 and were still in decline. Rileys argued that it should be able to offer B3 machines with a £2 stake and £500 prize because it provided a controlled environment as a...
private members’ club and already held an alcohol licence. Its suggested method for allowing this—to alter the Act to create a new operator’s licence under section 65(4)—had, thus far, been rejected by DCMS. The Minister for Tourism and Heritage, John Penrose MP, told us that he sympathised “to a point” with Riley’s position but that amending the Act to give further allowances to specific sectors, such as commercial clubs, had the potential to open the way for other private clubs to demand similar machines in order to compete or simply to maintain parity.92 Riley’s rejected this premise and pointed out that other private clubs, namely Working Men’s Clubs, had never requested B3 machines. The company further argued that the strict criteria for entry to the market and the necessity of obtaining local authority and Gambling Commission approval would prevent a significant number of commercial clubs from taking advantage of any special provisions. The Minister suggested that Riley’s could “work within the existing legislation” by opening Adult Gaming Centres adjacent to its venues, which would allow it to subsidise its existing business by using them to offer B3 machines.93

71. We recognise the potential pitfalls of amending the Act to meet individual hard cases and also note that it would be unlikely that the Government would be able to find room in its legislative programme for such amendments in the near future. However, it is clear that commercial snooker clubs have suffered disproportionately from the removal of B3 machines and are now struggling to remain profitable. We therefore recommend that commercial snooker clubs be permitted to offer B3 machines.

Stakes and prizes

72. The impact of high stakes and prizes on problem gambling levels in the UK was disputed and much of the industry argued that limits should be increased.94 Some groups held that there was a link between stake and prize limits and problem gambling. Quaker Action on Alcohol and Drugs cited the advice given to the Gambling Commission in 2009 by a panel of experts which reached a general consensus that stake-size was “a risk factor”, primarily because high stakes could lead to high losses and therefore greater financial harm. The panel also concluded that setting stakes “too low” would “probably be among the least effective options for promoting responsible and safe play”, by encouraging a ‘grey market’ of illegal and unregulated operators offering cheaper gambling opportunities.95

73. In 2011, stake limits for B3 machines were increased to £2 and the number of B3s allowed in adult gaming centres and bingo halls was raised to 20% of total machines. We asked the Minister about the rationale behind these increases in light of his insistence that further such changes would only be made on the basis of firm evidence that they would not cause harm. The Minister’s response was, firstly, that the changes were a manifesto commitment and, secondly, that making (lower stake) B3 machines more “attractive” could draw people away from B2 machines. He acknowledged, however, that he did not
have “solid ground beyond that”. We consider that the decision to raise the stake limit on B3 machines was made on the basis of little or no evidence. We welcome the Government’s position that further changes to machine stakes and prizes should be evidence-based.

74. During our visit to Australia we examined how the industry and the Government had responded to problem gambling. In summary, though the picture is not yet clear, some of the innovations introduced seem to be fairly effective—such as messages that pop up on screen to break the trance-like state that repeated play of gaming machines may induce, and limiting the maximum stake. However, some of the more radical ideas, such as abolishing cash stakes and instead making machines operable only through smart cards with a pre-determined loss limit, have yet to be tested. It is important that the likely effectiveness of any measures for tackling problem gambling is assessed before such measures are put in place. We recommend that the Department for Culture, Media and Sport seek to learn from the experiences of other jurisdictions, such as Australia, which have implemented measures to combat problem gambling including educational programmes and machine displays showing time spent on them.

**Tackling problem gambling**

75. Throughout this inquiry we received significant amounts of evidence from the gambling industry stating that it regarded problem gambling as a serious issue—not least because of the significant potential for reputational damage—and had taken measures to tackle it. Much of the industry held that the Act did not provide much, if any, improvement in protection measures against problem gambling as the sector had already been operating in a socially responsible way. Ladbrokes told us that it had “voluntarily implemented” many of the Gambling Commission’s Licence Codes of Practice “years before the introduction of the Act”. Other members of the industry told us that, long before the 2005 Act, they had been making financial contributions to organisations helping to tackle problem gambling, such as Gamcare, which runs a helpline, therapy services and prevention training for industry workforces, and the Gordon Moody Association, which provides residential treatment. The bingo and arcade sectors, in particular, argued that their venues had a positive social impact on their local areas because of the employment they brought, as well as providing a social environment in which the local community could congregate. Despite arguments that the 2005 Act changed little in reference to problem gambling, we regard it as an important step forward that, for the first time, the Act gave the Government the power—and the gambling industry the responsibility—to tackle problem gambling.

76. Codes of practice have been drawn up by industry groups to put in place measures to tackle problem gambling. As we have already discussed, as a result of concerns over B2s, a Code of Practice for the operation of B2s, including technical standards, was agreed between the major betting shop operators and the Gambling Commission in 2003. After

96 Q 767
97 Ev 231; see also Ev 152
98 Ev 152
99 Ev 180
the 2005 Act, the Gambling Commission introduced a Licence Conditions and Code of Practice (LCCP) document, which required all licensed operators to implement customer protection measures. Online companies, for example, must carry out age verification checks within 72 hours of customer registration. Betfair told us that much of the online industry also employed “Know-Your-Customer” (KYC) checks, as they are compulsory in some other jurisdictions, but which are not yet required by the Commission for any sector other than land-based casinos.100

77. We have seen that information about problem gambling and sources of help has been made available inside the gambling venues which we have visited. An information campaign, aimed at the relatives of problem gamblers, could lead to more people seeking help because relatives of problem gamblers may not enter gambling venues and see the information provided there. We recommend that the Department for Culture, Media and Sport develop a public information campaign outside of gambling premises to highlight sources of help for problem gamblers and their relatives. The Government should also make an assessment of the ability of existing support and advice centres to deal with any significant resulting rise in demand. If a significant increase is expected then the industry should fund, out of the existing voluntary levy, increased provision of advice and support by these existing centres.

**Self-exclusion**

78. One way in which individuals can attempt to tackle any problem gambling behaviour is by opting to be denied access to gambling premises—so-called ‘self-exclusion’. The ability of customers to self-exclude from gambling premises is a significant feature of programmes to tackle problem gambling behaviour. The Gambling Commission also requires all except ancillary and software licence holders to provide information pertaining to self-exclusion options. However, there is currently no nationwide, cross-industry system for customer self-exclusion. Some of the international regulators from whom we heard evidence called into question the effectiveness of current (off-line) self-exclusion systems. Graham White, Chairman of the Jersey Gambling Commission said that:

> You can walk into one casino and self-exclude—a week and two days later, you can go into another one. You can go into a bookmaker and self-exclude—a week and two days later, you can go into William Hill as opposed to Coral, for example. That is the weakness of the exclusion system.101

79. Figures from the Gambling Commission also suggested that there was a problem in some parts of the industry with self-excluders being allowed to gamble. Figures for the betting sector showed that, while the number of self-exclusions had gone up significantly (from 11,424 in 2008-9 to 20,823 in 2010-11), the number of “known breaches of self-exclusion” had more than doubled (4,033 to 10,468) between 2009/10 and 2010/11.102 Other sectors had lower levels of self-exclusion, with the bingo sector experiencing a significantly lower number of both exclusions and breaches: the latter was down by 32%
from 2009/10 to 2010/11. GamCare told us that “the operation of self-exclusion largely depends on the vigilance of staff and there are many examples of the system breaking down”.

80. A study, cited by the Ladder Community Safety Partnership and produced by a group of organisations including GamCare and Manchester Metropolitan University, found that “gamblers who had self-excluded from one or two venues in a locality tended to move between different gambling operators as a strategy to avoid detection”. The study argued that a national self-exclusion system for problem gamblers would help this situation by greatly simplifying the self-exclusion process. It was also argued that allowing a previously self-excluded customer to re-enter a gambling venue without requiring them to produce evidence that they had sought or received any form of problem gambling treatment could lead to that individual re-encountering problems.

81. We recognise the significant practical challenges that introducing a national “universal” self-exclusion system would involve, including confidentiality and legal issues. However, the Government should support the development of a system which would allow a customer to self-exclude from all forms of gambling regulated by the Gambling Commission.

Research, education and treatment

82. Under the 2005 Act, a voluntary levy was introduced on the gambling industry to fund research, education and treatment (RET) programmes to tackle problem gambling. There is provision under the 2005 Act to make the levy mandatory if the Government were to decide that not enough money was being raised from the industry on a voluntary basis. Some witnesses argued that there was cause to introduce a compulsory levy on the gambling industry on the basis that it was not giving enough money to research, education and treatment programmes. Others argued that, so far, the simple threat of a mandatory levy—described by the Evangelical Alliance as a “Damocles sword”—had proved sufficient incentive for the industry to provide the funding required.

83. The Jersey Gambling Commission, which operates a similar voluntary levy system to the UK, argued that the levy should not be made compulsory, firstly, because this would cause hostility from the compliant industry and, secondly, because any percentage-based levy would unevenly impact on operators. Instead it suggested a flexible system, such as that provided under Jersey Law, which allowed a compulsory levy to be imposed only on non-compliant sectors. This would leave the already compliant sectors able to continue to give funds towards research, education and treatment on a voluntary basis.
The voluntary levy for research, education and treatment has thus far been successful at raising the target of £5 million per annum. An important lever for obtaining funds from the gambling industry is the potential for reputational damage if insufficient monies were raised or if a compulsory levy were deemed necessary. While it is important that the option of enforcing a compulsory research, education and treatment levy be maintained, we recommend that the current voluntary levy is continued. However, should one or more sectors of the gambling industry fall short in their duty to fund research, education and treatment programmes, the Government should implement a compulsory levy on those sectors.

The tripartite structure for raising and distributing the levy

Before the 2005 Act, a body called the Responsibility in Gambling Trust raised and distributed funds for research, education and treatment. Its responsibilities were split after the implementation of the 2005 Act: the industry-dominated GREaT Foundation became the fundraising arm of a tripartite structure involving the Responsible Gambling Strategy Board (RGSB) and the Responsible Gambling Fund (RGF). Overall policy aims and strategy are set by RGSB while GREaT collects the voluntary donations from the industry to fund research, education and treatment projects selected and monitored by the RGF.

The boundaries between the elements of the tripartite structure have never been clear. GREaT has distributed funds for treatment directly to GamCare (which runs a helpline and therapy services and trains the industry workforce in prevention) and the Gordon Moody Association (which provides residential treatment). The RGF has received money from the industry through GREaT to distribute to other organisations under the guidance of the RGSB: for example, the National Problem Gambling Clinic, run by the NHS, received funding from RGF. GREaT, RGF and RGSB were thus intended to work together to fund and plan research, education and treatment provision.

The cost-effectiveness of the tripartite structure was called into question by its fundraising wing, GREaT. It argued that the predecessor body, the Responsibility in Gambling Trust, was able to do the same job for less money: for example, while the Responsibility in Gambling Trust estimated that it cost £474,000 for it to raise £5 million per annum from the industry the “like for like” figure for RGF and GREaT combined was £500,000.¹¹⁰

The tripartite structure drew criticism from all sides of the debate, largely because it was seen by many as overly bureaucratic, and because of the discord between GREaT and RGF.¹¹¹ RGF described industry funding levels as “lower than hoped” and, as a result, said: “some aspects of RGSB’s Strategy cannot yet be addressed. There is little flexibility within the budget for 2011/12 for RGF to review the proportion of funding to each area of activity”.¹¹² The RGF went so far as to advise that a statutory levy should be enacted unless a funding distribution method could be put in place to prevent the views of industry or

¹¹⁰ Ev 165
¹¹¹ Ev 165, 167, Ev W 80
¹¹² Ev W 80
service providers from dominating the process.\textsuperscript{113} GREaT, meanwhile, stated that the tripartite structure had had a “negative impact on” its ability to raise funds, and raised concerns about the poor relationship between RGF and the treatment provider GamCare.\textsuperscript{114}

89. Shortly after providing their written evidence to us, RGF and GREaT terminated their funding agreement, effective since March 2012, as a result of a dispute over the issue of independence from the industry. RGF objected to GREaT’s view that the voluntary nature of the industry’s contributions should mean that it was “fully involved in the decision making process” concerning grant making.\textsuperscript{115} The tripartite structure has therefore in effect collapsed. RGF blamed “insufficient will and determination on the part of those who signed up to” the tripartite agreement for its failure to succeed.\textsuperscript{116}

90. In November 2011, the Responsible Gambling Strategy Board (RGSB) released its third annual strategy document detailing its objectives and setting out its recommendations, to the Gambling Commission and the Government, for the principles which it believes should apply to successor arrangements in the wake of the withdrawal of RGF. As the RGSB itself has stated, it is not yet clear what structure will replace the function of the RGF. The main principles outlined by the RGSB include:

— Ensure impartiality of funding decisions

— Command the confidence of stakeholders in setting priorities

— Secure credible, independent research into which treatment strategies work and include research, education and treatment in a coherent strategy

— Deliver proper accountability for use of funds provided, by using the grant management, commissioning and data collection frameworks already established by RGF, and

— Ensure continuity of funding at the target income levels set by the voluntary agreement.\textsuperscript{117}

91. We recommend that, in designing successor arrangements to the tripartite agreement for the funding of research, education and treatment, the Department for Culture, Media and Sport and the Gambling Commission focus on minimising overlap between the responsibilities and activities of the bodies involved as well as ensuring effective communication between them. While the Responsible Gambling Strategy Board continues to advise the Gambling Commission, and through it the Government, we believe that the Department for Culture, Media and Sport should also take a more pro-active role in identifying the research needed for strategic policy development and ensuring that these needs are reflected in the research being carried out.

\textsuperscript{113} Ev W 139
\textsuperscript{114} Ev 165
\textsuperscript{115} Ev W 139
\textsuperscript{116} Ibid.
\textsuperscript{117} Responsible Gambling Strategy Board: Third Annual Statement, November 2011, p21
92. We support the recommendations of the Responsible Gambling Strategy Board for the principles which should apply to the successor arrangements to the tripartite agreement as laid out in its 2011 Strategy document. In addition, the advice from the Responsible Gambling Strategy Board regarding the amount required for future research, education and treatment, if accepted, must be clearly communicated to the gambling industry. This advice should set out how the money donated by the industry will be spent. We await with interest proposals from the Gambling Commission for a replacement for the now defunct system for funding and commissioning research, education and treatment programmes.

**Distribution of funds**

93. As the dispute between the RGF and GREaT Foundation indicates, not everyone was happy about how the funds raised from the industry were distributed. GamCare said that the funding provided through GREaT had been “focused on treatment [and that] very little has been spent on prevention and education. The remainder has been invested in research”.\(^\text{118}\) The Casino Operators Association—describing the tripartite structure as “overly-expensive, self-serving and unnecessary”—recommended that it be abolished, allowing the industry to give directly to organisations like GamCare and the Gordon Moody Association.\(^\text{119}\) The Evangelical Alliance argued that education funding could be at risk under the current system due to funding being channelled by the industry towards research.\(^\text{120}\)

94. Education and research have been, to an extent, the poor relation of treatment. Levels of understanding among the general public about gambling, probability and odds are low, particularly among under-16s. This situation has the potential to contribute to problem and excessive gambling as people could have unrealistic expectations about their chances of winning. Some witnesses suggested that the gambling industry was unwilling to see its donations going towards educational programmes because it feared reputational damage.\(^\text{121}\) GamCare suggested that education was needed in schools because “the promotion of gambling products has become more pervasive, and so the teenager’s perception of gambling as an acceptable leisure pursuit is being reinforced with no effort to ensure they are equipped to gamble safely”.\(^\text{122}\) GamCare told us that it had developed an education programme aimed at 12 to 16 year olds which it intended to pilot in three areas if funding of about £75,000 per pilot was made available through GREaT over two years.\(^\text{123}\)

95. Some funding for research into gambling came from the Government, with the intention that a sound base of knowledge would be developed to allow evidence-based policy making. The Government funded the previous National Centre for Social Research surveys into gambling. As noted above, we are disappointed that the Government has

\(^{118}\) Ev 173, see also Ev 80  
^{119}\) Ev W 25  
^{120}\) Ev 255  
^{121}\) Ibid.  
^{122}\) Ev 283  
^{123}\) Ibid.
withdrawn funding from future surveys without having indicated how it intends to ensure the provision of up-to-date and robust data on problem gambling in future.

96. The Gambling Commission should make an assessment of the available gambling education programmes aimed at under 16 year olds—including that which has been developed by GamCare—and make a recommendation on their merits, based on projected cost and level of impact.
3 The industry, tax and regulation

97. Given the importance of a competitive environment to maintaining consumer protection as well as a healthy industry, we were concerned to be told by several industry contributors that the 2005 Act had added to some of the financial pressures which, arguably, have begun to distort competition within the gambling industry.\textsuperscript{124}

Factors external to the Act

98. Evidence from the land-based gambling industry suggested that it had been significantly affected by the general economic downturn as well as by the 2007 smoking ban.\textsuperscript{125} Gala Coral Group told us that it had experienced a “30% impact on profitability”, losing £120 million per annum in profit as a result of the combined effects of the smoking ban, increased tax and the removal of certain types of machines under the Act.\textsuperscript{126} The availability of more online gambling opportunities, with unlimited stakes and prizes and the ability to smoke at home, has had a negative impact on the industry, and possibly the bingo sector in particular.

Tax policy

99. Throughout the consideration of the Gambling Bill, it was acknowledged that the type and level of taxation to be imposed on the industry was critical to the success of any future regulatory regime.\textsuperscript{127} However, the 2003/4 Joint Committee on the draft Gambling Bill was unable to examine this key issue as the Treasury had decided not to make any proposals for a new tax regime to operate alongside the new regulatory system until after the passage of the Gambling Bill. The Joint Committee was told by the then Economic Secretary to the Treasury, John Healey, that the new system of regulation would have to be in place before the tax regime for gambling could be finalised.\textsuperscript{128} Despite the Joint Committee having concluded that tax was a “critical factor” in future inward investment in the gambling industry, and that HM Treasury and the DCMS should work together closely to ensure a robust policy, the final Gambling Bill had no accompanying proposals for a new tax regime which would follow from the Act.\textsuperscript{129}

100. It is unsurprising, then, that many concerns about the operation of the Act stem from a taxation policy which seems disconnected from gambling policy. There are two separate issues that apply to the whole industry. The first is whether the level of duty charged on each sector is appropriate to achieve the aim of maximising tax take, while not unduly inhibiting the gambling industry. The second is the failure—in relation to online gambling—to establish a tax regime which would allow the UK-based online industry to

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\textsuperscript{124} Ev 152, Ev W 32
\textsuperscript{125} Ev W 32 and Ev 152
\textsuperscript{126} Ev 152
\textsuperscript{127} See, for example, Ev 227
\textsuperscript{128} Joint Committee on the Draft Gambling Bill, Session 2003-4, HC 139-I, HL Paper 63-I, para. 653-4
\textsuperscript{129} Ibid., para. 656-657
compete with the offshore industry. Such a tax regime would, it is argued, bring operators into the UK, benefiting the economy, creating jobs and increasing customer protection. This last effect would arguably come about because UK-based companies are regulated by the Gambling Commission as well as being physically accessible for inspection and, if necessary, enforcement measures.

101. Various changes in tax rates for gambling made in successive budgets have been cited as damaging to parts of the industry. In 2006, changes affected B2 machines; in 2007, casinos; and in 2008, bingo. Ladbrokes told us that profitability had “severely declined” since the Act, and that “far from encouraging economic progress, all indications suggest that the high levels of taxation and regulation have impeded growth”. We heard evidence from the casino industry that tax increases have also made 2005 Act Casinos unattractive to investors, thus stifling growth. Recent consultations on tax proposals have also caused some concern in parts of the gambling industry that investment would become harder in the future.

**Bingo tax**

102. Prior to the 2005 Act, the bingo industry paid a bingo duty based on turnover, and calculated as a percentage of staked money and winnings, and it also paid VAT on participation fees, from which other sectors of the gambling industry were exempt. This “double taxation” left the bingo sector highly taxed compared to the rest of the industry. In 2003, bingo taxation was reformed in order to bring it in line with the wider industry: turnover tax was abolished and bingo was subject to a gross profits tax (GPT), charged at 15%. VAT charges were removed later. In 2009, the Government increased bingo GPT from 15% to 22%. In 2010 this rate was reduced to 20% because of industry complaints that 22% was too high.

103. Bingo operators still hold that they are charged an unfair level of tax compared to the rest of the gambling industry. The UK online industry paid Gaming duty at 15%, whilst casinos paid between 15 and 50%, depending on their gross gaming yield. Gala Coral Group stated that “it is patently unfair that the ‘softest’ of all forms of gambling (bingo) is charged the very highest base rate of Gross Profits Tax (20%)”. Paul Talboys of the Bingo Association blamed the current tax situation for creating a “hostile” investment environment. Chloe Smith, the Economic Secretary to the Treasury, argued that the bingo tax rate was within the same “effective tax rates as the National Lottery and casinos”. The National Lottery pays lottery duty at the rate of 15%. She also told us that “a reduction in bingo duty to, for example, 15%, would cost the Government around £25 million to £30 million per annum”. However, an Ernst and Young policy paper argued that a reduction in tax for bingo to 15% would actually lead to an increase in the overall tax take.

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130 Ev 152
131 Ev 231
132 At the same time AMLD (amusement machine licence duty) rose by 9%.
133 Ev 152
134 Q 205
135 Q 773
from the sector, resulting in a net benefit to the Treasury “of over £65 million over the period 2011 to 2014”.  

104. We recognise that the Bingo sector remains highly taxed in comparison with other sectors despite its status as one of the softest forms of gambling. In principle we believe that bingo should be taxed in line with other forms of gambling at 15%. Moreover, we recommend that the Treasury make an assessment, within the next financial year, of the likelihood that a reduction in bingo duty, to 15%, would result in increased investment in the bingo sector and a rise in net tax take.

Casino tax

105. The tax regime for casinos is extremely complex and it is very difficult to make an accurate comparison of rates between countries because of the number of different tax regimes for gambling products and the different market environments which exist in otherwise comparable jurisdictions. The National Casino Industry Forum argued that the UK casino sector was disadvantaged compared with those in other markets because of the UK’s high tax rate and increasing competition with online gambling operators, which are less regulated and pay little or no tax. Moreover, the Rank Group suggested that the tax regime which followed the 2005 Act had actually set back the goal of protecting the vulnerable, including children, from problem gambling. It suggested that it had penalised—with higher gambling duty rates—those parts of the industry which provided the “highest degree of supervision and player protection in favour of those providing lower levels”.

106. The Chancellor of the Exchequer, George Osborne, made several announcements regarding gambling tax in his Budget Statement on 21 March 2012. In one of the changes he introduced a new machine gaming duty (MGD) replacing both Amusement Machine Licence Duty (AMLD) and VAT. This new MGD tax would be set at 20%, with a lower rate of 5% for some category D machines—those with a maximum 10 pence stake and £8 prize. Only Machines offering only non-cash prizes would remain subject to VAT instead of the new machine games duty. The Chancellor explained the change saying that:

The VAT treatment of gaming machines is being repeatedly challenged by operators in the courts, so I will introduce a new machine games duty, with a standard rate of 20%, and a lower rate for low stakes and prize machines of 5%, of net takings.

107. The Association of British Bookmakers reacted to these changes saying that:

Despite assurances made during your Committee’s Inquiry into the Gambling Act that the new rate would be fiscally neutral for the industry, the rate that was introduced was 20%. This is significantly higher than the rate we had calculated as

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136 Q 773 and Ernst & Young, Impact assessment of bingo duty change: policy paper, January 2011, p22
137 Ev 288
138 Ev 180
139 HC Deb, 21 March 2012, Col 803
being fiscally neutral for the industry and has an extra bottom line cost on our business sector of over £300 million over the next five years.\textsuperscript{140}

108. Before the Budget, the Gala Coral Group had argued that the move away from charging VAT on gambling “means that VAT on capital investment is less and less recoverable thus destroying the case for investment in long term growth and job creation”. It suggested that Gross Profits Tax should be off-settable against VAT on capital investment.\textsuperscript{141} This would mean that the cost of new machines would be recoverable against the GPT paid on machine profits. The Government stated, in its consultation response document on machine games duty, that such measures—to limit the impact of the removal of VAT—could not currently be implemented as they were “either not permissible under EU law, would be highly complex to introduce, or would lead to significant avoidance risks”.\textsuperscript{142}

109. We are not convinced by arguments from the Treasury that measures to allow the offsetting of Gross Profits Tax against VAT on capital investment for gambling machines cannot currently be implemented. The Treasury should carry out further work in this area and identify a means by which such offsetting could be achieved. We also recommend that the Treasury make judicious use of industry analysis of the likely impacts of its proposed taxation measures. As it is in the public interest to maximise the tax take from the gambling industry, the Treasury should set tax at a level which allows investment in the industry and does not stifle growth. We recommend that the Treasury also take into account the likely impact on investment by the gambling industry in future tax-rate calculations. We recommend that any changes to machine gaming duty should be revenue neutral as the Economic Secretary to the Treasury assured us that they would be. If the rate of machine gaming duty raises more than a revenue neutral figure, the Chancellor should reduce the new rate to ensure that revenue neutrality is achieved.

\textit{Online gambling}

110. The current taxation system for online gambling is levied on a point-of-supply basis, meaning that only those companies based in the UK are taxed here. Ladbrokes told us that whilst “operators in the UK pay 15\% tax on their Gross Profits, 10.75\% horseracing levy on British horseracing bets and VAT on their input costs [...] the vast majority of offshore operators would pay a capped rate of tax, representing a significant tax advantage”.\textsuperscript{143} It said that this “uneven playing field” had caused it to close its call centre in Aintree, which affected 263 jobs.\textsuperscript{144} William Hill and Ladbrokes argued, prior to the 2012 budget, that a level playing field should be created by extending UK regulation and Gross Profits Tax (GPT) to offshore operators and betting exchanges, and by providing relief to UK retail and online operators through a lower rate of GPT.\textsuperscript{145} The Gala Coral Group argued that, to

\textsuperscript{140} Ev 303  
\textsuperscript{141} Ev 152  
\textsuperscript{142} Design of Machine Games Duty: Government consultation response, HM Treasury, December 2011, p5  
\textsuperscript{143} Ev 231  
\textsuperscript{144} Ev 231  
\textsuperscript{145} Ev 231, see also Ev 180, Ev W 32
prevent an illegal market developing, a single rate of gross profits tax, set at 10%, should be applied across all gambling products and delivery formats.\textsuperscript{146}

111. As a consequence of the anomalies produced by the current tax system for online companies based in the UK, only one major such company—bet365—remains based here. Martin Cruddace of Betfair told us that that company had relocated its licence to Gibraltar in March 2010 “basically for competitive reasons”.\textsuperscript{147} bet365 has remained in the UK because of the company’s and the founding Coates family’s ties to the local community. bet365’s Sports products are licensed in the UK and run from Stoke-on-Trent where over the last decade it has become the largest private sector employer, with over 1,900 local staff, although its gaming products have always been licensed offshore “due to historic restrictions within the UK”.\textsuperscript{148} Unlike its major online competitors, who are based in minimal tax jurisdictions such as Gibraltar and Malta, bet365 told us that it pays “approximately £130m in annual taxes in the UK—including corporation tax and none-recoverable VAT—of which betting duty comprises broadly 50%.”\textsuperscript{149} John Coates, Chief Executive of bet365, told us that remaining licensed in the UK “doesn’t make economic sense and if we were a public company we wouldn’t be able to make that decision”\textsuperscript{150} adding “for the continued viability ofbet365 remaining UK-based, the introduction of ‘Point of Consumption’ based taxation measures in the UK will be essential”.\textsuperscript{151}

112. Following from the Government’s announcement that it was going to move gambling regulation to a point of consumption basis, the Chancellor announced—in his Budget Statement on 21 March 2012—that a point of consumption tax would be applied to online gambling, meaning that all operators offering online gambling products in the UK would be subject to UK tax. He also said that double taxation relief would be introduced for remote gambling from April 2012. This would allow online gambling companies to base themselves within the UK, and market products in other jurisdictions without being subject to each jurisdiction’s full burden of tax. It is also important, for operators such as bet365, to have removed ‘double taxation’ as it is a further threat to the economic viability of locating in the UK, as more overseas countries develop their own gambling regulations, including point-of-consumption taxation.

113. The Chancellor set out his reasons for the changes as follows:

Ninety per cent of online gambling consumed by our citizens is now supplied from outside the UK, and the remaining UK operations are under pressure to leave. This is clearly not fair—and not a sensible way to support jobs in Britain. So we intend to introduce a tax regime based on the place of consumption—where the customer is based, not the company—and, from this April, we will also introduce double
taxation relief for remote gambling. These changes will create a more level playing field, and protect jobs here.\textsuperscript{152}

114. In a 2011 report, produced for William Hill, Deloitte found that “the imposition of a POC [point-of-consumption] tax had the potential to prompt significant growth in the size of the grey market”.\textsuperscript{153} The report stated that a 10\% POC tax rate would lead to 27\% of the industry (primarily smaller operators) being at risk of leaving the market. At 15\%, the tax could lead to 40\% of the industry leaving the market. It suggested that, were the offshore market to be effectively regulated, the impact of a POC tax could be mitigated as illegal operators—paying less or no tax—would be less able to infiltrate the market.\textsuperscript{154}

115. William Hill’s online operations are currently based offshore and the Deloitte report was not echoed in other evidence to this inquiry. In its written submission, for example, bet365 did not call for a cut in the 15\% rate of Gross Profits Tax in order to remain competitive, and was unequivocal in its support for the general change of policy. “The Point of Consumption basis, coupled with sensible regulation,” it said, “would result in the major operators taking up a licence in the UK, with consequential increases for UK tax revenues, and would also encourage companies to base themselves in the UK”.\textsuperscript{155}

116. Since the Budget, the Government has issued an in-depth consultation paper seeking the industry’s views on a specific framework for the effective introduction and enforcement of a POC tax on online gambling. The consultation closed on 28 June 2012, following which the Government intends to bring forward final proposals for implementation of the policy by December, 2014. The time delay reflects the Government’s wish for tax changes to be implemented in tandem with regulatory changes, which are within the remit of DCMS, and include preparing the Gambling Commission for its expanded remit in handling the new licensing regime.\textsuperscript{156}

117. The failure of the Department for Culture, Media and Sport to work with the Treasury to set remote gambling taxation at a level at which online operators could remain within the UK and regulated by the Gambling Commission has led to almost every online gambling operator moving offshore whilst most are still able to advertise and operate into the UK. We therefore welcome the announcement, made in the 2012 Budget Statement, that the online industry will be taxed on a point-of-consumption rather than a point-of-supply basis. We also welcome the detailed consultation with the industry since the Budget over the design of the policy framework and look forward to the Government’s response. To give certainty to online operators, and their investment plans, we urge the Government to adhere to its timetable for implementation by December, 2014 and to make plans to deal with any challenges to the proposed new system. However, the Treasury still needs to work with industry stakeholders to establish the correct level for online gambling taxation, taking into account the need to

\begin{footnotesize}
\begin{enumerate}
\item \textsuperscript{152} HC Deb, 21 March 2012, Col 803
\item \textsuperscript{153} Deloitte, \textit{The impact of a point of consumption tax on the remote gambling industry: a report for William Hill PLC}
\item \textsuperscript{154} ibid., p35
\item \textsuperscript{155} Ev 300
\item \textsuperscript{156} HM Treasury and HMRC paper, \textit{Taxing remote gambling on a point of consumption basis: consultation on policy design}, April 2012
\end{enumerate}
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encourage companies to accept UK regulation and taxation and to discourage the formation of a grey market.

**Regulation and the impact of the Act**

118. Even though it was not the purpose of the 2005 Act to increase the profitability of the gambling industry, some provisions have had a positive financial impact on particular sectors, including the abolition of the demand test and the waiting period for obtaining membership of a casino, and the introduction of new machine numbers and types in certain venues. The use of credit cards in gambling premises was also permitted under the Act; previously it had been possible to use credit only for online gambling.

119. Bingo industry representatives told us that they thought their sector had broadly benefited from the introduction of the 2005 Act. The removal of the demand test by the Act required local authorities to permit the opening of new bingo clubs unless they were likely to have an impact counter to the three primary regulatory objectives of the Act; and the Act also removed advertising restrictions and permitted extended opening hours.

120. Nonetheless, parts of the industry argued that the benefits of the changes set out above were small and did not outweigh the negative consequences they attributed to the Act. Business in Sport and Leisure, for example, told us that:

> Despite costs increasing and other factors affecting the industry, few liberalisation measures have emerged to offset these changes. Those developments which could have made a demonstrative impact—for example the availability of FOBTs and uplift in online custom—were happening anyway irrespective of the Gambling Act. Any new changes as a result of the Act [have] only made a limited difference to the bottom line of operators.

The key areas where it was argued that the 2005 Act had had a negative financial impact on the land-based UK industry, including the bingo sector, were machine allowances, regulation, and licensing costs. We discuss the last of these in our chapter on the new Gambling Commission.

**Triennial reviews**

121. Prior to the implementation of the Gambling Act 2005, the Gaming Board had established a system of routine reviews of stakes and prizes, conducted every three years—the Triennial Review. This ensured that monetary limits were adjusted to reflect inflation and took into account contemporary spending habits, and it had the advantage of maintaining a balance within the industry by covering all the sectors’ allowances simultaneously. The three year cycle also drove the gaming machine manufacturing industry, as there would always be a need for new machines offering the newest level of stakes and prizes.

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157 Q 202
158 Ev W 32
122. Since the 2005 Act, the Gambling Commission has conducted two reviews in response to calls from industry stakeholders to increase stakes and prizes or machine numbers. A number of industry stakeholders argued for the reinstatement of some form of regular review procedure, arguing that sporadic reviews had a detrimental effect on the machines industry and had further skewed balance between sectors within the industry. Gala Coral suggested that, as an alternative to the Triennial Review, the Gambling Commission should report annually to the Government with evidence-based recommendations for changes to machine allowances, technical standards and stake and prize limits. It argued that this would “depoliticise” the review process.

123. Whilst industry members argued for a liberalisation of machine numbers and stakes and prizes, stakeholders from outside the gambling industry held that the current system of reviews had been driven by industry pressure and was not evidence based. The Evangelical Alliance said that the recent stake and prize reviews by DCMS had concentrated on industry demands and excluded concerns over consumer protection against problem gambling. The Heritage and Tourism Minister, John Penrose, told us that, in response to calls from various stakeholders, DCMS was launching a new system of triennial reviews of stake and prize limits for gaming machines.

124. We welcome the reinstatement of the Triennial Review system for gambling machine stakes and prizes. These reviews should be designed to maintain the value in real terms of stakes and prizes, as is the case with other industries where prices are controlled by the Government, rather than as a means of increasing industry profitability. A Triennial Review system has the potential to lead to significant calls from all sectors of the industry that they should have their machine allowances and/or stakes and prizes increased on a regular basis. It is important therefore that these reviews are carried out on the basis of evidence, are as open and depoliticised as possible.

**Online gambling**

125. Online gambling was available in the UK prior to the introduction of the 2005 Act, but only from outside the UK. British-based companies were prohibited from offering or advertising online gaming in the UK. This had the perverse effect that those companies least likely to meet UK standards for open, fair and crime-free gambling were the only ones allowed to offer online gambling. Online providers can offer the full range of gambling products: casino games, bingo and gaming with no limits on stakes and prizes, benefiting from 24 hour operation, extreme convenience and the ability of customers to smoke at home.

159 Ev W 6, 58, 32, Ev 180, 217, 234, 247 and 265
160 Ev 152
161 Ev 255
162 Ibid.
163 Q 766
164 Internet betting was legal from UK-based providers.
126. One of the key motivations behind the Gambling Act 2005 was the wish to impose regulation and order on the online sector, partly to protect UK customers from unregulated, possibly unscrupulous, operators and partly to make Britain a base for the expanding online industry. The remote gambling sector has been the most significant area of growth in the gambling industry over the past decade, and continues to be the fastest growing area. This has been fuelled primarily by online betting, which is particularly attractive to customers because they can easily compare odds across a number of sites and pick the most favourable; and online poker, which is attractive because customers can find a wider pool of players online than in a casino. Moreover, the availability of online gaming is increasing as a result of rapidly changing technology. Bets can now be placed and games of chance played on a myriad of desktop and handheld devices and can be made ‘in-play’ in sports betting, fuelling further growth in the sector. Betfair told us that the online sector in the UK currently had a gross gaming yield of around £1.7 billion, about a fifth of the size of the offline UK gambling market. It estimated that over the next four years the European online industry would grow by 34%, compared to 7.2% for the offline industry. 165

127. The implications for problem gambling levels of this rapid increase in the availability of online gambling opportunities are, however, largely unquantified. The 2001 Gambling Review Report noted particular concerns arising from online gambling such as: its availability 24 hours a day; the lack of breaks compared with those between games in traditional casinos; and a negligible entry requirement. Furthermore, unlimited stakes and prizes are available over the internet. The 2010 BGPS figures showed that 14% of adults used the internet to gamble in the previous year (including lottery tickets, betting, casino games, bingo, slot machine style games and football pools).

128. The regulatory system set up under the 2005 Act works on a point-of-supply basis, meaning that only those companies that locate key equipment in the UK are regulated by the Gambling Commission. However, in addition to allowing British online companies registered by the Gambling Commission to advertise, the 2005 Act also allowed online companies based in the EU and EEA States, including Gibraltar, to advertise in the UK. It extended the same permissions to a number of other “White-Listed” countries, specified by the Secretary of State. The White List identified jurisdictions that were deemed suitably stringent in their online gambling regulations so that UK customers would be safe to use gambling sites regulated by them. The White List includes places such as the Isle of Man, Alderney and Tasmania.

129. Antigua was controversially allowed to join the White List in 2008. Doubts were expressed in Parliament as to the state of Antigua’s regulatory regime, and whether the Gambling Commission was in a position to test its regulatory rigour. This led the then Minister, Gerry Sutcliffe, to conduct an inquiry into the White List, and all applications to it closed in April 2009, which barred later developers such as Jersey from inclusion. 166

130. Before the Act, most online companies moved their operations to jurisdictions such as Malta or White Listed countries. They are not regulated by the Gambling Commission, although other regulators argue that regulations in these countries are equally stringent.

165 Ev 161

166 Mr Gerry Sutcliffe MP is currently a member of the Committee, but he was not a member at the time of the launch of its Inquiry into gambling.
when addressing, for example, under-age and problem gambling. The limited effectiveness of the 2005 Act at providing a regulatory framework for online gambling has been acknowledged by the Gambling Commission and DCMS.

131. Arguably, current arrangements for online regulation put UK customers at greater risk of problem gambling and gambling-related harm. This is because overseas sites, whether regulated or unregulated, may not have in place as strong safeguards to protect UK customers. Indeed, several faith groups voiced their concern that gaming sites which were not regulated by the Gambling Commission could be accessed by UK residents. However, the Remote Gambling Association agreed with William Hill that “there is little or no evidence that the offshore operators based primarily in Malta and Gibraltar pose any public protection risk to UK Citizens”. Solicitors Wiggin LLP argued that the majority of sites accessed by UK customers are based in DCMS-approved, White-Listed jurisdictions and that they “invariably have extensive programs of social responsibility that include detailed multi-level age and identity verification programs” and “programs to identify repetitive or ‘problem’ gambling patterns”. Regulators from some White-Listed jurisdictions told us that they implemented regulatory processes that were in some instances more stringent than those in the UK. The Jersey Gambling Commission pointed to the fact that Jersey’s legislation and its regulatory principles were closely based on the British Gambling Act 2005, although Jersey was not allowed entry into the White-List because of the moratorium placed on new applicants in 2009. The Alderney gambling regulator (AGCC) told us that its licensees were required to contribute to research, education and treatment programmes in the UK. It said that UK-facing licensees had contributed more than £1 million to the GREaT Foundation in the previous year.

132. The Gambling Commission currently conducts an intermittent mystery shopping programme which covers both UK-regulated and non-UK-regulated online gambling providers. The Commission found that, of Commission-regulated sites tested, over 99% of active customer accounts were registered with operators which had easily accessible problem gambling information, self-exclusion measures and financial limits. It concluded from this 2009 research that “the vast majority of the largest operators and those with the greatest UK-facing business have sufficient social responsibility measures in place” and that those with identified weaknesses only accounted for a “small percentage of the customer base”.

133. We have seen no evidence to suggest that the existing White Listed jurisdictions pose a greater threat of problem gambling than UK or EU-based operators. However, the possible link between online gambling and problem gambling must be addressed alongside any future regulatory and licensing regime for online gambling. Online gaming has been identified as having certain characteristics which may be associated...
with problem gambling, including high speed of play, frequency of play and ease of availability. We consider that a vital aspect of gambling regulation is controlling the significant, and growing, online sector with its unlimited stakes and prizes, and its potential to cause problem gambling. The Commission’s plans for licensing online operators will rely heavily on other regulators which the Commission has very limited means of monitoring. The Commission should aim to improve its links with overseas regulators for the purpose of spreading best-practice in terms of customer protection and problem gambling prevention.

An uneven playing field

134. An actual consequence of regulating and taxing only UK-based operators is the creation of a “grey market” comprising companies operating in less regulated or unregulated jurisdictions. Offshore companies such as these are able to attract customers from regulated—UK or White-Listed—jurisdictions because their lower costs allow them to offer better odds. Those customers could then be at risk from unscrupulous operators. Regulating only UK-based operators also means that the Commission has access to very limited information about online gambling, as only 20% of the market (principally one operator, bet365) is now obliged—as a licensing condition—to provide the Commission with information.174

135. Wiggin LLP was concerned that not enough was being done to block UK customers from accessing non-White-Listed, offshore gambling sites.175 It argued that those operators that were not regulated by the UK, or in a White-Listed jurisdiction, should be subject to “regulatory action”.176 In her evidence to us, Tessa Jowell acknowledged the difficulty of preventing customers from using unregulated online gambling sites, saying that it was important to communicate with “the gambling public [so] that they understand the risks that people take if they are using unregulated sites in jurisdictions that we have absolutely no relationship with”.177

136. The Northern Ireland Horse Racing Group expressed concern that the land-based industry was being harmed by the current situation, saying that “loopholes in current gambling regulation are being exploited by unlicensed operators. They have a severe impact upon the betting sector and damage important industries that rely on commercial arrangements with licensed organisations”.178 Betfair argued for a requirement for operators targeting the UK to hold a UK licence, prohibiting non-licensed operators from marketing into the UK, and making it an offence for non-licensed operators to transact with UK consumers.179 Bwin.party, however, expressed a different view, stating that current regulation was delivering an excellent framework for consumers, who had “access to a wide choice of operators at competitive prices” and low problem gambling levels. It argued that

174 Ev W 113
175 Ev W 52
176 Ev W 52
177 Q 617
178 Ev 242
179 Ev 161, see also Ev 152
the UK already had “a mature, well-established and well-regulated gambling market, one that represents an attractive model for other European countries.”

137. There has been one particularly high-profile case where a licensed operator has been accused of failing to protect its customers—and specifically their funds: Full Tilt Poker. This company was registered in a number of jurisdictions, including the White-Listed Alderney Gambling Control Commission. Despite this, when it was closed down for breaking US law, it did not have the resources to repay players their deposits. We questioned the Minister about this, and he responded that the Gambling Commission considered it would be too burdensome and would render the industry too uncompetitive to require operators to hold a separate players’ winning account, or appropriate insurance, or to provide a guarantee that repayment to players could be made at all times. However, the Minister also acknowledged that players gambling online often took no account of whether their funds were protected, and he said that the Commission was considering ways to raise awareness of the potential risk to their funds. A full account of the case, which caused us considerable anxiety, is given in Annex 3 to this Report.

138. We welcome the assurances we have received from the Department of Culture, Media and Sport that it will take into account the lessons learned from the Full Tilt case, including the conclusions of the Report by Peter Dean to the Alderney Gambling Control Commission published in March 2012. We recommend that the Gambling Commission should consider, as a part of efforts to communicate to online gamblers the potential risks to their funds, introducing a kite-marking system for gambling websites, indicating which sites are regulated in the UK. This could protect consumers by encouraging them to use UK-regulated sites and by incentivising suppliers to choose to be regulated here.

139. We recognise the concerns of well-managed, existing operators about the potential costs and burdens of legally separating players’ funds. In the light of the Full Tilt case, however, the Gambling Commission should consult the industry as to what form of ‘ring fencing’ or protection of player accounts, by all UK-regulated online gambling operators, would be a proportionate response to the worries arising from this unfortunate episode.

**Online regulation: European proposals**

140. As pointed out by Jenny Williams, Chief Executive of the Gambling Commission, the problem which inevitably arises from allowing an influx of companies to operate into the UK which are subject to regulation in other jurisdictions is the “variation in standards and capability”. In setting out her solution, she told us that:

The holy grail, the answer, is for us all to agree on common standards and a common way of compliance and enforcement. That is something that I have been pushing for, but we are a long way off it at the moment.
141. This has been the common theme of both the evidence we have taken and during our discussions on our visit to Brussels. There is broad agreement from national regulators and governments that what is needed is a system of agreed minimum standards for customer protection first within Europe but ideally to be extended globally. Indeed, the Green Paper produced by the European Commission Committee on the Internal Market and Consumer Protection sets out the “possible need for enhanced administrative co-operation between competent national authorities”.182

142. Despite this apparent consensus, the differences which exist between many European countries in culture and attitudes to gambling has meant that it has proved impossible to agree on a system for developing common standards or on what those standards should be.

143. In its response to the Commission’s Green Paper, the UK Government stated that the existence of multiple regulators and jurisdictions confused consumers and that there were also practical difficulties for the Gambling Commission in accessing information from operators not regulated by them.

144. Another possible option for regulating online gambling on a broader, European basis, is to introduce a Pan-European Licence which would be recognised by all or multiple national regulators. This idea has, however, met with extremely limited support. In May 2011, the Hungarian Presidency Report on online gambling concluded that only one country promoted the idea of a single Pan-European licence. The Report found that most member states were not in favour of mutual recognition or harmonisation and believed that they could not be obliged to accept results of procedures of another member state.183

145. In response to a European Commission Green Paper on gambling in the internal market, the European Parliament’s Committee on the Internal Market and Consumer Protection made numerous recommendations about the way national regulators and the European Commission should approach the regulation of online gambling.184 In addition to the broad principles already embodied in the Gambling Commission’s core regulatory aims, the report proposed that advertising of gambling should be restricted to a level “strictly necessary in order to direct potential gamblers to the legal provision of services”. It rejected, in accordance with the subsidiarity principle, any European legislative act uniformly regulating the entire gambling sector.185 However, it did take the view that, “in some areas there would be clear added value from a coordinated European approach, in addition to national regulation”.186 The paper called for a “coherent system of lawful gambling services across Europe, especially in terms of tax treatment, and which applies

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183 European Commission Hungarian Presidency Report: Framework for Gambling and Betting - Regulatory cooperation between Member States, 30 May 2011


185 The subsidiarity principle, in this context, means that national Governments retain the power to regulate their gambling industry as they see fit within the European Union Internal Market rules.

common minimum standards of accountability and integrity” and for the European Commission to investigate how such a system could operate.187

**Online regulation: Government proposals**

146. In 2010, DCMS ran a consultation on remote gambling regulation which identified several reasons for changing the online regulatory structure. These included overseas jurisdictions having different regulatory standards, leading to customers experiencing varying levels of protection; not being compelled to report certain information e.g. suspicious betting activity; and not being obliged to contribute towards research, education and treatment of problem gambling.188

147. The Department proposed regulating the industry on a point of consumption basis in 2010, meaning that all operators targeting the UK would have to hold a UK Gambling Commission licence. It argued that this would increase consumer protection, “address concerns” about problem gambling; support enforcement activity (for example on sports betting integrity); “plug a regulatory gap”; and “remove market distortions”.189

148. There are two issues which will be vital to the success of the Government’s proposed change to regulating online gambling at the point of consumption. First, tax must be set at a level where the development of a grey market is not encouraged (we discuss this below) and secondly, effective enforcement measures must be put in place to tackle such a market, thus protecting the legitimate industry and the UK customer. The 2011 Deloitte report, produced for William Hill, argued that more effective enforcement measures against illegal or unregulated operators would have a significant impact on the health of the UK-based online industry and consequently on the tax revenue it would generate. It forecast that “ineffective enforcement could lead to 22-43% of current [tax] revenues migrating to the grey market at POC tax rates of 10-20%”.190

149. There are numerous difficulties in effectively enforcing regulation on an online market where a large number of suppliers are based in other jurisdictions.191 We heard from regulators in Europe and Australia that preventing unlicensed illegal operators from accessing their markets was extremely challenging. In Australia, the Interactive Gambling Act 2001 was introduced to update the law on online gambling. Enforcement measures included in the 2001 Act included warning letters to Internet Service Providers (ISPs) and search engines but not action against financial intermediaries or customers. Industry representatives told us that these limited enforcement methods had led to an uneven playing field between offshore and Australian online companies.

150. The Alderney Gambling Control Commission argued that there was no need to introduce a point-of-consumption regulatory system. It argued instead for an expansion of

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187 Ibid.
189 Ev 261
190 Deloitte, The impact of a point of consumption tax on the remote gambling industry: a report for William Hill PLC, p35
191 Ev 152
the current White-Listing system. The AGCC told us that it had “responded to the UK Government’s proposition, pointing out that the White-List arrangement lacks only a proper verification process requiring overseas jurisdictions applying for White-Listing to properly demonstrate or substantiate their representations. With that addition, the White-List arrangement provides a no-cost means of effective regulation. In its absence there is significant risk of misrepresentation, reputational risk, reduced standards and a significant resource requirement to police overseas operations accessing UK players”.

151. The current regulatory framework for online gambling has failed to create a level playing field between operators based in the UK and those based overseas. This is because, whilst companies based in the UK are subject to strict regulation and high taxation, those based overseas can be lightly or unregulated whilst paying little or no tax. This situation could allow unregulated—‘grey’—markets to emerge, able to attract UK customers because they can offer better odds as the result of their lower cost bases. It is therefore important that effective enforcement methods are put in place to prevent unlicensed companies from operating into the UK and that the Department for Culture, Media and Sport and other agencies also work to encourage international cooperation and a common approach.

Impact of regulatory changes on the Gambling Commission

152. Any change to the way the online market is regulated will have an impact on the way the resources of the Gambling Commission are used. The Commission has undertaken some limited monitoring activity of non-UK providers, conducting mystery shopping programmes on gambling websites, including those regulated overseas that advertise to the UK market. However, requiring all operators targeting the UK to hold a UK licence would require substantial levels of regulatory and enforcement activity both to ensure that regulators in other jurisdictions apply and maintain appropriate regulatory standards and to block unlicensed operators from operating in the UK. The Alderney Regulator warned that “depending on the manner in which the UK Government introduces a full licensing scheme which will require all foreign based operators to be licensed by the UK Gambling Commission, it could result in duplication, increased cost to the industry and ultimately less protection for the UK consumer”.

153. When we asked Jenny Williams whether there were currently any jurisdictions whose licensing practices she would not, at the moment, consider to be up to Gambling Commission standards, she responded:

It is a problem of a lack of knowledge, isn’t it? We do not know enough about the way they do things. We do not know enough about the competence of their staff. We do know enough about their approach, and it would be very time-consuming to find out. It is not proven, if you like. We just do not know. We could not provide the assurance to the consumer.

192 Ev 150
193 Gambling Commission: Online Mystery Shopping Programme, information note July 2009, para 1.1
194 Ev 150
195 Q 737
154. It is vital for the Government to recognise that the success of any new regulatory regime for online gambling will rest on the development and implementation of effective enforcement mechanisms for regulation. The Government’s proposals for the regulation of remote gambling remain very unclear particularly with regard to how the Gambling Commission intends either to approve and monitor regulators in other jurisdictions or to directly regulate and licence all the individual companies which operate in the UK. It is not currently clear whether the Gambling Commission intends to carry out licensing checks on all companies that apply to operate in the UK. We recognise that it would be unrealistic for the Commission to inspect directly individual regulators across all other jurisdictions. We recommend that the Commission should approve certain overseas regulators and continue to monitor their performance where they meet its requirements. The Commission should undertake test purchasing exercises to ensure that these national regulators continue to carry out sufficient licensing checks. Such an approach would have the merit of encouraging international co-operation leading, in due course, to a more harmonised, consistent and less bureaucratic regulatory system across the 27 member states. For the sake of confidence and market knowledge, the Gambling Commission should also test whether regulators it has not yet approved carry out sufficient licensing checks.

155. Even if the Gambling Commission does not directly assess individual operators for their suitability to hold a UK licence, it will therefore have to make an assessment of which regulators it will allow to act as its agents—regulating online gambling sites targeting the UK on its behalf. The Department for Culture, Media and Sport should make clear how the Gambling Commission will assess the effectiveness of other national regulators and what the Commission will require of its agents. Any additional regulatory activities will have resource implications which the Gambling Commission will have to address within its existing budget.

156. Given that most UK operators have located their online operations offshore, this inquiry has heard concerns regarding the expertise of the Gambling Commission to monitor effectively a much larger number of online licence holders under the proposed changes to the regulatory regime. The Commission will, therefore, need to bolster its capability to do so, from within existing resources, as supplemented by licence income from the online operators it approves.
Casinos

157. The 2005 Act allows for four types of casino to operate in the UK: Small, Large, Regional and existing 1968 Act Casinos. The original Bill placed no limit on the number of Small and Large Casinos that might be set up, but concerns that a proliferation of casinos might lead to an increase in problem gambling meant that the final Act limited the number to eight of each. A Casino Advisory Panel was set up to make recommendations on where the Small, Large, and just one Regional, Casinos should be permitted. Though the Gambling Act allowed for one Regional Casino, the Statutory Instrument needed to approve its location was defeated in the House of Lords in 2007 and never reintroduced. Several aspects of the regime for casinos have been criticised as being problematic for the sector. The two most significant criticisms pertain to the licensing process for casinos, and the relationship between size limits and machine allowances.

New Large and Small Casinos

158. Sixteen local authorities were granted permission by the Casino Advisory Panel to host a new Small or Large Casino. Sixty-eight local authorities originally applied in 2006 for permission to have either a new Small or Large Casino.

159. The process of casino licensing created by the Act is complex, expensive and ambiguous. First, the local authority has to invite applications for a premises licence. If more than one application is received they are then subject to a two stage consideration process. The first is regulatory and operates in the same way as any other gambling premises licensing process. The second is a benefit test to establish which application would be most likely to provide the greatest benefit to the authority’s area. The Casino Network—a group of the sixteen licensing authorities given permitted area status—told us that “neither the term ‘benefit’ [in relation to the benefit test] nor the mode of determination was prescribed, although Schedule 9 of the Act did provide for publication of a Code of Practice, with which authorities would be bound to comply”.196 Such was the extent and complexity of the changes brought in under the Act that it was “necessary for authorities to devise, consult upon and adopt new gambling policies specifically for the casino licensing process”.197 The Casino Network listed seven reasons cited by its members for the delays in granting licences to new casinos. These included the cost to authorities of running the process and concerns that any decision made by authorities could be subject to legal challenge.198

160. The National Casino Industry Forum (NCiF) criticised the decision to allocate ten of the sixteen new casino licences to areas where 1968 Act Casinos were already in operation. This, it said, led to many licences not being utilised as they would either not be economically viable in competition with existing casinos or because casino operators of 1968 Act Casinos took up licences with no intention of constructing a new casino which

196 Ev 199
197 Ibid.
198 Ibid.
would compete with their existing businesses. NCIf told us that, of the sixteen local authorities, six had abandoned plans to continue with the licensing process, adding that:

Only one licence was subject to a proper competition and is operating. Of the remaining nine, two LA’s have just begun their process, three have gone to legal challenge, four licences have been granted but have not been developed and of that four only one is in a genuine development process.\(^{199}\)

161. The NCIf argued that investment in the casino industry “collapsed” following the Act partly due to this overlap in permitted areas between the 1968 Act provisions and those of the new Act.\(^{200}\) The NCIf and other casino groups called for existing licences to become portable between permitted areas. They argued that this would allow them to move existing unprofitable casinos into areas where they would be economically viable. BISL told us that portability would “mean that casinos can be established in areas where local authorities see a demand and actively want their presence”.\(^{201}\)

162. The industry told us that there was no clear way for the impact of the new licensing system to be assessed.\(^{202}\) Subsequently, one Large Casino has been opened in Newham, close to the Olympic Park and, very recently, two Large Casino licences—in Milton Keynes and Great Yarmouth—have been awarded.

163. We believe that the stated aim of the Government—to test the impact of the new casinos—would be almost impossible to implement in a timely and cost effective manner due to the impracticality of identifying whether any increase in problem gambling was caused by the new casinos as opposed to the presence of any other forms of gambling including online. The Government should reconsider its plans to test the impact of the new casinos. Given that casinos have some of the most comprehensive measures for tackling problem gambling and in the light of some of our other recommendations we believe that casino operators will already be doing enough to enable the industry to grow safely.

164. The delays in the licensing process for new Small and Large Casinos are significant and the result of an overly complex and bureaucratic process imposed on local authorities. Insufficient guidance was provided by central Government to the licensing authorities which has led to increased consultation and administrative costs. The Government should review the licensing process for Small and Large Casinos with a view to developing a new simplified and less expensive licensing process.

165. Both the 1968 and 2005 Act provisions successfully prevented casinos from proliferating or clustering. However, there is no evidence that allowing local authorities to decide independently whether or not they wish to have a casino would lead to a significant increase in the total number of casinos. We believe that the decision as to whether a casino would be of benefit to a local area should be made by local authorities rather than central diktat. We recommend that any local authority be able to make the

\(^{199}\) Ev 297  
\(^{200}\) Ev 247  
\(^{201}\) Ev W 32  
\(^{202}\) Ev 158
decision as to whether or not they want a casino. As a step towards this, we recommend that existing 1968 Act Casino licences are made portable, allowing operators to relocate to any local authority provided that they have the consent of that local authority. The portability of these licences would be constrained by the existing 'triple lock' contained in the Gambling Act: the need to obtain local authority approval, a premises licence and planning permission.

166. Industry representatives argued that Small Casinos—of which none has currently been opened—are not financially viable due to three factors, two of which have been discussed earlier in this Report: high casino duty rates, the cost of the licence application process and the restrictions on machine numbers. Moreover, we were told that there was a fundamental flaw in the design of the new tripartite classification of casinos. Each of the three types of new casino is permitted a different machine allowance according to its size and the number of gaming tables it has. New Large Casinos are allowed a machine/table ratio of 5:1, up to a maximum of 150 machines. New Small Casinos are allowed a machine/table ratio of 2:1, up to a maximum of 80 machines. Casinos operating under Gaming Act 1968 licences remain limited to 20 machines each. This means that, in order to qualify for the maximum number of permitted machines, Small Casinos would have to have 40 gaming tables, and therefore a larger floor space, than Large Casinos which would only be required to have 30 tables.

167. There were two reasons for linking machine numbers to tables. One was that it would encourage punters to take a break from machine play and turn to table play, which is less intensive. It was also thought that forcing Small Casinos to have a large floor space would prevent their proliferation on the high street. Providing tables to break up machine-based play assumes, however, that the same people will play on tables and machines, which may not be the case. Furthermore, we have seen no evidence that the ratio of tables to machines was developed on the basis of sound evidence. John Penrose MP, Minister for Tourism and Heritage, told us that "an awful lot of the numbers in the Act were plucked out of the air and were altered on an unscientific basis as the Bill went along". However, DCMS argued that the ratios of machines to tables should not be changed, because there was no evidence for any alternative being any better.

168. Concerns were expressed during the passage of the Gambling Act that the Small Casino model was not economically viable. This was in part due to their table/machine ratio. The National Casino Industry Forum argued that a uniform 5:1 machine to table ratio capped at 150 machines should apply to both Small and Large Casinos.
169. The Act has created a situation where the Small Casino model is not considered financially viable. This is partly because a Small Casino must possess a larger floor-area for table play than a Large Casino in order to maximise its machine allowance. We note that not one Small Casino has been developed. It was not Parliament’s intention in 2005 to make Small Casinos completely unviable. Given the fact that all casinos are highly regulated and access is limited regardless of the size, we see no rationale for the different gaming machine allowance. As 5:1 is the ratio presently in the legislation, we recommend that the Government introduce a single ratio of five machines to one table for both Small and Large Casinos. Local authorities should have the power to increase the number of machines permitted per table if they wish to do so and an operator requests it.

1968 Act Casinos

170. Existing 1968 Act Casinos, numbering about 140, are permitted to operate under the 2005 Act. Parliament’s view at the time of the passage of the Act was that the existing 1968 Act Casinos should not share all the privileges enjoyed by the new 2005 Act Casinos, including being able to transfer their licences across administrative boundaries. The 1968 Act Casinos are, as one of our witnesses told us, “frozen in aspic”. There are currently about 15 unused 1968 Act Casino licences. Some witnesses argued that the 2005 Act was partially responsible for the decline in investment in the UK casino sector. In particular, the Act created a disadvantage for existing 1968 Act casinos by, for example, limiting gambling machines to 20. The sector has also been adversely affected by a mixture of other factors including the smoking ban, the economic downturn and duty rates. The high-end of the casino sector has contracted, resulting in closures and job losses. The sector as a whole—as described by the NCiF—has grown to a degree but spend-per-customer has reduced.

171. The casino sector enjoyed a number of liberalisations prior to the implementation of the 2005 Act, including the freedom to advertise. In a debate in the House of Lords, in 2005, Lord McIntosh, then the Minister with responsibility for gambling, set out the

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207 Ev 199
208 Q 1
209 Ev 247
Government’s position that 1968 Act Casinos could in the future be permitted some or all of the freedoms enjoyed by Small and Large Casinos if the latter were deemed not to pose a threat.\textsuperscript{210} Lord MacIntosh argued that:

the impact of casinos with the additional entitlements needs to be tested and carefully evaluated before the door is opened more widely [but that] If the initial eight/eight/eight stage is satisfactory, it will certainly be possible to extend the entitlements more widely, including to existing casinos.\textsuperscript{211}

172. There is now a two-track system for casinos, with existing 1968 Act Casinos unable to modernise and take advantage of the allowances granted to new Small and Large Casinos. However, as the development of these new casinos has been so slow following the Act—with only one Large Casino having opened to date and two more having been permitted—there is currently no way of assessing what impact allowing 1968 Act Casinos the same freedoms would have. In principle, we see no logical reason for maintaining different regulatory regimes and believe that 1968 Act Casinos should be given the same freedoms as new ones.

Regional Casinos

173. Regional (also termed “Resort”, or “Super”) Casinos proved to be one of the most contentious issues during the passage of the Gambling Bill.\textsuperscript{212} Despite twenty-seven local authorities applying for permission to host a Regional Casino, one tabloid newspaper chose to run a campaign to "Kill the Bill" on the basis of opposition to them.\textsuperscript{213} Phrases referring to people carrying the “scars”, “a very bruising time” and even the “guns at Balaclava” were used by several witnesses to describe the experience of the passing of the Act as it related to Regional Casinos.\textsuperscript{214}

174. The Chair of the Gambling Review Board, Sir Alan Budd, defined a Resort Casino as a complex including:

hotel rooms, restaurants, bars, performance space, possibly conference facilities and most important, a range of gambling facilities. The gambling facilities usually include large numbers of casino table games, fruit machines (slot machines with unlimited stakes/prizes) some form of bingo and sports betting.\textsuperscript{215}

This type of casino was not allowed under the 1968 Act because of the then restrictions on entertainment, types of gambling and gaming machines. They are, however, an important feature of the regulated gambling industry in much of the English-speaking world, in Europe and other countries such as Macau.
175. Sir Alan Budd noted that these casinos had been used in Atlantic City and in South Africa to promote economic regeneration. In each case, a local monopoly had been created to ensure profitability and attract commercial operators who were then obliged to deliver regeneration benefits.216 This idea was taken up in a 2003 policy paper relating to gambling legislation, which indicated that casinos should provide regeneration benefits, possibly as a licensing condition.217 The 2004 Joint Committee on the draft Gambling Bill noted that there was confusion as to what the Government meant by ‘regeneration benefits’ and which types of casino would be required to produce them. It urged the Government to make Regional Casinos a separate category of casino.218 The second Joint Committee on the draft Gambling Bill, which concentrated on the government’s proposals for Regional Casinos, was told by the Rt Hon Keith Hill MP, the then Housing and Planning Minister, that Government policy on casinos included identifying areas for locating “regionally-significant casinos […] on the grounds that such developments are likely to provide a major contribution to regeneration, tourism and economic development”.219

176. Debate on the Bill, particularly during Second Reading in the House of Commons, focused on whether Regional Casinos were an effective agent of regeneration, whether they were viable unless they had a local monopoly and whether they would lead to an increase in problem gambling, an argument which was linked to numbers and categories of gaming machines. Ministers estimated at that time that the British market could sustain between 20 and 40 Regional Casinos.220 The Government was then pressed in Committee and in the House of Lords into restricting the number of Regional Casinos. In the run up to the end of the Parliamentary session, it was only possible to reach agreement to permit one Regional Casino in order to test its impact.221

177. The Gambling Act established a Casino Advisory Panel (CAP) to make recommendations, rather than final decisions, to the Secretary of State for Culture, Media and Sport on locations for the proposed eighteen Small and Large Casinos, as well as the one Regional Casino.222 The primary consideration for the CAP in recommending locations was their potential to act as an effective test of the social impact and regenerative effects of casinos. It was widely believed that Blackpool would be awarded the Regional Casino licence as it had a strong regeneration case.223

178. In January 2007, the Advisory Panel announced that its recommendation for the site of the Regional Casino was Manchester. In March 2007, the Statutory Instrument put forward by the Government to introduce the three types of new casino was defeated in the House of Lords. In July 2007, the new Prime Minister, the Rt Hon Gordon Brown MP, expressed the view that regeneration could be achieved by better means and put off the introduction of Regional Casinos pending a future review.

216 Budd did not take a view on whether resort casinos should be given monopoly rights.
218 Joint Committee on the Draft Gambling Bill, Session 2003-04, Draft Gambling Bill, HL 63, HC 139
219 HL Paper 146-I, HC 843-I. The Minister of State for Housing and Planning, Office of the Deputy Prime Minister.
220 HC Deb, 7 Apr 2005, Col 1625
221 HC Deb, 7 Apr 2005, Col 1624-5
222 Section 175 of the 2005 Act
223 HC Deb, 7 Apr 2005, Col 1625
179. The Local Government Association stated that "the eventual decision not to go ahead with the regional casino in Manchester was an unacceptable cost to local taxpayers".\textsuperscript{224} NGiF described the CAP as "an unmitigated disaster".\textsuperscript{225} The Regional Casinos would have fallen under the same tax rate as Large Casinos but, in order to obtain an operating licence, they would need to contribute to regeneration.

**A future for Regional Casinos?**

180. We have encountered, throughout our inquiry, a general reluctance openly to discuss the possibility of reintroducing a Statutory Instrument to permit the development of Regional Casinos. Neil Goulden suggested that "people are a little scared to put their head above the parapet on [...] the issue of Regional Casinos] because I think a few people carry the scars. [...] from a personal point of view, I think that a regional casino could well be a good thing but I don’t think anyone in the current industry is going to put their head above the parapet and push for it".\textsuperscript{226} However, the industry still holds that the concept of Regional Casinos is a sound one and that they can “generate visitation and leisure spend unachievable by other means".\textsuperscript{227} The Minister argued that:

> I think it would be a huge mistake for us to try and rerun the 2005 Act without enough facts, because all you would get is whoever has the best hotline into the largest circulation daily newspaper having a competing dialogue via megaphone, which is what happened then.\textsuperscript{228}

181. We visited Macao and Australia to see how Resort-type Casinos were operated and licensed in other jurisdictions. Details of our findings can be found in Annex 1 to this Report. We found that Resort-type Casinos can be operated successfully in a situation where taxation is favourable and a monopoly or near-monopoly exists for licences and therefore category A machines with their unlimited stakes and prizes. About a third of Crown Limited’s revenue was generated from international visitors who were a vital source of income for Australian Regional Casinos. The company explained that its business model was to attract the high-end of the market by offering luxury hotels. It targeted the Asian market where there was significant wealth. Crown Limited operated three private jets bringing in Asian ‘high rollers’, and owned a yacht for their use whilst in Australia. Perth, where one casino resort complex was located, was, importantly, only a 4-5 hour flight from Singapore. The operators we spoke to observed that the Chinese high-rollers loved Australia not just for the gambling but because they had wider business interests there too. The operators saw themselves as in competition with Las Vegas, Singapore and Macao for the custom of the high-rollers. We heard that some Resort Casinos had suffered a drop in income when new Resort complexes opened in Singapore.

182. In Macao, we visited the Venetian and City of Dreams Casinos, two of the five Destination Casinos situated there. In total, Macao’s 33 casinos generated a gross gaming

\textsuperscript{224} Ev 270  
\textsuperscript{225} Ev 297  
\textsuperscript{226} Q 155  
\textsuperscript{227} Ev 247 and Q 51  
\textsuperscript{228} Q 765; see also Q 821
revenue of US$ 23.7 billion (2010). This makes up the vast proportion of Macao’s gross domestic product which, in 2010, was US$ 27.2 billion. We spoke in detail to operators about the feasibility of introducing an integrated resort complex in the UK. The tax regime was identified as an extremely important factor, as was the availability of high-rollers and the means with which to attract them. Singapore and Australia set a 10-12% gaming tax rate for international players, compared to a rate of 8% in Las Vegas. The rate in Macao is 39%, but casinos there have the advantage of proximity to mainland China and are not liable to pay income tax until 2013. A relatively low tax rate for high-rollers enables the casino operator to offer a rebate. In the UK, higher-level casino duty rate is 50% and we were told that no resort complex would be able to offer a rebate to attract the high-rollers at that level. The operators said that London casinos currently attracted business from high-rollers because they were in London for other business. We were told, however, that realistically London was now the only place within the UK which might be attractive to operators as a site for a Regional Casino because of its size, number of visitors and the wider entertainment available there.

183. The current wariness of casino operators about re-entering the debate on Regional Casinos has partly resulted from the confusion created after the passage of the 2005 Act and the misjudged process for selecting a location. Another factor making the development of Regional Casinos in the UK relatively unattractive is the UK’s comparatively high rate of casino duty. We recognise that changing this would be extremely contentious and is unlikely to be considered in the near future. We conclude therefore, that the opportunity to establish one or more Regional Casinos in the UK has passed and, without a change in the political and economic climate, is unlikely to reoccur.
The Gambling Act 2005: A bet worth taking?

The Gambling Commission

184. The Gambling Commission (the Commission) was created by the Gambling Act 2005 as a unified regulator for the UK commercial gambling industry, excluding spread betting and the National Lottery.\(^{229}\) This will change in future as the Gambling Commission is due to merge with the National Lottery Commission. The Commission is a Non-Departmental Public Body sponsored by the Department for Culture, Media and Sport, but its work is funded by fees from the gambling industry. It was designed as a national regulator to operate in a system of shared regulation alongside local licensing authorities and boards: UK gambling operators must be licensed by the Commission while local licensing authorities provide permits and premises licences.\(^{230}\) Its three statutory objectives are those of the 2005 Act, to keep crime out of gambling; to ensure gambling is conducted fairly and openly; and to protect children and vulnerable people from being harmed or exploited by gambling. The Commission also has a duty to advise the Government on matters related to gambling.

185. The remit of the Commission is not identical to that of its predecessor, the Gaming Board for Great Britain (GBGB). Not only has it the additional task of regulating the betting industry, but also the 2005 Act was intended to make the UK a home for the online gambling industry, leading the way both in terms of regulation and innovation. It was expected that large numbers of providers would base their operations in the UK and therefore be regulated by the Commission. The Act was also expected to lead to a significant increase in the land-based gambling industry, which would be regulated and licensed by the Commission. The scale of the Commission when it was first set up reflected both this anticipated increase in industry size and the extra resources that would be required to issue new licences and develop new regulatory processes.

186. As a result of several factors, including the economic climate, fiscal regime and the fact that no Regional Casinos were developed, the Act has not resulted in a significantly larger industry than the one regulated by the GBGB. Partly as a result of this, the Commission has been seen by many as too large and expensive for the current industry.\(^{231}\) However, it is important to note that, under the 1968 Act, the GBGB was subsidised by the taxpayer by several million pounds per year. Local licensing authorities were also subsidised by the taxpayer: below-cost fees were applied in some places.\(^{232}\) The 2005 Act, however, introduced a statutory requirement on the gambling industry to pay licensing fees which fully reflected the costs of the regulatory regime, and this alone, as the Hampton Review Report of 2007/8 into the Commission found, meant a very significant increase in costs for many companies.\(^{233}\)

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\(^{229}\) Regulated respectively by the Financial Services Authority and the National Lottery Commission.

\(^{230}\) The Commission also has the ability to require additional licence conditions of operators on an individual basis.

\(^{231}\) Ev W 32, and 217

\(^{232}\) Ev 261

Cost and value

187. The then Government’s impact assessment for the new 2005 Act regime predicted that the cost of regulating the industry would rise from £8 to £12 million per year. As Table 3 below demonstrates, this was an under-estimate.

Gambling Commission Accounts 2008-2011

<table>
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<th>2011</th>
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<td>(£1,596,000)</td>
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Table 3: Gambling Commission Accounts 2008/2011

188. The Commission and DCMS argued that—in comparison with the GBGB—the Commission had “a significantly broader remit” with the addition of betting regulation, while the costs of both the GBGB and Commission were broadly similar as a percentage of the industries’ Gross Gaming Yield (GGY). The Commission costs 0.15% while the GBGB cost 0.14% (see Table 4). However, the 0.15% figure for the cost of the Commission includes the significant (1.9 billion euros) GGY of the online gambling sector, which the Commission does not currently regulate. It includes this sector in its calculations as it has a duty to advise the Government on it, but this makes the figures less directly comparable.

189. As table 3 shows, after the initial period of system implementation and the issuing of new licences, the Commission responded to criticisms of its size and cost by reducing its workforce and operational costs. It told us that its operating costs had decreased by about £1.9 million over the two previous fiscal years. Between 2009/10 and 2010/11 it reduced employee costs by 3.5%, and its other operating costs by 5.5%. The Commission’s structures and practices were reviewed in the Hampton Implementation Report in 2008. This was broadly positive but produced a series of recommendations for improvement, which the Commission, according to much of the evidence we have received, has broadly acted upon. Witnesses from the gambling industry argue, however, that the Commission still needs to do more to reduce its operating costs.

235 Ev 237 and 261
236 Ev 237
237 Ibid.
238 Gambling Commission: Annual Report and Accounts 2010/11, p29
239 Ev W 36 p37, see also: Gambling Commission: A Hampton Implementation Review Report. For the opposing view see: Ev 217
240 Ev 217, Ev 158, For views on the Commission’s value for money see: Ev 152, Ev 227
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<th>Gambling Commission (as at March 2011)</th>
<th>Gaming Board for Great Britain (GBGB)</th>
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<tr>
<td>Employees</td>
<td>203</td>
<td>75</td>
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<td>Venues regulated</td>
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<td>Industry Gross Gaming Yield (GGY)</td>
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<td>Total Cost</td>
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<td>Cost to tax-payer</td>
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<td>Cost as % of GGY</td>
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<td>0.14%</td>
</tr>
</tbody>
</table>

Table 4: Gambling Commission cost. *The Commission received Grant in Aid finding from DCMS of £481,000 to support its research work. This funding has now ceased.

190. The Bingo Association told us that “the Commission is less effective than the Gaming Board, yet costs more, representing poor value for money”.241 The British Amusement Catering Trade Association (BACTA) described the Commission as “gold-plated” and argued that there had been “no practical implementation of Hampton” reforms.242 BACTA said that the Commission appeared to be not “fit for purpose”.243 BALPPA told us that it did not agree with the Commission’s justification for its staff levels—that its role is significantly increased from that of the Gaming Board for Great Britain. Instead, it held that its workload had “only risen marginally with extra involvement in the Arcade sector”.244

**Regulatory activities of the Commission**

191. BACTA set out some of the areas where much of the industry felt that the new licensing and regulatory regime had added to its costs, including:

- the new licensing regime, removal of Section 16 and 21 machines from arcades and bingo halls, new amusement machine technical standards, implementation and training for new licence conditions and codes of practice, change of premises structures to address new requirements of the Act, professional advice from lawyers and accountants in making application for licences and preparing and submitting regulatory returns.245

192. Noble Group’s Solicitor, Elizabeth Speed, described the increase in annual regulatory costs, before and after the Act, as “astronomical” for “no noticeable difference in the regulation”.246 Costs had risen from around £11,000 to £800,000 in one of the Group’s divisions. The increase does, though, include conversion fees which were the result of the...
Commission issuing new licences. A leading AGC operator, Talarius Ltd, cited costs such as the introduction of an internally regulated “Think 21 Policy” and the extra administrative burden of compliance procedures as factors affecting profitability.

193. The Bingo Association argued that current fees did not represent value for money in terms of their correlation to frequency of inspections and the broad nature of inspections. John Carpenter, a bingo hall manager, made the same point. Describing the situation under the GBGB, he said that his venue had an in-depth visit four or five times per year by a local inspector who would speak to staff and customers as well as examining paper records. In contrast, he told us that he had seen his Commission inspector twice since the introduction of the Gambling Commission. Gala Coral told us that, whilst the Gambling Commission was “not an expensive regulator per se”, it could “certainly provide increased value for money”. 

194. Questions were also raised about duplication of roles between the Commission and local authorities. Nikolas Shaw Limited told us that all of its premises—comprising casinos, arcades and betting shops—were visited by the Commission but that these visits simply duplicated those made by local authorities (in relation both to venues’ gambling and liquor licences).

195. The focus of the Commission on tackling illegal gambling activity was called into question by several witnesses. Simon Thomas said that it appeared to be “weak on enforcement against illegal operations” and was “often mired in red tape and ineffective in being able to address real negative regulatory issues”. He expressed frustration that the responsibility for tackling illegal poker clubs was being passed between local authorities and the Commission and getting “lost between the two”. Jenny Williams, Chief Executive of the Gambling Commission, responded to our question to her on this issue saying that it was “very much a matter for the local authority”. She said that the Commission had assisted local authorities with “various actions” and described one case where four out of five poker clubs identified as illegal had been closed (with the fifth “dying or dead”).

196. There was a desire—expressed by industry witnesses and the Gambling Commission—for a move away from “blanket” stake and prize limitations towards more flexible, risk-based regulation. Roy Ramm, Director of the NCiF, said that “one of the issues we have been talking about with the Commission is not having a blanket stake and prize regime at the higher end” of the scale for stakes and prizes. Instead, they had
discussed the desirability of working towards a regime where controls were “more focused, [and] more surgically addressed to individuals”. 257

197. The Gambling Commission needs to provide greater clarity about what it means by moving away from a blanket stake and prize regime. We are concerned that a move towards allowing individual venues or operators to have stakes and prizes set at a different level to the rest of the market—because the Gambling Commission considers that they are well controlled—could destabilise the regulatory pyramid.

Licensing fees

198. The Commission impacts on the financial health of the industry, through licensing fees as well as the regulatory requirements it places on operators. A leading AGC operator, Præsepe plc, told us that there had been a “12 fold increase in fees for the majority of operators since the introduction of the new Act”. 258 Smaller operators, particularly in betting shops and arcades, complained most strongly about the costs imposed on them by the Commission. Nikolas Shaw Limited said that the “annual fees for the commission and local authority is a substantial cost that is difficult to justify”, 259 while Ladbrokes told us that the costs to its business per shop had increased under the Act “from around £150 plus a £25 renewal cost, to a potential £1,600 payment to the Gambling Commission, in addition to a £600 annual charge by the Local Authority”. 260 Talarius Ltd told us that its premises licence costs had risen from £18,700 in 2006 to £224,475 in 2010. It said that it had been further affected by operating and personal licence costs introduced by the Act, which came to £81,125. 261

199. A specific issue raised by our witnesses was the steep increase in cost when moving from one licence fee band to another. Small independent betting shop operators argued that this system, whereby fees could increase significantly with the addition of one betting shop, put them at a financial disadvantage in relation to the larger operators. Warwick Bartlett of the Association of British Bookmakers (ABB) said that an ABB member with 50 shops paid £17,514 annually but that this fee would increase to £45,426 if he opened one more shop. 262 He also told us that the fee structure meant that, “if you are operating a company with 2,000 shops, you pay £152 per shop but a company with one shop pays £1,531”. 263 This increase in cost is the result of the Commission’s banded licence fee structure. Jenny Williams told us that this situation was the consequence of “practical trade-offs” and that an alternative, sliding fee structure would cause practical problems. She also said that an owner of a small chain of betting shops wishing to open one or two new premises was able to “take out a separate licence” to “get across the boundary problem”. 264 In its submission to us, DCMS stated that “the Government believes there is

257 Q 202
258 Ev W 06
259 Ev W 01
260 Ev 231
261 Ev 234
262 Q 54
263 Ibid.
264 Q 675
scope for reducing regulatory costs and burdens”. However, under the Commission’s proposed new fee structure, the steep increase in licensing costs at between fee bands would continue.

200. Another issue of concern to betting shop operators has been the dual licensing system whereby both local authorities and the Gambling Commission carry out separate sets of compliance inspections. The ABB points to statistics from the Gambling Commission’s licensing authority statistics for April 2010 to March 2011 which show that over that period:

- 212 licensing authorities made a total of 1649 pre-planned visits to betting shops, which equates to around 1 in every 5 betting shops. 152 licensing authorities did not visit a single betting shop and only 65 visits were made as the result of a complaint. In 87% of percent of cases, including the complaint visits, no return visit was considered necessary and no local authority reviewed or revoked a betting premises licence.

201. The Gambling Commission has shown signs of redoubling its efforts to consult with the industry on fees. The Commission and DCMS jointly conducted a fees consultation in September 2011 which is now closed and awaiting a response. The Commission’s proposals are to reflect its efficiency savings in the fee structure by “maintaining the overall fee burden” at 2009 levels (in cash terms) which it said would represent a “significant reduction in real terms”.

202. Disagreement between the regulator and the industry it regulates over the appropriate level for licensing fees is unsurprising to the extent that no business welcomes costs imposed upon it. However it is important that the industry has a clear understanding of why it has to pay certain fees and what it is getting in return. It is clear from some of the evidence we have received that this is not always the case. We recommend that the Gambling Commission provide the gambling industry with a clear and easily accessible summary of where the fees it charges are spent as a part of its Annual Report. This would improve the relationship between the Commission and the industry, as well as highlighting areas where value for money is not currently being achieved. This requirement should also help to reduce well intentioned mission creep by the Commission into areas such as sports integrity, which is—and should continue to be—the responsibility of the sports’ governing bodies.

203. We remain unconvinced by arguments from the Gambling Commission that changing the licence fee banding system would lead to too much complexity. On the contrary, the current system is too simplistic and in some cases leads to the ridiculous situation where operators face steep fee increases when they open just one new premises. The Commission should introduce a new licence fee structure which gives a much clearer reflection of the amounts charged per shop. Small independent operators

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265 Ev 261
266 Ev 303 See also Gambling Commission Licensing Authority Statistics, 1 April 2010 to 31 March 2011, p7.
267 Ev 237
should certainly be paying less than they are now. The Commission should also be looking to charge large operators less than they currently are.

204. Particularly given the absence of a significant UK-regulated online sector or any Regional Casinos, the Gambling Commission remains an overly expensive, bureaucratic regulator. We consider that the Commission has not gone far enough, in particular, in its efforts to reduce its operating costs. We recommend that an independent review of Gambling Commission expenditure be carried out as soon as possible after a new system for remote licensing is in place. We consider that it is important for such a review to be carried out externally so that the industry has confidence in its conclusions. The reviewing body should have the power to recommend changes to the Commission with a view to reducing its costs and the regulatory and fees burden imposed on the industry taking into account the Commission’s ability to fulfil its licensing objectives.

**Champion or regulator?**

205. Much of the industry argued that the Commission should follow the recommendation of the Hampton Review regarding its relationship with operators. The review stated that:

> Regulators should recognise that a key element of their activity will be to allow or even encourage, economic progress and only to intervene when there is a clear case for protection.\(^{268}\)

Industry representatives suggested that the Commission should be more pro-active in its support for them.\(^{269}\) Witnesses from the bingo sector argued that there should be a “champion of the industry”.\(^{270}\) The GREaT Foundation argued that the Commission should have the role of depoliticising the “process of regulation and deregulation” by reporting to DCMS annually on issues where it judged changes needed to be made (for example amending or removing regulations).\(^{271}\)

206. Philip Graf, Chair of the Gambling Commission, responded to suggestions that the Commission should “champion” the gambling sector by saying that:

> I do not think it is a regulator’s job to promote an industry […] we are not an economic regulator […] If we were to end up promoting an industry, it would cause real issues for our credibility with wider stakeholders and our ability to be properly objective and to fulfil our duties. I think our job is to provide solid, good regulation, which encourages a responsible industry and ensures a competitive industry.\(^{272}\)

207. Much of the industry’s concern about its relationship to the Commission seems to stem from its disappointment at the final form of the 2005 Act (and the fiscal regime that followed). The Gala Coral Group said that the Act was heralded as “balancing legitimate

\(^{268}\) Hampton review report, p7

\(^{269}\) Ev 152; see also Ev 165,Ev 231, 148, 152

\(^{270}\) Q 273; see also Ev 158

\(^{271}\) Ev 165

\(^{272}\) Q 667
commercial interests with effective regulation” as well as leading the way in responsible gambling. It pointed to DCMS’s response to the Budd review, both of which “saw gambling as a modern leisure pursuit which provides harmless fun for a vast majority of participants”.\footnote{Ev 152} In Gala Coral Group’s view, the Act failed—as a result of political “in-fighting” and a “negative press campaign”—to deliver on these aspirations. It also pointed to the fact that DCMS did not mention gambling in its latest Departmental business plan.\footnote{Ev 152}

208. We concur with the view taken by the 2008 Hampton Review Report that allowing the economic progress of a regulated industry is an important role of any regulator and that the Gambling Commission should only intervene when necessary to protect the consumer. However, the Gambling Commission should not have an explicit duty to encourage economic progress in the gambling industry. Whilst we believe that the Gambling Commission’s primary objectives, and its ability to maintain a good relationship with all gambling stakeholders, are best served by it remaining as an impartial regulator, there is no such barrier to the Department for Culture, Media and Sport having a more supportive role towards the industry. Despite the statement, displayed on the website for the Department for Culture, Media and Sport, that it is a sponsor for the gambling industry, it makes no mention of the gambling industry in its Departmental Business Plan of 2011/15. We call on the Government clearly to set out its position on whether the gambling industry constitutes a legitimate mainstream leisure pursuit and whether it intends to be a pro-active sponsor of, or simply to tolerate, the UK gambling industry.

**Relationships and communication**

209. Whilst we heard several criticisms of the Commission, much of the industry reported having a broadly positive relationship with the organisation and its staff.\footnote{Ev 04, 161, Ev W 62, Q 315} Praesepe plc noted that the Commission had “experienced growing pains and a steep learning curve for its staff”, whilst Rileys described it as “constructive and able to recognise strengths and weaknesses in the implications and running of the Act”.\footnote{Ev W 17}

210. In contrast to many of the positive submissions regarding relationships with the Commission, Leslie MacLeod-Miller argued that BACTA no longer had a “collaborative approach” with the Commission, which he accused of being “unaccountable”.\footnote{Q 318} A possible explanation for this apparent disparity in operators’ experiences of the Commission is that “the smaller operators have less visibility to the Gambling Commission” and therefore have not been able to develop the same strong links as have the larger operators.\footnote{Ibid.}
211. Evidence from the amusement and arcade sectors, in particular, suggests that the Gambling Commission has not been able to develop strong relationships and lines of communication with some smaller operators.

212. Some of our witnesses complained of the poor standard of the Commission’s website. Praescepe plc said that, whilst it was “designed to be industry rather than consumer facing, it is difficult to navigate and has a Search Engine that still does not list results or documents in date order. Even a simple everyday search for sector or category fee rates is a laborious and time consuming process.”279 The Bingo Association observed that the website “also misses the opportunity to advise and support players by providing relevant information or appropriate referral, particularly on online gambling”.280 During this inquiry we have found the Gambling Commission’s website, which should be a significant tool for communication, frustrating. This should not be the case with a modern regulator and we recommend that the Commission move quickly to rectify any technical or design issues which prevent its website from being an effective communication tool. Specifically, the Gambling Commission should ensure that the search engine built into its website is functional and that links are maintained.

213. As a part of its enforcement and advisory roles, the Commission collects a large amount of data from the gambling industry. The 2008 Hampton Report made a clear recommendation that the Commission should ensure that “the purpose of data collection is clear and understood by businesses and used when information is not available from existing sources”.281 There appeared, however, to be a lack of understanding amongst some in the industry about the reasoning behind some of this activity. Betfair, for example, told us that it remained unsure as to what use the Commission made of data on “self-exclusion tools and the numbers of under-age people who seek to gain access to an operator’s site”.282

214. The Gambling Commission needs to continue to make improvements in the way it communicates with the businesses it regulates, particularly when conveying the reasons behind its regulatory activity. In particular, it should ensure that the purpose of requests for data are made clear.

215. The Commission appears to enjoy broadly positive relationships on a wider European Union level with other regulators. According to Betfair it was “well-regarded in Europe as an example of how a national regulator can effectively monitor and control a dynamic licensed gambling market”.283 We heard evidence from witnesses from the Jersey and Alderney Gambling Commissions, which had positive relationships with the UK Commission.284 Andre Wilsenach said that, from his “perspective, it puts a lot of time and effort into relationships with other regulators around the world”.285 Phillip Brear, Commissioner for the Gibraltar Gambling Commission (GGC), however, described

279 Ev W 06
280 Ev 227
281 Hampton review report, p8
282 Ev 161
283 Ev 161
284 Ev 185, Q 657
285 Q 657
cooperation with the UK Commission as “a one-way street”, with the GGC offering to cooperate in joint exercises and getting “nothing back.” 286

**Local Authorities**

216. A consequence of the 2005 Act was that local authorities were given a role in granting gambling premises licences. The industry complained that local authorities have had different interpretations of the Act, and as a result its implementation had been inconsistent. It is vital that good lines of communication exist between the Commission and local authorities for the Act to function properly because of their joint regulatory and licensing roles. Jenny Williams acknowledged that the sharing of responsibilities between the Commission and local authorities was “still an issue” and would be one of its priorities for the coming year. 287 She blamed this situation partly on local authorities not prioritising gambling issues and partly on the dissolution of the Local Government Association’s central organising body, with which the Commission had previously worked closely. 288

217. The London Borough of Haringey raised concerns that shared responsibility—between local councils and the Commission—for checking age verification compliance was “confusing” and it saw little evidence of “significant coordinated activity” between the joint regulators. It argued that local authorities should be given a “clearer and stronger role in the delivery of programmes of under age sales test purchasing” as they had a good track-record of running similar schemes in relation to other industries. Local authorities are responsible for coordinating national enforcement and advice through the Primary Authority scheme which, it said, could be “used to coordinate activity”. 289 Ladbrokes informed us that the Better Regulation Executive was “currently consulting as to whether age verification checking should come under the Primary Authority scheme”. 290

218. **We welcome the Gambling Commission’s moves to improve communication channels between it and local authorities through the creation of a liaison unit. The Commission should provide clear, accessible guidance to operators and local authorities, setting out its regulatory responsibilities and those of the local authorities. This would help to avoid regulatory and enforcement activity falling between the two responsible bodies.**

**The future: Merging Commissions and the move to Birmingham**

219. Whilst the Gambling Commission is coming to the end of its ‘bedding down’ phase, it is still undergoing significant changes. The Commission is due to merge with the National Lotteries Commission (NLC) at some point in 2012, subject to the approval of secondary legislation under the Public Bodies Act 2011. Proposed changes to the regulation and licensing of online gambling could add significantly to the role of the Commission. Jenny Williams stated, in the Commission’s latest Annual Report, that the two Commissions

286 Ibid.
287 Q 663
288 Ibid.
289 Ev W 93
290 Ev 231
were working together to ensure the “achievement of our respective objectives”.

This statement raises the question of whether the merger will lead to a set of aligned objectives or whether the two bodies will remain essentially separate commissions, simply sharing office-space.

220. Witnesses from sectors currently regulated by the Gambling Commission have been generally supportive of the proposed merger of the two regulators. However, groups representing lotteries other than the National Lottery have raised some concerns. The Lotteries Council said that:

The two Commissions, as currently constituted, have markedly different objects. The GC being a neutral regulator guarding the three principles, with the NLC having a clear brief to protect and promote the National Lottery. We are very concerned that these two sets of objectives cannot be aligned without compromise; an outturn which may adversely affect our members’ fundraising interests.

221. The People’s Postcode Lottery was more optimistic, saying that the new merged body should regulate charity lotteries and the National Lottery in the same way thus eliminating what it saw as an uneven playing field which gave the National Lottery an unjustified advantage.

Camelot Group was concerned that it had “had no clear steer from Government as to how they envisage the new merged body working” and that bringing the National Lottery under the 2005 Act could negatively affect it.

222. The Government and both Commissions should clarify what effect the planned merger of the Gambling Commission and the National Lottery Commission will have on the objectives, regulatory policies and practices of the resulting unified regulator, in particular the newly merged regulator’s approach to society and charitable lotteries and the National Lottery.

223. The process of merging both Commissions had already begun in 2006, with the National Lottery regulator moving into the Gambling Commission’s offices in Birmingham: a move which the Government expected to “achieve synergies and ultimately some cost-savings”, though these would be temporarily offset by transition costs. The relocation from London to Birmingham came as part of wider Government efforts to decentralise and reduce costs following from the Lyons Review.

The Bingo Association and Praesepe plc argued that there had “certainly been no evidence of reduced costs for the Commission” following this move. The relocation inevitably led to the loss of most London-based staff (acknowledged by the Commission in its 2005/6 Annual Report) which, they claimed, resulted in a loss of institutional knowledge and experience.
many of our witnesses told us that Commission staff had the knowledge that they needed to perform their duties, others claimed that low staff-retention and the Commission’s move to Birmingham had led to ineffective regulation.\(^{300}\)

224. Jenny Williams described as a “popular myth” the idea that “moving to Birmingham was a disaster”. She said that new staff would have been recruited to develop and implement the new regime wherever the Commission was based and it was able to make “large” savings on accommodation. Birmingham was also a good place to “recruit large numbers of people in fairly short order”.\(^{301}\)

225. The move to Birmingham came at a time of transition, with the development of the Commission from the old Gaming Board of Great Britain and the implementation of the new Act. It is therefore difficult to assess the true impact of the relocation in terms of reduced costs. We would expect the merger of the Gambling Commission and the National Lottery Commission in Birmingham to be completed within the next year. This merger should produce significant savings. The Gambling Commission should continue to effect cost-saving measures as a part of its merger with the National Lottery Commission wherever these would not interfere with its statutory objectives.

**The Health Lottery**

226. The 2005 Act allows for two kinds of licensed lottery: the National Lottery and small-scale society or local authority-run lotteries. The fundamental differences between the two types of lottery are that the National Lottery is more highly regulated whilst the small-scale (“society”) lotteries have fixed prize limits. Society lotteries must also operate purely on a not-for-profit basis and must contribute a minimum of 20% of their proceeds to good causes.

227. The Health Lottery, launched in September 2011, is a brand composed of 51 community lotteries promoted by a single external lottery manager (ELM). This is possible under the 2005 Act because a lottery manager’s operating licence is held by the ELM while the 51 community interest companies (CICs) hold separate society lottery operating licences, each giving 20.34% of their proceeds to the People’s Health Trust (a registered charity) to fund charitable causes in their distinct geographical area.\(^{302}\)

228. The Health Lottery has been heavily criticised by Camelot, the operator of the National Lottery for, in its view, operating as a national lottery in competition with itself and acting for profit in contravention of its Gambling Commission licence.

229. While the Health Lottery appears to us to accord with neither the spirit nor the intention of Parliament as set out in the National Lottery Act 2006 and the Gambling Act 2005, we cannot comment on its legality or make any other recommendation, in light of the recently announced Judicial Review.

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\(^{300}\) For the former view see: Qq 202, 271-3. For the latter view see: Ev 227, Ev W 06

\(^{301}\) Q 658; see also Q 665

\(^{302}\) Ev 293
230. The Government should provide clarity one way or the other as to what constitutes a national lottery and what constitutes a local lottery connected to other local lotteries. If the Government decides to allow more than one national lottery then it should ensure fair competition by requiring any new national lottery provider to pay lottery duty and meet the same legal requirements as the existing National Lottery operator.

**Society Lotteries**

231. The 2005 Act introduced a new licensing regime for lotteries. It created two broad classes of lottery: large society lotteries and lotteries run for the benefit of local authorities (licensed by the Gambling Commission); and small society lotteries, registered with local licensing authorities. The National Lottery is currently regulated separately by the National Lottery Commission.

232. The Act generally relaxed lottery law, in particular it:

i. relaxed the limits on the percentage of proceeds that could be applied to expenses or prizes;

ii. allowed rollovers of the prize fund from one lottery to another; and

iii. allowed for the sale of tickets by an automated process; and removed the maximum price for a lottery ticket.

However, the impact of the Act has been disproportionately to regulate some sectors. The Gambling Commission told us that the Act “arguably imposes burdensome requirements on small lotteries that make it harder for small charitable enterprises to use lotteries to raise funds for ‘good causes’”.303

233. The Hospice Lotteries Association and the Lotteries Council—representing society lotteries—raised two issues in particular. They argued first, that small and society lotteries are impractical under the Act because operators are required to register in advance with the Local Authority and to keep accounts;304 and secondly, that the current definition of remote gambling under the Act means that lotteries that utilise the internet, telephone, television, radio or other electronic technology are subject to a requirement for a remote licence in addition to their standard licence. The Lotteries Council said that it “questioned the need for concurrent licensing in both non-remote and remote activities, given that the latter imposes a higher standard of compliance than the former”.305 Removing this requirement would mean altering the definition of remote gambling under the 2005 Act.

The 2005 Act has created a situation where small society lotteries are required to hold ancillary licences for remote gambling, increasing their operating costs through additional administrative burdens and fees. We recommend the immediate and practical solution of making ancillary remote licences free of charge for small society lotteries. This would not, however, have any effect on the amount of bureaucracy involved in small lotteries making licence applications and renewals. We recommend

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303 Ev 237
304 Ev W 99
305 Ibid.
that the Department for Culture, Media and Sport work with local licensing authorities to review the registration process for small society and charity lotteries with a view to reducing their administrative burdens.

234. Under the 2005 Act, proceeds of society lotteries have been restricted since a 2008 review to £2,000,000 per lottery, £10,000,000 per year and £400,000 per draw.\footnote{Ibid.} The People’s Postcode Lottery (PPL) told us that there was an “extremely uneven playing field between charity lotteries and the UK National Lottery” which is protected under the Act by the limitations placed on charity lotteries.\footnote{Ev W 62} It argued that these restrictions reduced the amount of money that could be raised through small lotteries. Despite the Government raising the limits on proceeds in 2008, the PPL held that the limit should be abolished altogether. The Lotteries Council argued that these “arbitrary” restrictions were the result of DCMS and Ministers wishing to protect the National Lottery from competition. It said that society lotteries did not compete with the National Lottery and that the Gambling Commission was “on record as stating that there is no justification for limits on Society Lotteries and therefore implicitly their removal would not pose any threat to the objects of the Act”.\footnote{Ev W 99} The then Minister for Tourism and Sport, Richard Caborn, stated in 2004 that the National Lottery was ring-fenced in order to help good causes.\footnote{HC Deb, 13 September 2004, col 970} The Lottery Council challenged this argument saying that “typically 55% of proceeds” from society lotteries went to good causes while the figure for the National Lottery was 28%\footnote{Ev W 99}. The National Lottery is however liable for lottery duty at 12%.

235. We recommend that the Government should establish whether there is evidence that the National Lottery would be adversely affected by society lotteries with the right to offer increased or unlimited prizes. If it cannot be demonstrated that the current limits on small lotteries are necessary to protect the National Lottery from competition, then they should be reduced or removed. If the limits on small lotteries are removed then they should be subject to lottery duty on the same basis as the National Lottery.

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306 Ibid.
307 Ev W 62
308 Ev W 99
309 HC Deb, 13 September 2004, col 970
310 Ev W 99
Conclusions and recommendations

The situation prior to the 2005 Act

1. Gambling is now widely accepted in the UK as a legitimate entertainment activity. While we recognise the need to be aware of the harm caused by problem gambling, it seems to us that the rather reluctantly permissive tone of gambling legislation over the last 50 years is now an anomaly. Our general approach in this report has therefore been to support liberalisation of rules and delegation of decisions to those most knowledgeable about their likely impacts, local authorities, while keeping national controls to the minimum commensurate with protection of the vulnerable, in particular children. (Paragraph 5)

Problem gambling

2. In addition to the industry’s voluntary annual contribution of £5 million for Research, Education and Treatment programmes, the Government previously provided funding for the British Gambling Prevalence Surveys. The Government has now withdrawn funding for future British Gambling Prevalence surveys without giving any indication that it has considered other options, either for obtaining funding for similar studies elsewhere or for commissioning other forms of research. We recommend that the Government works with the Gambling Commission to provide a clear indication of how it intends to ensure that sufficient high-quality research on problem gambling is available to policy-makers. It is particularly important that research is seen to be independent and comparable over time to show whether or not there is a change in the levels of problem gambling. (Paragraph 32)

Under-age gambling

3. We note the wide variation between sectors in the ease with which ‘under-age purchasers’ have been able to evade the safeguards designed to protect them from gambling. In particular, we are very concerned about the continuing comparatively high failure rate of betting shops (against other kinds of gambling premises), which—thanks to the 2005 Act—are now able to host casino-style roulette machines. We recommend that the Gambling Commission continue to monitor the ability of children to access gambling premises through regular test-purchasing roulette machines. We recommend that the Gambling Commission continue to monitor the ability of children to access gambling premises through regular test-purchasing schemes rather than handing the responsibility to monitor and enforce age-restrictions to the gambling industry. The Gambling Commission, working with local authorities, should also take swift enforcement action where an operator fails to introduce sufficient access and age-verification controls. (Paragraph 38)

4. There has been insufficient data collected to establish whether or not the 2005 Act has been successful in its aim of protecting children from gambling. This highlights a particular need for more research in this area. (Paragraph 39)
Gaming machines

5. We were told by the Gambling Commission and by DCMS that gambling policy must be evidence-based. It is apparent, however, that the allocation of gaming machines under the 2005 Act is complex and was not made on the basis of solid evidence about the risk of problem gambling. (Paragraph 48)

6. Casinos are the most highly-regulated sector and they are therefore the most appropriate venue for hard, high-stake forms of gaming. This is not reflected fully in the current allocation of machines. We believe that it is illogical to restrict the games available in highly regulated land-based casinos when B2s, with high stakes and prizes, can be accessed in betting shops. The Government should address the current imbalance by permitting casinos to operate up to twenty B2-type machines with a maximum stake of £100. (Paragraph 53)

7. We recommend that research be commissioned by the Gambling Commission to assess the potential of types of gambling to contribute to problem gambling levels, in particular whether there is a link between features including speed of play, stake and prize levels, accessibility and numbers of gaming machines, and problem gambling. (Paragraph 57)

8. The 2005 Act has had the unintended consequence of encouraging the clustering of betting shops in some high streets by removing the demand test and limiting the number of B2 machines permitted in each premises. The clustering of betting shops is a local problem which calls for a local solution. We therefore recommend that local authorities be given the power to allow betting shops to have more than the current limit of four B2 machines per premises if they believe that it will help to deal with the issue of clustering. The limit of four B2 machines under current legislation should be maintained as a minimum limit to create certainty for operators. However, if problems arise with individual betting shop chains or premises in connection with B2 machine use, local authorities should have—as a safeguard—the right to require the removal of any machines over the minimum allowance. (Paragraph 66)

9. We support the original vision behind the 2001 Gambling Review Report in which bingo halls were to be maintained as social, soft gambling environments. In the case of Adult Gaming Centres we believe that they provide a controlled adult environment and have robust access controls, as demonstrated by their low failure rate in the Gambling Commission’s test-purchasing scheme. We therefore recommend that Adult Gaming Centres are permitted B2 machines on the same basis as betting shops. (Paragraph 69)

10. We recognise the potential pitfalls of amending the Act to meet individual hard cases and also note that it would be unlikely that the Government would be able to find room in its legislative programme for such amendments in the near future. However, it is clear that commercial snooker clubs have suffered disproportionately from the removal of B3 machines and are now struggling to remain profitable. We therefore recommend that commercial snooker clubs be permitted to offer B3 machines. (Paragraph 71)
11. We consider that the decision to raise the stake limit on B3 machines was made on the basis of little or no evidence. We welcome the Government’s position that further changes to machine stakes and prizes should be evidence-based. (Paragraph 73)

12. It is important that the likely effectiveness of any measures for tackling problem gambling is assessed before such measures are put in place. We recommend that the Department for Culture, Media and Sport seek to learn from the experiences of other jurisdictions, such as Australia, which have implemented measures to combat problem gambling including educational programmes and machine displays showing time spent on them. (Paragraph 74)

Tackling problem gambling

13. Despite arguments that the 2005 Act changed little in reference to problem gambling, we regard it as an important step forward that, for the first time, the Act gave the Government the power—and the gambling industry the responsibility—to tackle problem gambling. (Paragraph 75)

14. We have seen that information about problem gambling and sources of help has been made available inside the gambling venues which we have visited. An information campaign, aimed at the relatives of problem gamblers, could lead to more people seeking help because relatives of problem gamblers may not enter gambling venues and see the information provided there. We recommend that the Department for Culture, Media and Sport develop a public information campaign outside of gambling premises to highlight sources of help for problem gamblers and their relatives. The Government should also make an assessment of the ability of existing support and advice centres to deal with any significant resulting rise in demand. If a significant increase is expected then the industry should fund, out of the existing voluntary levy, increased provision of advice and support by these existing centres. (Paragraph 77)

15. We recognise the significant practical challenges that introducing a national “universal” self-exclusion system would involve, including confidentiality and legal issues. However, the Government should support the development of a system which would allow a customer to self-exclude from all forms of gambling regulated by the Gambling Commission. (Paragraph 81)

16. The voluntary levy for research, education and treatment has thus far been successful at raising the target of £5 million per annum. An important lever for obtaining funds from the gambling industry is the potential for reputational damage if insufficient monies were raised or if a compulsory levy were deemed necessary. While it is important that the option of enforcing a compulsory research, education and treatment levy be maintained, we recommend that the current voluntary levy is continued. However, should one or more sectors of the gambling industry fall short in their duty to fund research, education and treatment programmes, the Government should implement a compulsory levy on those sectors. (Paragraph 84)

17. We recommend that, in designing successor arrangements to the tripartite agreement for the funding of research, education and treatment, the Department for
Culture, Media and Sport and the Gambling Commission focus on minimising overlap between the responsibilities and activities of the bodies involved as well as ensuring effective communication between them. While the Responsible Gambling Strategy Board continues to advise the Gambling Commission, and through it the Government, we believe that the Department for Culture, Media and Sport should also take a more pro-active role in identifying the research needed for strategic policy development and ensuring that these needs are reflected in the research being carried out. (Paragraph 91)

18. We support the recommendations of the Responsible Gambling Strategy Board for the principles which should apply to the successor arrangements to the tripartite agreement as laid out in its 2011 Strategy document. In addition, the advice from the Responsible Gambling Strategy Board regarding the amount required for future research, education and treatment, if accepted, must be clearly communicated to the gambling industry. This advice should set out how the money donated by the industry will be spent. We await with interest proposals from the Gambling Commission for a replacement for the now defunct system for funding and commissioning research, education and treatment programmes. (Paragraph 92)

19. The Gambling Commission should make an assessment of the available gambling education programmes aimed at under 16 year olds—including that which has been developed by GamCare—and make a recommendation on their merits, based on projected cost and level of impact. (Paragraph 96)

The industry, tax and regulation

20. We recognise that the Bingo sector remains highly taxed in comparison with other sectors despite its status as one of the softest forms of gambling. In principle we believe that bingo should be taxed in line with other forms of gambling at 15%. Moreover, we recommend that the Treasury make an assessment, within the next financial year, of the likelihood that a reduction in bingo duty, to 15%, would result in increased investment in the bingo sector and a rise in net tax take. (Paragraph 104)

21. We are not convinced by arguments from the Treasury that measures to allow the offsetting of Gross Profits Tax against VAT on capital investment for gambling machines cannot currently be implemented. The Treasury should carry out further work in this area and identify a means by which such offsetting could be achieved. We also recommend that the Treasury make judicious use of industry analysis of the likely impacts of its proposed taxation measures. As it is in the public interest to maximise the tax take from the gambling industry, the Treasury should set tax at a level which allows investment in the industry and does not stifle growth. We recommend that the Treasury also take into account the likely impact on investment by the gambling industry in future tax-rate calculations. We recommend that any changes to machine gaming duty should be revenue neutral as the Economic Secretary to the Treasury assured us that they would be. If the rate of machine gaming duty raises more than a revenue neutral figure, the Chancellor should reduce the new rate to ensure that revenue neutrality is achieved. (Paragraph 109)
22. The failure of the Department for Culture, Media and Sport to work with the Treasury to set remote gambling taxation at a level at which online operators could remain within the UK and regulated by the Gambling Commission has led to almost every online gambling operator moving offshore whilst most are still able to advertise and operate into the UK. We therefore welcome the announcement, made in the 2012 Budget Statement, that the online industry will be taxed on a point-of-consumption rather than a point-of-supply basis. We also welcome the detailed consultation with the industry since the Budget over the design of the policy framework and look forward to the Government’s response. To give certainty to online operators, and their investment plans, we urge the Government to adhere to its timetable for implementation by December, 2014 and to make plans to deal with any challenges to the proposed new system. However, the Treasury still needs to work with industry stakeholders to establish the correct level for online gambling taxation, taking into account the need to encourage companies to accept UK regulation and taxation and to discourage the formation of a grey market. (Paragraph 117)

Regulation and the impact of the Act

23. We welcome the reinstatement of the Triennial Review system for gambling machine stakes and prizes. These reviews should be designed to maintain the value in real terms of stakes and prizes, as is the case with other industries where prices are controlled by the Government, rather than as a means of increasing industry profitability. A Triennial Review system has the potential to lead to significant calls from all sectors of the industry that they should have their machine allowances and/or stakes and prizes increased on a regular basis. It is important therefore that these reviews are carried out on the basis of evidence, are as open and depoliticised as possible. (Paragraph 124)

24. We have seen no evidence to suggest that the existing White Listed jurisdictions pose a greater threat of problem gambling than UK or EU-based operators. However, the possible link between online gambling and problem gambling must be addressed alongside any future regulatory and licensing regime for online gambling. Online gaming has been identified as having certain characteristics which may be associated with problem gambling, including high speed of play, frequency of play and ease of availability. We consider that a vital aspect of gambling regulation is controlling the significant, and growing, online sector with its unlimited stakes and prizes, and its potential to cause problem gambling. The Commission’s plans for licensing online operators will rely heavily on other regulators which the Commission has very limited means of monitoring. The Commission should aim to improve its links with overseas regulators for the purpose of spreading best-practice in terms of customer protection and problem gambling prevention. (Paragraph 133)

Consumer protection in online gambling

25. We welcome the assurances we have received from the Department of Culture, Media and Sport that it will take into account the lessons learned from the Full Tilt case, including the conclusions of the Report by Peter Dean to the Alderney
Gambling Control Commission published in March 2012. We recommend that the Gambling Commission should consider, as a part of efforts to communicate to online gamblers the potential risks to their funds, introducing a kite-marking system for gambling websites, indicating which sites are regulated in the UK. This could protect consumers by encouraging them to use UK-regulated sites and by incentivising suppliers to choose to be regulated here. (Paragraph 138)

26. We recognise the concerns of well-managed, existing operators about the potential costs and burdens of legally separating players’ funds. In the light of the Full Tilt case, however, the Gambling Commission should consult the industry as to what form of ‘ring fencing’ or protection of player accounts, by all UK-regulated online gambling operators, would be a proportionate response to the worries arising from this unfortunate episode. (Paragraph 139)

Ensuring adequate regulation of online gambling

27. The current regulatory framework for online gambling has failed to create a level playing field between operators based in the UK and those based overseas. This is because, whilst companies based in the UK are subject to strict regulation and high taxation, those based overseas can be lightly or unregulated whilst paying little or no tax. This situation could allow unregulated—‘grey’—markets to emerge, able to attract UK customers because they can offer better odds as the result of their lower cost bases. It is therefore important that effective enforcement methods are put in place to prevent unlicensed companies from operating into the UK and that the Department for Culture, Media and Sport and other agencies also work to encourage international co-operation and a common approach. (Paragraph 151)

28. It is vital for the Government to recognise that the success of any new regulatory regime for online gambling will rest on the development and implementation of effective enforcement mechanisms for regulation. The Government’s proposals for the regulation of remote gambling remain very unclear particularly with regard to how the Gambling Commission intends either to approve and monitor regulators in other jurisdictions or to directly regulate and licence all the individual companies which operate in the UK. It is not currently clear whether the Gambling Commission intends to carry out licensing checks on all companies that apply to operate in the UK. We recognise that it would be unrealistic for the Commission to inspect directly individual regulators across all other jurisdictions. We recommend that the Commission should approve certain overseas regulators and continue to monitor their performance where they meet its requirements. The Commission should undertake test purchasing exercises to ensure that these national regulators continue to carry out sufficient licensing checks. Such an approach would have the merit of encouraging international co-operation leading, in due course, to a more harmonised, consistent and less bureaucratic regulatory system across the 27 member states. For the sake of confidence and market knowledge, the Gambling Commission should also test whether regulators it has not yet approved carry out sufficient licensing checks. (Paragraph 154)

29. Even if the Gambling Commission does not directly assess individual operators for their suitability to hold a UK licence, it will therefore have to make an assessment of
which regulators it will allow to act as its agents—regulating online gambling sites targeting the UK on its behalf. The Department for Culture, Media and Sport should make clear how the Gambling Commission will assess the effectiveness of other national regulators and what the Commission will require of its agents. Any additional regulatory activities will have resource implications which the Gambling Commission will have to address within its existing budget. (Paragraph 155)

30. Given that most UK operators have located their online operations offshore, this inquiry has heard concerns regarding the expertise of the Gambling Commission to monitor effectively a much larger number of online licence holders under the proposed changes to the regulatory regime. The Commission will, therefore, need to bolster its capability to do so, from within existing resources, as supplemented by licence income from the online operators it approves. (Paragraph 156)

New Large and Small Casinos

31. We believe that the stated aim of the Government—to test the impact of the new casinos—would be almost impossible to implement in a timely and cost effective manner due to the impracticality of identifying whether any increase in problem gambling was caused by the new casinos as opposed to the presence of any other forms of gambling including online. The Government should reconsider its plans to test the impact of the new casinos. Given that casinos have some of the most comprehensive measures for tackling problem gambling and in the light of some of our other recommendations we believe that casino operators will already be doing enough to enable the industry to grow safely. (Paragraph 163)

32. The delays in the licensing process for new Small and Large Casinos are significant and the result of an overly complex and bureaucratic process imposed on local authorities. Insufficient guidance was provided by central Government to the licensing authorities which has led to increased consultation and administrative costs. The Government should review the licensing process for Small and Large Casinos with a view to developing a new simplified and less expensive licensing process. (Paragraph 164)

33. Both the 1968 and 2005 Act provisions successfully prevented casinos from proliferating or clustering. However, there is no evidence that allowing local authorities to decide independently whether or not they wish to have a casino would lead to a significant increase in the total number of casinos. We believe that the decision as to whether a casino would be of benefit to a local area should be made by local authorities rather than central diktat. We recommend that any local authority be able to make the decision as to whether or not they want a casino. As a step towards this, we recommend that existing 1968 Act Casino licences are made portable, allowing operators to relocate to any local authority provided that they have the consent of that local authority. The portability of these licences would be constrained by the existing ‘triple lock’ contained in the Gambling Act: the need to obtain local authority approval, a premises licence and planning permission. (Paragraph 165)
34. The Act has created a situation where the Small Casino model is not considered financially viable. This is partly because a Small Casino must possess a larger floor-area for table play than a Large Casino in order to maximise its machine allowance. We note that not one Small Casino has been developed. It was not Parliament’s intention in 2005 to make Small Casinos completely unviable. Given the fact that all casinos are highly regulated and access is limited regardless of the size, we see no rationale for the different gaming machine allowance. As 5:1 is the ratio presently in the legislation, we recommend that the Government introduce a single ratio of five machines to one table for both Small and Large Casinos. Local authorities should have the power to increase the number of machines permitted per table if they wish to do so and an operator requests it. (Paragraph 169)

1968 Act Casinos

35. There is now a two-track system for casinos, with existing 1968 Act Casinos unable to modernise and take advantage of the allowances granted to new Small and Large Casinos. However, as the development of these new casinos has been so slow following the Act—with only one Large Casino having opened to date and two more having been permitted—there is currently no way of assessing what impact allowing 1968 Act Casinos the same freedoms would have. In principle, we see no logical reason for maintaining different regulatory regimes and believe that 1968 Act Casinos should be given the same freedoms as new ones. (Paragraph 172)

Regional Casinos

36. The current wariness of casino operators about re-entering the debate on Regional Casinos has partly resulted from the confusion created after the passage of the 2005 Act and the misjudged process for selecting a location. Another factor making the development of Regional Casinos in the UK relatively unattractive is the UK’s comparatively high rate of casino duty. We recognise that changing this would be extremely contentious and is unlikely to be considered in the near future. We conclude therefore, that the opportunity to establish one or more Regional Casinos in the UK has passed and, without a change in the political and economic climate, is unlikely to reoccur. (Paragraph 183)

The Gambling Commission

37. The Gambling Commission needs to provide greater clarity about what it means by moving away from a blanket stake and prize regime. We are concerned that a move towards allowing individual venues or operators to have stakes and prizes set at a different level to the rest of the market—because the Gambling Commission considers that they are well controlled—could destabilise the regulatory pyramid. (Paragraph 197)

Gambling Commission fees

38. Disagreement between the regulator and the industry it regulates over the appropriate level for licensing fees is unsurprising to the extent that no business
welcomes costs imposed upon it. However it is important that the industry has a clear understanding of why it has to pay certain fees and what it is getting in return. It is clear from some of the evidence we have received that this is not always the case. We recommend that the Gambling Commission provide the gambling industry with a clear and easily accessible summary of where the fees it charges are spent as a part of its Annual Report. This would improve the relationship between the Commission and the industry, as well as highlighting areas where value for money is not currently being achieved. This requirement should also help to reduce well intentioned mission creep by the Commission into areas such as sports integrity, which is—and should continue to be—the responsibility of the sports’ governing bodies. (Paragraph 202)

39. We remain unconvinced by arguments from the Gambling Commission that changing the licence fee banding system would lead to too much complexity. On the contrary, the current system is too simplistic and in some cases leads to the ridiculous situation where operators face steep fee increases when they open just one new premises. The Commission should introduce a new licence fee structure which gives a much clearer reflection of the amounts charged per shop. Small independent operators should certainly be paying less than they are now. The Commission should also be looking to charge large operators less than they currently are. (Paragraph 203)

40. Particularly given the absence of a significant UK-regulated online sector or any Regional Casinos, the Gambling Commission remains an overly expensive, bureaucratic regulator. We consider that the Commission has not gone far enough, in particular, in its efforts to reduce its operating costs. We recommend that an independent review of Gambling Commission expenditure be carried out as soon as possible after a new system for remote licensing is in place. We consider that it is important for such a review to be carried out externally so that the industry has confidence in its conclusions. The reviewing body should have the power to recommend changes to the Commission with a view to reducing its costs and the regulatory and fees burden imposed on the industry taking into account the Commission’s ability to fulfil its licensing objectives. (Paragraph 204)

Role of the Gambling Commission

41. We concur with the view taken by the 2008 Hampton Review Report that allowing the economic progress of a regulated industry is an important role of any regulator and that the Gambling Commission should only intervene when necessary to protect the consumer. However, the Gambling Commission should not have an explicit duty to encourage economic progress in the gambling industry. Whilst we believe that the Gambling Commission’s primary objectives, and its ability to maintain a good relationship with all gambling stakeholders, are best served by it remaining as an impartial regulator, there is no such barrier to the Department for Culture, Media and Sport having a more supportive role towards the industry. Despite the statement, displayed on the website for the Department for Culture, Media and Sport, that it is a sponsor for the gambling industry, it makes no mention of the gambling industry in its Departmental Business Plan of 2011/15. We call on the Government clearly to set
out its position on whether the gambling industry constitutes a legitimate mainstream leisure pursuit and whether it intends to be a pro-active sponsor of, or simply to tolerate, the UK gambling industry. (Paragraph 208)

42. Evidence from the amusement and arcade sectors, in particular, suggests that the Gambling Commission has not been able to develop strong relationships and lines of communication with some smaller operators. (Paragraph 211)

43. During this inquiry we have found the Gambling Commission’s website, which should be a significant tool for communication, frustrating. This should not be the case with a modern regulator and we recommend that the Commission move quickly to rectify any technical or design issues which prevent its website from being an effective communication tool. Specifically, the Gambling Commission should ensure that the search engine built into its website is functional and that links are maintained. (Paragraph 212)

44. The Gambling Commission needs to continue to make improvements in the way it communicates with the businesses it regulates, particularly when conveying the reasons behind its regulatory activity. In particular, it should ensure that the purpose of requests for data are made clear. (Paragraph 214)

45. We welcome the Gambling Commission’s moves to improve communication channels between it and local authorities through the creation of a liaison unit. The Commission should provide clear, accessible guidance to operators and local authorities, setting out its regulatory responsibilities and those of the local authorities. This would help to avoid regulatory and enforcement activity falling between the two responsible bodies. (Paragraph 218)

**Merger of Gambling and National Lottery Commissions**

46. The Government and both Commissions should clarify what effect the planned merger of the Gambling Commission and the National Lottery Commission will have on the objectives, regulatory policies and practices of the resulting unified regulator, in particular the newly merged regulator’s approach to society and charitable lotteries and the National Lottery. (Paragraph 222)

47. The move to Birmingham came at a time of transition, with the development of the Commission from the old Gaming Board of Great Britain and the implementation of the new Act. It is therefore difficult to assess the true impact of the relocation in terms of reduced costs. We would expect the merger of the Gambling Commission and the National Lottery Commission in Birmingham to be completed within the next year. This merger should produce significant savings. The Gambling Commission should continue to effect cost-saving measures as a part of its merger with the National Lottery Commission wherever these would not interfere with its statutory objectives. (Paragraph 225)
Lotteries

48. While the Health Lottery appears to us to accord with neither the spirit nor the intention of Parliament as set out in the National Lottery Act 2006 and the Gambling Act 2005, we cannot comment on its legality or make any other recommendation, in light of the recently announced Judicial Review. (Paragraph 229)

49. The Government should provide clarity one way or the other as to what constitutes a national lottery and what constitutes a local lottery connected to other local lotteries. If the Government decides to allow more than one national lottery then it should ensure fair competition by requiring any new national lottery provider to pay lottery duty and meet the same legal requirements as the existing National Lottery operator. (Paragraph 230)

50. The 2005 Act has created a situation where small society lotteries are required to hold ancillary licences for remote gambling, increasing their operating costs through additional administrative burdens and fees. We recommend the immediate and practical solution of making ancillary remote licences free of charge for small society lotteries. This would not, however, have any effect on the amount of bureaucracy involved in small lotteries making licence applications and renewals. We recommend that the Department for Culture, Media and Sport work with local licensing authorities to review the registration process for small society and charity lotteries with a view to reducing their administrative burdens. (Paragraph 233)

51. We recommend that the Government should establish whether there is evidence that the National Lottery would be adversely affected by society lotteries with the right to offer increased or unlimited prizes. If it cannot be demonstrated that the current limits on small lotteries are necessary to protect the National Lottery from competition, then they should be reduced or removed. If the limits on small lotteries are removed then they should be subject to lottery duty on the same basis as the National Lottery. (Paragraph 235)
Annex 1: Information gathered in Australia and Macao

Gaming machines in Australia

We chose to visit Australia, which is recognised as being at the forefront of research into problem gambling, and Macao, as a part of our inquiry, because both locations have established resort casino industries. During the 1990s, Australia embarked on a period of significant liberalisation and expansion of gambling. For the first time, jurisdictions introduced casinos and, in most cases, allowed electronic gaming machines into hotels and clubs. This liberalisation fuelled a surge in expenditure and growth. Levels of problem gambling also rose along with increased availability and accessibility of machine and other gaming opportunities. More recently, participation in gambling decreased and expenditure stagnated but gambling remained a common recreational pursuit: around 70% of Australians participated in some form of gambling each year.

The Productivity Commission is the Australian Government’s independent research and advisory body on a range of economic, social and environmental issues. It advises the Australian Government on policy and its independence is underpinned by an Act of Parliament. The Productivity Commission produced two reports on gambling in Australia, in 1999 and in 2010. It concluded that, given that most people did not experience any problems, gambling was a valid entertainment providing significant tax revenue, but that a small proportion of the population experienced significant problems.

State surveys suggested that the number of Australians categorised as problem gamblers was around 115,000, with a further approximately 280,000 people categorised as being at “moderate risk” of becoming problem gamblers—though it should be noted that these figures are extrapolated from survey data and may not be accurate. In a discussion with academics studying gambling behaviour, we were told that problem gambling was a significant issue affecting about 1% of the population. The trend was downwards, which had been tentatively attributed to people adapting to new electronic gaming machines and responsible gambling initiatives.

The Productivity Commission found that some forms of gambling—particularly gaming machines often found outside of casinos—held more risk than others. In Australia high-intensity machines with a maximum AUS $10 stake carried the potential for an over AUS $1,000 per hour loss. These high-intensity hard gaming machines—known as pokies—have become ubiquitous in Australia and are available in Australian hotels, which are equivalent to UK pubs.

We heard from representatives of the gaming industry in Australia that there is no correlation between the number of available gaming machines and levels of problem gambling. They cited the fact that, in Tasmania, problem gambling is increasing even though there are relatively few gaming machines. This demonstrated that availability may not be the only factor in problem gambling. We heard from representatives of the Australian Productivity Commission that in Western Australia gaming machines were limited to casinos with the result that there was a low incidence of problem gambling.
The Productivity Commission recommended several measures to combat problem gambling, including the introduction of mandatory pre-commitment schemes for machine gaming. Customers would have to select a loss-limit for themselves which would last for a specific period (three months, for example) and they would not be able to exceed those losses on any gaming machine in any venue. This would be achieved through customer registration and the use of “smart-cards” in all machines. Plans to do this by 2016 are contested by the current opposition party, which argues that this measure is unlikely to have a practical impact on problem gambling levels because people will simply choose a high loss-limit. Additional measures, recommended by the Productivity Commission, are: maximum stakes; venue shut-down periods; a limit on the amount of credit players can insert into a machine; and paying larger prizes by cheque to discourage immediate re-staking. We were told that this type of scheme, using smart-cards, is being trialled in places like Nova Scotia but that this research is not yet complete.

A problem with introducing pre-commitment schemes for machines is the need to carry out technical alterations to machines and to introduce new machines. Some industry representatives argued that limiting access to gaming machines or introducing pre-commitment would cause players to move to other forms of gaming, for example, online. This possibility was also raised with us by some academics we spoke to in Australia. However, the Productivity Commission found no evidence that this would happen.

Some of the academics we spoke to were sceptical about the effectiveness of some measures currently being used to tackle problem gambling in Australia, such as information and warning signs in venues. Messages that provide a break in play by popping up on the screen were, we were informed, more likely to be effective as they could potentially break a gaming “trance”. We were told that a proposed maximum stake of AUS $1 was more likely to be effective as it would target problem gamblers who were more likely to want to play for higher stakes.

**Online gaming in Australia**

The Australian Government introduced legislation to control online gaming in 2000 in order to avoid repeating problems which had resulted from what many saw as too far-reaching liberalisations in the casino and machine gaming sectors. The Interactive Gambling Act 2001 prohibits the provision of online gambling services, excluding lotteries and wagering, to customers in Australia, but does not outlaw Australians from accessing online gambling services. Nor does it prevent Australian-based companies from providing online gambling services to customers in other countries.

Though the academics we spoke to agreed that levels of problem gambling in Australia were probably in decline, we were told that it was too early to assess problem gambling in relation to online gambling as there would be a time-lag before this form of gambling was captured in problem gambling statistics.

The Productivity Commission concluded that it was better to allow play on regulated Australian sites than to have it occur on less safe offshore sites. Its 2010 report recommended running a trial—allowing just online poker—to measure the effects of liberalising the market. The Australian Parliament’s Joint Select Committee on Gambling
Reform is currently undertaking an inquiry into interactive and online gambling and gambling advertising.

**Resort Casinos in Australia and Macao**

When we visited Macao and Australia to see how Resort-type Casinos are operated and licensed in other jurisdictions, we found that they can be operated successfully in a situation where taxation is favourable and a monopoly or near-monopoly exists of a particularly popular form of gambling—high stake and prize machines in Australia as well as baccarat in Macao. We spoke with several casino operators, including the Crown Casino, Melbourne. Crown Limited also owned Aspinalls in London and had previously been interested in Regional Casinos in the UK. It had just opened what was then the only Large Casino in the UK, in Newham. The company has very recently been awarded another Large Casino licence in Milton Keynes. The Crown, Melbourne, was important for the local area because it had positively impacted a wider regeneration project on Melbourne’s Southbank. We were told that operators saw the Australian Government as a partner and noted that taxes to the local, state and federal Governments from the industry amounted to $680 million per year.

Macao operated three Resort Casino concessions: The Venetian, City of Dreams and MGM. Each committed in its tendering process to invest in various construction projects and resort development. Each also paid a fee to the Macao Government for a 20-year tender. No other companies were permitted access to the market, and the expectation was that the licences would be renewed at the end of the current contract. By 2010, the concessions had created a tourist boom. This contributed to gross gaming revenue from Macao’s 33 casinos in 2010 of US$ 23.7 billion, and a gross domestic product of US$ 27.2 billion. In the year up to November 2011, Macao’s gross gaming revenue had already reached US$ 30.5 billion, a 44.1% increase year-on-year. Casinos represented 99.5% of Macao’s gaming revenue. There were, however, challenges for Macao in terms of problem gambling resulting from casinos. Other negative impacts of the system operated there had been increased land prices, corruption, environmental damage and the effects of social change as the young engaged with the gambling industry and earned relatively high wages. There are also some fears that much of the “junket” market on which most of the profitability of these casinos depend continues to be controlled by organised crime. Some of these issues were not relevant to the social, economic and geographical situation in the UK. Though regulation was light, the Government in Macao had taken some steps to address problem gambling, for instance, by organising initiatives to raise awareness. However, problem gambling primarily affected tourists with a low prevalence recorded in Macao’s own population.
Annex 2: Methodology of the British Gambling Prevalence Surveys

In 2010, the Gambling Commission sponsored the third in a series of British Gambling Prevalence Surveys (BGPS), carried out by the National Centre for Research (NatCen), an independent social research institute based in the UK, conducted two earlier surveys, in 1999 and 2007. The 2010 survey was the first survey to be carried out after the implementation of the 2005 Act in 2007 and was meant to provide a benchmark for assessing the level of participation in gambling in the UK, as well as the prevalence of problem gambling. However, it was not specifically designed to provide information about why any changes had taken place, so it can give no firm evidence about the effects of the 2005 Act on the incidence of problem gambling.

Some of the figures produced by the survey are set out below and illustrate the broad finding that levels of participation in gambling activities had increased between 2007 and 2010.

- 73% of people aged 16 and over participated in some form of gambling in the previous year—around 35.5 million adults—representing a return to the higher rates observed in 1999 from 68% in 2007.
- 56% of adults participated in a form of gambling in the previous year, excluding the lottery. Comparable estimates for 1999 and 2007 were 46% and 48%.
- 4% of adults reported that their gambling involvement increased in the previous year, 13% that it decreased, and 82% that it had stayed the same.\(^{311}\)

The British Gambling Prevalence Survey 2010 measured the prevalence of problem gambling in the adult population in Great Britain using the Diagnostic and Statistical Manual of Mental Disorders, 4th Edition (DSM IV), and the Problem Gambling Severity Index (PGSI). The DSM IV figure for problem gamblers was 0.9%, which equates to about 451,000 adults. The corresponding figure for both the 2007 and 1999 surveys was 0.6%. This increase is at the margins of statistical significance. PGSI identified 0.7% of the adult population as having a gambling problem (about 360,000 adults). This second measure recorded no statistically significant change.

The meaning of the term “statistical significance” is important here. Statistical significance is the probability (expressed as a “p-value”) that the result of a given experiment or study could have occurred purely by chance. The p-value for the DSM IV result was 0.049. The threshold for declaring a result to be significant is 0.05, thus making it on the margins of significance.\(^{312}\) What these figures reveal is that we can be about 95% certain that the prevalence of problem gambling increased in 2009/10 from 0.7% to between 0.7% and 1.2%.

\(^{311}\) British Gambling Prevalence Survey 2010, National Centre for Social Research, prepared for the Gambling Commission, 2011, p9-10

\(^{312}\) Ev 38
The imprecise nature of these findings results in part from relatively small sample sizes and the lack of any significant studies on the causes of problem gambling.

The BGPS was criticised by some as being a tick-box exercise and prone to classifying casual gamblers (who may only place a bet five or six times in a year) as problem gamblers. A lack of discrimination between enthusiastic and problem gamblers could therefore lead to a number of false positives. Furthermore, the BGPS methodology arguably cannot be used to accurately extrapolate levels of problem gambling in the total population because the numbers sampled are relatively low in each study (which also limits their usefulness in terms of secondary analysis). It is worth noting that the two screens used in the 2010 survey (DSM IV and PGSI) identified different sets of respondents as problem gamblers. However, it is also worth noting that the methodology used remained the same for all three BGP Surveys. The recorded increase in problem gamblers between surveys cannot, therefore, be discounted on this basis because each survey had the same potential to lead to false positives.
Annex 3: Full Tilt

On 15 April 2011, Full Tilt Poker was one of several online poker operators to have its .com domain seized by the Federal Bureau of Investigation as part of a series of indictments of the site’s owners. The US Justice Department subsequently accused Full Tilt Poker of operating a Ponzi scheme (a fraudulent investment operation that pays returns to existing investors from their own money or the money paid by subsequent investors, rather than from profit earned by the operator of the scheme). Full Tilt Poker was registered with—among others—the White-Listed Alderney Gambling Control Commission (AGCC), which suspended Full Tilt’s licence on 29 June 2011 and revoked it on 29 September 2011.314 Andre Wilsenach, Executive Director of the AGCC, told us that, as a result of the legal action in the United States, Full Tilt was able to “misrepresent its financial position”. This meant that it was able to operate even though it “did not necessarily have the resources to pay players”.315 Full Tilt has, to date, failed to pay back players’ deposits.

Several other national regulators had refused Full Tilt a licence because it had accepted customers in the United States, contrary to US law, and did not separate its operating accounts (creating a separate account for player winnings).316 Neither the AGCC nor the UK Gambling Commission currently require online operators to have separate accounts for player winnings. The AGCC alludes to Full Tilt in its Annual Report, saying that, “licensees should be encouraged to protect player funds” and that it is continuing to look into the protection of funds.317

As a result of our inquiry into this case, we requested that DCMS provide us with an assurance that this, or a similar, situation could not occur with a UK-licensed operator.318 We specifically highlighted the concern that an operator could withhold or lose money which it owed to players. John Penrose responded, saying that when the Act was implemented:

the Gambling Commission considered it was disproportionate to introduce requirements for the British-based betting or remote gaming industry to hold a financial reserve. Gambling contracts made since 1 September 2007, however, are legally enforceable under the Gambling Act 2005.319

Mr Penrose argued that it had not been deemed cost-effective, by the Gambling Commission, to require operators to hold a separate player winnings account, insurance, or a guarantee that its maximum liability to players could be paid out at all times. It was considered that these measures would be too burdensome to the industry and therefore give a competitive advantage to less regulated or illegal operators.320 Mr Penrose told us

314 AGCC press release 29 September 2011
315 Q 636
316 Gibraltar Regulatory Authority Annual Report 2010 / 2011
318 Q 817
319 Ev 105, see also Q 746
320 Ev 105
that the Commission was aware of players having a false sense of security when gambling online. They often did not take into consideration whether or not their funds were protected. He said that the Commission had been responding to this issue by considering ways in which to raise players’ awareness of the potential risk to their funds.
Formal Minutes

Thursday 12 July 2012

Members present:

Mr John Whittingdale, in the Chair
Dr Thérèse Coffey
Damian Collins
Philip Davies
Paul Farrelly
Steve Rotheram
Mr Adrian Sanders
Mr Gerry Sutcliffe

Draft Report (The Gambling Act 2005: A bet worth taking?), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 235 read and agreed to.

Annexes 1, 2 and 3 agreed to.

Resolved, That the Report be the First Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 17 July at 10.15 am]
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<tr>
<td>Roy Ramm, Director, NCiF, and Compliance Director, London Clubs International, Peter Brooks, Member, NCiF, and President and Chief Operating Officer, Genting UK, and Simon Thomas, Member, NCiF, and Chairman, Hippodrome Casino</td>
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<td>Dirk Vennix, Chief Executive, Association of British Bookmakers, Warwick Bartlett, Chairman, Association of British Bookmakers, Andrew Lyman, Head of Public Affairs, William Hill, David Steele, Commercial Director, William Hill, and Richard Glynn, Chief Executive Officer, Ladbrokes</td>
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<td>Ian Burke, Chairman and Chief Executive, Rank Group, Alan Armstrong, Compliance and Development Director, Rank Group, Neil Goulden, Chairman Emeritus, Gala Coral Group, and Chairman, GREaT Foundation, and John O’Reilly, Managing Director, Coral Interactive, Gala Coral Group</td>
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<td>John Greenway, Former Chairman of the Joint Committee on the Draft Gambling Bill</td>
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<td>Paul Talboys, Chief Executive, Bingo Association, Kevin Allcock, Operations Director, Mecca Bingo, and John Carpenter, Manager, New Coronet Bingo Hall</td>
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<td>Peter Harvey, CEO, Talarius, Elizabeth Speed, Group Solicitor, Noble Group, John Bollom, Trustee, BACTA (and owner of Mumbles Pier), Derek Petrie, President, BACTA and Leslie MacLeod-Miller, CEO, BACTA</td>
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<td>Clive Hawkswood, Chief Executive, Remote Gambling Association, John Coates, Chairman, Remote Gambling Association and Chief Executive, bet365, Peter Reynolds, Director of Communications, bwin.party, Martin Crudace, Chief Legal and Regulatory Officer, Betfair, and Charles Cohen, Chief Executive, Probability</td>
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<td>Cllr David Parsons CBE, Chairman of Local Government Association Environment and Housing Board and Leader of Leicestershire County Council, Mike Holmes, Local Government Association Advisor on Planning, Richard Dowson, Chair, Casino Network and Senior Business Development Officer, Middlesbrough Council, and Stuart Baillie, Former Chair, Casino Network</td>
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Tuesday 22 November 2011

Dr Helena Chambers, Director, Quaker Action on Alcohol and Drugs, Daniel Webster, Parliamentary Officer, Evangelical Alliance, James North, Policy Officer, Methodist Church in Great Britain, Gareth Wallace, Public Affairs Officer, Salvation Army, and Lauri Moyle, Gambling Policy Officer, CARE

Andy McLellan, Chief Executive, GamCare, Anthony Jennens, Chairman, GamCare, Heather Wardle, Research Director, National Centre for Social Research, and Professor Jim Orford, Gambling Specialist, University of Birmingham

Thursday 12 January 2012

Richard Caborn, Former Minister for Sport and Tourism at the Department for Culture, Media and Sport, and Tessa Jowell MP, former Secretary of State for Culture, Media and Sport

Andre Wilsenach, Executive Director, Alderney Gambling Control Commission, Philip Brear, Gambling Commissioner, Gibraltar Gambling Commission, and Graham White, Chairman, Jersey Gambling Commission

Thursday 19 January 2012

Philip Graf, Chair, Gambling Commission, Brian Pomeroy, Chair, Responsible Gambling Strategy Board, and Jenny Williams, Chief Executive, Gambling Commission

John Penrose MP, Minister for Tourism and Heritage, Department for Culture, Media and Sport, and Chloe Smith MP, Economic Secretary to the Treasury

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2 Alderney Gambling Control Commission Ev 150
3 Gala Coral Group Ev 152
4 Simon Thomas Ev 158
5 Betfair Ev 161; Ev 272
6 The GREaT Foundation Ev 165
7 William Hill Ev 167; Ev 291
8 GamCare Ev 173; Ev 283
9 Remote Gambling Association Ev 177
10 The Rank Group Ev 180
11 Jersey Gambling Commission Ev 185
12 Association of British Bookmakers Ev 186; Ev 303
13 National Centre for Social Research Ev 191
14 Quaker Action on Alcohol and Drugs Ev 193; Ev 285
List of additional written evidence

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1. Nikolas Shaw Limited Ev w1
2. Professional Players Federation Ev w4
3. Praesepe plc Ev w6
4. Dr Liza Messing Ev w9
5. Ladder Community Safety Partnership Ev w10
6. Lucy Jaffé Ev w13
7. Helena Russell Ev w14
8. Northern Ireland Horse Racing Group Ev w15
9. Rileys Ev w17
10. Institute of Fundraising Ev w20
11. The A & S Leisure Group Ev w21
12. Clive Carter Ev w23
13. Casino Operators’ Association Ev w25; Ev w148
14. Sport and Recreation Alliance Ev w29
15. Business in Sport and Leisure (BISL) Ev w32
16. Camelot Group of Companies Ev w36
17. Asha Kaur Ev w40
18. Overview & Scrutiny Committee at Haringey Council Ev w40
19. Brian Cox and Michael Marklow Ev w42
20. The Football Association Ev w42
21. Councillor David Schmitz, Liberal Democrat Councillor for Haringey Ward Ev w44
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Oral evidence

Taken before the Culture, Media and Sport Committee
on Tuesday 18 October 2011

Members present:
Mr John Whittingdale (Chair)
Dr Thérèse Coffey
Damian Collins
Philip Davies
Paul Farrelly
Mrs Louise Mensch
Mr Adrian Sanders
Jim Sheridan

Examination of Witnesses

Witnesses: Roy Ramm, Director, NCiF, and Compliance Director, London Clubs International. Peter Brooks, Member, NCiF, and President and Chief Operating Officer, Genting UK, and Simon Thomas, Member, NCiF, and Chairman, Hippodrome Casino, gave evidence.

Chair: Good morning. This is a session of the Committee’s inquiry into the implementation of the Gambling Act. We have received apologies for our first session from Michael Silberling, who is unable to be with us, but can I welcome Peter Brooks, the President of Genting UK. Roy Ramm from London Clubs International and Simon Thomas, who is developing the Hippodrome, and all three of you also sit on the National Casino Industry Forum.

Q1 Mrs Mensch: Has the Gambling Act of 2005 overall put the casino industry in a better or a worse position?
Roy Ramm: If I may kick off and then refer to my colleague, Mr Peter Brooks, to pick up some of the comments there. Thank you very much indeed for the opportunity to be here. We represent about 90% of the casino industry through the National Casino Industry Forum.

The Gambling Act of 2005 was intended to construct a pyramid of regulation and the casino industry was intended to be at the top of that pyramid, so there was intended to be a structure of regulation around us that was reflective of the kind of gambling products that we had to offer, and I think that one of the main messages that we wish to get across to this Committee is that we feel that that pyramid has been inverted to some degree and the Act has not delivered what it should have done. So at the top of that pyramid, we do have the measures in place to offer a well-protected, well-regulated gaming product, but when you look at the gambling industry and the casino industry in particular, it is impossible to avoid the tax impact on what has happened to us as part of the package. So in answer to your question, the Gambling Act has undoubtedly given the casinos some positives, but in the overall picture, it has failed to do two things for us. One, as Roy has said, it has inverted the pyramid between the highest levels of responsibility and security from a supervision and access perspective with the highest level of gaming product. Roy touched on that. The other thing that it has done is that it has in effect created a twin-track process, so you have the new casinos that are capable of being created under the 2005 Act—but, and I am sure we will come back to this, none yet opened, although I think one is due to open next month, the first one four years past the Act coming into effect—and on the other, the 1968 Act original casinos, of which there are over 140 today, which are frozen in aspic. We are stuck for the existing industry. It is almost as though the Act ignored the existing industry altogether.

In terms of impacts, there is what we refer to as the 2007 package, so it is a combination of the smoking ban—which applied to all premises, of course—tax, which dramatically increased as a cost burden, and finally the Act itself, which importantly in the context of machines removed the ability for casinos to have a category of machine, so we are now limited to 20 machines. What you have seen since then, and this is reflected in the Ernst & Young report, which is part of our evidence, is after an optimistic period leading up to the Act with considerable investment, a big decline in investment. We have seen more than, up to now, 23 casino closures. The net number is like a dozen if I ignore the small electric format—which doesn’t really compute—that is just using an existing licence. We have seen a reduction in jobs of the best part of 1,100 rising to 1,300. It varies, so whereas there has been an employment reduction generally of about 3%, within our industry it has been about 11%, and you have, as I say, seen this big reduction in capex. Therefore part of the points that we are making and the measures that we have included in our evidence that we are promoting are about creating a better framework, both in the context of the regulatory
Peter Brooks: In terms of visitors, we have seen growth in admissions although not enormous growth. That has been helped by one of the early freedoms, which was to remove the requirement for membership and removal of the 24-hour wait period. No doubt that has helped. What has also helped is that the industry, despite the impediments, if you like, under the Act, has continued to modernise in the sense of producing a more modern, entertainment-orientated product, so it is attracting a broader audience, so you are seeing admissions going up, but at the same time you are seeing revenue per head going down. So it is a mixed picture on that. In terms of revenues, I only have the numbers up to the end of 2009, but in the high-end London casinos, they were about 20% down; in the outside London estate, it is a figure of a little bit more than 11%.

Mrs Mensch: These are revenue numbers?

Peter Brooks: Yes, I think one could add two things to that, the first in terms of the volume clubs, the loss of that category of gaming machine, which I described, that had to be removed, for a large club that is a much more adverse impact than a small club, in terms of footprint. The example of that is in that in the very busy clubs—and my colleague has one of these in Leicester Square, the Empire, and there is another good example in Newcastle—regularly on a Friday and a Saturday night, there are people queuing for the 20 slots that are available. So you have 1,000 people in a club, plenty of tables being occupied, but they are queuing to get on the slots. So at that end, you have a more stark impact. At the smaller end, much less so, because it is a small footprint, and in many cases you could not even take up your full allocation of 20 slots. Then in the international market, again it is very stark, because the maximum stake in a slot machine is limited to £2, two things happen. First of all, for players within a high-end club, they are never going to play slots, so we do not have them, because they might have a minimum bet of £25 pyramid and to encourage us to do what we want to do, which is to invest more to create more jobs, and by the way, pay more taxes, which we recognise is part of the package.

I have not touched on profitability, but again, the Ernst & Young report shows that with variations, depending on the category of casino, be it high-end London or low end and outside London, you are seeing very significant reductions in casino revenues, as great as 20% in some instances. Now, I should say in closing there has been some improvement since then, certainly in terms of profitability, because a great deal of cost has been taken out of the industry and that has been how we have been keeping things going forward. I hope that gives you a picture in response to the question.

Mrs Mensch: Do you have anything to add, Mr Thomas?

Simon Thomas: I think it has all been covered.

Q2 Mrs Mensch: Let me just ask for clarification. You have spoken about the deficiencies in the Act and what it didn’t do, but just going back, you have spoken about the many problems in the casino industry, not all of which are attributable to the Act, that come from the smoking ban, the tax regime and so forth. Would you say overall though that the 2005 Act helped or hindered your business as casinos?

Roy Ramm: Hindered.

Q3 Mrs Mensch: You would say it hindered it. You touched briefly at the end there on the revenue that casinos have generated. What effect has the Act had on the number of people coming to visit casinos and spend money? There are two parts to this question. First of all, how has it affected revenues overall, and secondly, how has it affected visitor numbers coming in to use casinos and enjoy your product?

Peter Brooks: These are revenue numbers. They are in the Ernst & Young report at pages 11 and 12.
Q5 Damian Collins: I was interested in the answers you gave to my colleague: where does a casino make its money? Where is the greater part of its revenue coming from? Is it from the slot machines or is it from the tables or other gaming or entertainment that might happen within the building?

Roy Ramm: In the UK, if you look at slot machine revenue versus table gaming revenue, it is 15% of revenue comes from slot machines, 85% from tables. That is the second lowest in Europe. There are 23 countries that provide evidence to the European Casino Association and we sit at number 22, just above Hungary. At the top of the pile is France, where I think they are about 90%, it is 15% in the UK.

Damian Collins: That is the revenue, but what are the profits?

Roy Ramm: Well, that is quite difficult to tease out, frankly. I do not have those statistics and I will happily try and find them for the Committee and send them in to you, but I do not have them readily at hand.

Damian Collins: I would be very grateful if you could do that, but are slot machines more profitable than tables?

Peter Brooks: May I expand for one minute? The difficulty in allocating the profit is how you allocate manpower. By far our biggest single expense as an industry is manpower cost, and for our clubs outside London, it is—and I think this is not far off typical so I hope I am not sharing confidential information with my colleagues—more than 40% of revenues, so manpower costs are very high. Now, when you come to profitability, how much you allocate to table gaming, which requires much higher levels of manpower, and how much you allocate to slots is an open issue. That is the underlying dilemma, but we will surely feed into the Committee what we have.

Damian Collins: So slot machines are more profitable than tables?

Roy Ramm: I mean, you know, it stands to reason. If you are running a roulette table on which you have got a dealer and maybe half an inspector or whatever, in comparison to running a slot machine, then clearly the labour cost is less. But as Peter says, it is difficult to be very clear about how you apportion those costs.

Q6 Damian Collins: One of the reasons I was asking is that, in the written evidence from NCIF, you talk about the table to machine ratio for large and small casinos, and you said there that you repeatedly urged there should be a simple uniform ratio of five machines to one table, capped at 150, which seemed to suggest that the smaller casinos in particular had too great an obligation placed on them. Therefore the number of machines in a casino has quite a big impact on its profitability, its viability, and therefore may also have an impact on whether it is attractive to open new casinos within those criteria.

Roy Ramm: Just to be clear, when you say “smaller casinos” are you talking about small casinos within the UK?

Damian Collins: Yes.

Roy Ramm: I think the small casino in the 2005 Act is an economic model that very few people in the industry can ever see working. It is certainly not going to work in all eight of the locations. We, as an industry body, do not believe that anybody will build a small casino with 40 tables to get the 80 slot machines in any of the areas that were identified by that committee.

Q7 Damian Collins: To get the 80 slot machines—is that because you have to maximise the number of slot machines you have got in the casino to make it pay?

Roy Ramm: Yes.

Peter Brooks: I should just add, going back to the profit point, our second biggest item of expense is real estate, our property space, so if you have to provide enough space and manning for 40 tables in order to allow up to 80 slots, your fixed cost base has then become very high. That is why the economic model doesn’t really work well.

Q8 Damian Collins: That is why I would be interested to see the figures on the profitability for the contribution of the slot machines to overall profitability, because if it is only 15% of revenue, it seems to be a disproportionately large part of the business if the failure to maximum the number of slot machines within a casino is a big impediment on its profitability or whether you might open one, which seems to be what you are saying.

Peter Brooks: Well, the 15% is under the current regime with its maximum of 20 slots. The picture in a new casino, large or even small, would be different.

Damian Collins: So it would be much higher?

Peter Brooks: It would be a higher percentage, we would hope, but I think you are right, really.

Simon Thomas: But equally, the large and small casinos will have a much more international style operation. They will have more bars, restaurants, and when you look at the American examples, I think 60% of revenue is non-gaming. It is all contribution to the overall business and it is all a valid part of it. I know we are talking about machines now. Do you want to come back to it?

Q9 Damian Collins: I want to ask one or two questions about casinos and then I will happily hand over to colleagues who want to get to games and
Q10 Damian Collins: Okay, I am sure we are going to get on to that. Why do you think that only one new casino licence has been approved under the Gambling Act?

Roy Ramm: Well, there are about four reasons. First, 16 licences, 10 are in existing permitted areas. If I can just use one of my own businesses as an example. Leeds has five licences under the 1968 Act, so there are businesses in Leeds operating. We have a casino in Leeds that has got two restaurants with James Martin from the Saturday Kitchen, Vineet Bhatia producing fantastic Indian food. It has about 60,000 square feet of public-facing space, it has a 60,000 square feet of public-facing space, it has a cinema, it has everything that you could possibly want, we would suggest, in a modern leisure destination. Now, Leeds City Council has a large casino licence to offer. Frankly, if we didn’t get that licence and somebody else did, that would make our business unviable. So you have this ridiculous situation where you have 1968 Act casinos competing against 2005 Act casinos.

The process itself of granting these licences is horrendously complicated and expensive. I am sure that if Newham were giving evidence to this Committee and you were to ask, I suspect that the cost to Newham, one of the poorest boroughs in London, has probably been well north of £1 million to grant their licence. I think it is probably a good deal more than that. We know that—I think it was in Hull, and one of my colleagues will probably correct me—but a council spent £750,000. So what local authorities are now worried about is are they going to recoup their costs if they run this competition? Only one of those three licences that has been granted at the moment was competed for, and that was the Newham licence. The other two that have been granted, there was only one applicant, and again we come back to this model of the small casino in particular with two slot machines to one table. It makes no sense at all. You end up with a small casino having to have a bigger gaming floor than a large casino to get its slot machine allocation. So there is whole mix of factors there that mitigate against anybody applying for all 16 of these licences, and I would have a bet that all 16 never get developed.

Q11 Damian Collins: So your view is that the slot machine allocation ratio is the most important aspect in deciding whether a casino is viable or not, particularly for a small casino?

Roy Ramm: I would say yes, and that is why we have advocated in our evidence that for a whole range of reasons, including clarity for the public, who, walking into a casino, do not know whether they are going to see 150 slot machines, bingo and betting, or 20 slot machines and no bingo, but betting, or 20 slot machines and no betting or all bingo, we are simply saying, “Let’s just clear away some of this nonsense of regulation and have a simple model that says, ‘One table, five slot machines’ and that is it.”

Peter Brooks: I just wanted to add one other thing, which is not for this Committee, but again it comes back to the tax. When the gaming duty was increased in April 2007, it made a material difference to the economics. Particularly when you are looking at the Small model—with a capital S—it is very hard to make the numbers work, because you quite rapidly get to the top 50% gaming duty level. I don’t know whether local authorities really hoisted on board the impact of that, but it meant that a very significant shift of potential regenerative funds that authorities were looking for moved to the centre, and for the potential competitors, the industry, the suppliers of the product, we were never really involved in that key piece of the whole process, which is, “Can this be a commercial proposition which will warrant making an investment?” So that was an absolutely central
missing piece, and the situation then made more stark with the gaming duty change.

Roy Ramm: We did offer a sort of solution to some of this, which was the portability issue.

Q12 Chair: Indeed, and that is what I want to ask you, because you have specifically cited the fact that 10 of the licences have been given to local authorities within permitted areas and you have suggested that local authorities should be allowed to just decide whether or not they want to permit casino development. Are you suggesting that if we adopted that and got rid of the CAP recommendation and just said, "There are all these new licences, anybody who would like to bid for one within a local authority that wants to have a casino should be able to do so", that that will lead to investment which hasn’t so far taken place?

Roy Ramm: Yes.

Chair: So there are local authorities that want them, but because they were not chosen by the CAP—

Roy Ramm: Just to be really clear about what the proposal is, what we are saying is that currently there are 16 licences and the 1968 licences are locked into those areas. We are saying that those areas are defined by data from the 1960s, that time has moved on and local authorities should be able to decide for themselves within their three-year licensing policy whether they want casinos. If they don’t, then fine. Nobody wants to move to an area where, frankly, the local authority is not supportive. But if they decide that they do, the next lock is planning consent; you get planning consent for the property, and finally, there is the lock which is the premises licence. So there are three steps, and if a local authority decides that, we suggest that it is perfectly possible just simply to move a 1968 Act licence into one of those areas, and the important thing is that you could see some of them moving away from the other 16.

Q13 Chair: But there are places that are not currently within permitted areas, that have not been identified by the CAP, but where if the local authority said, “Yes, we would like a casino,” your company or one of your colleagues in the industry would want to build?

Roy Ramm: Fifty-seven local authorities applied to have a casino, 57. That was wheedled down to the 16, but we were talking outside the Committee room saying that on a regular basis, we get approached by entrepreneurs, by property owners who say, “We have spoken to our local authority in X area, they would like us to build a casino. Would you like to come and operate it for us?” and we say, “I am sorry, but you are not a permitted area. We can’t do it”.

Peter Brooks: We believe that with the security of the three locks, if there is local demand from both customer and local authority—and logically there should be out of that 57 that did not succeed in the CAP process; there is definitely appetite among operators to take advantage of that in respect of their existing licences that aren’t being used—and, to paint a picture, if a typical size is about 25,000 square feet, you could expect to see about 125 jobs. You would see about £600,000 in taxes, £250,000 in local taxes and gross value added for the area, if you take in supplies and so on, about £4.5 million per annum. Individually it is not a lot, but not to be sneezed at by a community that would like to have this opportunity, which it might either because it is a tourist destination or because it wants to improve the attractions for its community.

Q14 Mr Sanders: Can I just pick up something that Simon Thomas said? I think you will find that seaside arcades also feel that they are quite heavily regulated, and I think, with the industry as a whole, it is relative to size. I do not think there is any part of the industry that is not suffering at the moment. Seaside resorts, arcades, whatever—they would probably take exception to other people thinking they were lightly regulated. Can you see any merit at all in reviving the regional casino concept through secondary legislation?

Peter Brooks: We think it is really a matter of demand. It is not something we are seeking. We have a great deal of scepticism that there is really a public demand and acceptance for it. We think there are more important things to be getting on with right now, like the existing structure, rather than worrying about adding new things.

Q15 Mr Sanders: In terms of where we are at, do you see that the restriction on the numbers of licences was really a fudge in the run-up to a general election rather than a considered view of what the market could tolerate?

Roy Ramm: I worked with civil servants on this Bill for months and about four hours before it was published I had no idea that it had changed so much. It was clearly a piece of political expediency, frankly, and what has come out of it is not good. To add to what Peter said about the regional issue, the fuss and furore, we don’t want to go there, simply because we think there are three things you need. You need political consensus, you need public consensus, and you need a company that is prepared to invest, and frankly, unless you have the first two, the third will not follow.

Q16 Chair: Can I press you? The legislation is there to allow a regional casino to be built. Many people felt that the place that was identified was the wrong place, which was why it never happened. If the Government were to say, “Right, we still think there is a case for having one regional casino, and where would you, O industry, like to build it?” and if the Government then agreed, do you think it would happen, or have you just lost all enthusiasm for this completely?

Roy Ramm: If you say to Caesars Entertainment, which builds huge resort destinations—and Peter will speak for himself—but huge resort destinations, thousands of bedroom hotels, the top class shows and so on, taking 60% of its revenue from non-gaming activity, “Do you want an opportunity to develop a business?” the answer would normally be yes, but always with the caveat that you have genuine public and political support for it. You are never going to go into an environment where you don’t want it and where you are not wanted, and in a way, it doesn’t
But I mean, having lived through this, you have to have the public and regulatory support. You want to transfer from one place to another. You matter whether it is a regional or a tiny casino that does come back to political will—people have got to be prepared to want this and to provide the regulatory framework for it before any business will consider it.

Q17 Chair: But I mean, having lived through this, as I recall, the entire House of Commons was of the view that the best place to build a regional casino was Blackpool. Blackpool was falling over itself to get a regional casino. There is no doubt there was public support and political support for Blackpool. The CAP, for reasons which are still something of a mystery, came up with a completely different recommendation, but if it came back and they said, “Okay, Blackpool” do you think the industry would still be interested?

Peter Brooks: I am going to pick up on what Roy said, Chairman. If you are talking about very large sums of investment, you are probably mostly looking at international investors. My own company has just spent about $500 million in New York. We spent SGD$4.5 billion in Singapore in 2010. If you asked us to do something equivalent in the UK, I don’t think there’s going to be a take up for that. If, perhaps a bit more controversially, I go back to the process, it began life as a sort of Budd Unlimited, went to an experiment with eight, eight and eight, and frankly, the experiment was completely flawed; it was some sort of a fig leaf. Then it came down to one, eight and eight for reasons of political expediency, and then people didn’t like the one, so now you have got eight and eight. I think there is a genuine question of whether there is public demand for that type of product, and if customers don’t want it then we certainly would not want to invest in it. Don’t forget again the fiscal regime has changed. People wanted it for Blackpool because it was going to regenerate a very popular seaside resort which has huge affection, but it is very hard to make the numbers work.

Q18 Chair: Because of the tax regime?

Peter Brooks: Because of the tax regime. You know, what happens with gaming duty is, it is by volume of gross gaming revenue. By definition, if you have a large establishment, the volume will be greater, so you will get up to the ceiling of 50%, so just to remind people, for every £1 of gaming win, 50% has gone to the Customs and Excise or whatever it is now, HMRC, before anything else has happened at all.

Roy Ramm: One last thing, the stakes and prizes in the slot machines that we do have, have not been reviewed for six years. They were last reviewed in 2005. We have had two sets of tax increases since, so that has reduced the profitability still further. It really does come back to political will—people have got to be prepared to want this and to provide the regulatory framework for it before any business will consider it.

Q19 Mrs Mensch: On a point of clarification, you say it is a 50% tax rate before any of your costs are taken into account, so it makes the numbers not work for a big Atlantic City style resort in Blackpool. What are the comparable tax regimes in, for example, where you have just invested—in Singapore and the US? What are the comparable tax regimes there?

Peter Brooks: For Singapore, the equivalent to gaming duty is between 10% to 12% for what is called a premium player, so that is somebody who deposits SGD$100,000 before they start to play, so call that £50,000, and for a non-premium player, it is in the order of 20%, and the corporation tax rate is 17%.

Q20 Mrs Mensch: What about the United States?

Roy Ramm: I was hoping you weren’t going to ask me that, because I cannot remember. It is much less than here.

Peter Brooks: It is lower.

Roy Ramm: I think it is 15%, from memory.

Dr Coffey: That is state duty though, isn’t it, as opposed to federal?

Q21 Mrs Mensch: You have to add up your state and federal tax burden, and I am just interested to know how much greater the burden is on the industry in the UK than in the United States, because you have just said that your primary reason for not investing in a giant super-casino in Blackwell is the tax law, so what is the differential?

Peter Brooks: I was trying to distinguish between where the rate was, at 40%, to explain why there might have been a change of appetite. Amongst the factors is this shift of the top rate from 40% to 50%. It is very hard to actually elide the two together because gaming duties are gross profits tax. Then you have all your other expenses and so on to come off before you calculate the corporation tax, so you are getting a multiplier effect because it is a gross profits tax.

Q22 Mrs Mensch: I understand that. I am trying to see how much worse are we in Britain than in the United States where you have just made an enormous $500 million investment in New York. How much better is it for your industry over there?

Peter Brooks: If the gross profits tax is 15%, if it is, versus our 50%, you are at that point 35% on your gaming.

Mrs Mensch: That is a state tax. So you would have state and federal taxation to put together to calculate your tax.

Peter Brooks: That is true and I think at the corporation tax level, combining state and federal, broadly it is the same, US and UK.

Q23 Chair: Would the NCiF like to give us a document setting out the international comparisons? Although you said at the beginning our remit did not cover tax, we will be raising matters of tax and possibly talking to the Treasury about that, so I think that would be helpful.

Peter Brooks: We would certainly welcome that approach, because looking at the future of the gambling industry—as you are doing and we really welcome that— in isolation from fiscal policy doesn’t actually compute.

Chair: No, that is why we reached the same conclusion.

Peter Brooks: We welcome that.

Q24 Philip Davies: Can I start by asking you about these permitted areas, because I do not think anybody who looks at it could think that the current system...
makes any sense at all, basically only allowing licences based on town population levels of 40 years ago, which totally ignores new towns and things like that. I remember moving an amendment to the Localism Bill to try and scrap them but it fell on deaf ears. What I don’t quite understand with your approach is that you want to be able to transfer the licences from one place to another, where they want them, but not to increase the number of licences overall. If casinos are such a well regulated place, which I am sure they are, why should as many licences as the market can stand not be allowed? Why do you still argue that there should be a limit to the number of licences across the country? Surely the thing that should determine the number of licences is the market, isn’t it?

Roy Ramm: That is what Budd said and quite clearly in a free market that is what should happen but, to be candid about it, I think that as an industry trade body we looked at what we felt was the art of the politically possible. I think if the outcome of this Committee was casino industry seeks unlimited licences we would have a struggle on our hands. So what we are trying to say is, “Look, let us at least move our businesses, the existing licences, to where we can operate them with a chance of profitability”. It is about getting the public comfortable and accepting of the industry.

Q25 Philip Davies: But you generally in principle agree with my premise, which I think is something that Tony Blair said in Prime Minister’s Question Time just before he retired hurt. He said that if a place wants a regional casino, if they want two, if 10 places want one then they should be allowed to have them. That generally would be your view in principle as well, would it?

Roy Ramm: It might be mine personally, but our NCiF position—and I don’t get want to get torn limb from limb by my colleagues—is that we want to see the licences that are extant able to be moved and to be built first.

Q26 Philip Davies: What I am getting at is that what I would not want to see is your industry trying to argue for some kind of protectionism, in the sense that, “Hold on a minute, I’ve got the licence for such and such a place and let’s just leave the number of licences as they are because that means I’ve got the licence for here and while we’ve got that regime nobody else can come and tread on my toes.” I would not want your industry to be divvying up the licences between your members and saying, “Well, that’s it, now we’ve got them all covered everybody is a winner. We’ve now got a monopoly.”

Roy Ramm: We are between a rock and a hard place. We are damned if we ask for more and damned if we don’t.

Philip Davies: You don’t want to protect the sort of—

Roy Ramm: No.

Q27 Philip Davies: Okay. On to machines. Damian pressed you earlier about how important machines are to your business and you have the proposal of five machines to one table. Why five machines to one table? What is the rationale? Why not four? Why not six? Why five?

Roy Ramm: We picked five because the large casino, under the 2005 Act, has a ratio of five machines to one table. We felt that it would be consistent with that piece of policy to level everything up to that large.

Philip Davies: So it is simply you just want to follow what the Government at the time thought was the right number?

Roy Ramm: Yes.

Q28 Philip Davies: What impact would that number of machines have on the profitability of your business? I know Damian tried to tease this out of you. If we have the five-to-one ratio, what would that do to the profitability of the casino industry?

Roy Ramm: It might be mine personally, but our Ernst & Young report where we think the profitability or the increased revenues would come. I think the first thing to say is don’t anybody run away with the idea that if you go to five-to-one instantly you are going to have 150 machines in every casino in the UK. That simply cannot happen because of the size of the premises and so on. We would see it coming over time, but it would materially impact our profitability. I think the number is in the Ernst & Young report, and I wonder if my colleague has found it.

Peter Brooks: What the Ernst & Young report is talking about is the tax take at the end of it so you have to sort of work backwards, but I think the logic is it could add to the profitability of the industry of the order of £17 million, I think. My apologies, I am struggling to reach this.

Q29 Philip Davies: Okay, don’t burst a blood vessel. Can you tell us about how important allowing category A machines in casinos is to your industry?

Simon Thomas: We have been discussing category A machines internally. There is no such thing as a category A machine anywhere in the world. There are no unlimited stake machines, and neither do we think there should be. As such, we don’t see any demand for category A machines anywhere. All we are asking for is gaming machines, stakes, prizes and numbers proportional to our position on the regulatory pyramid and customer demand. I respect Mr Sanders’ position on “Every industry believes they are the most regulated” but having operated seaside arcades, inland arcades, bingo halls, I can say with my hand on my heart there is no level of regulation and protection like we are getting in the casino industry, particularly money laundering and every single member of staff being certificated.

On the machines, we are asking for a proportional number of machines and appropriate stakes and prizes relative to our position in that regulatory pyramid. We find it very challenging that we are limited to a £2 stake machine in a casino, with all our protections, where an arcade and a bingo hall and other premises are also allowed a £2 stake machines. It doesn’t make any sense and that is even further complicated by the B2 machines in bookmakers being allowed a £100 stake, which is equally illogical. Bingo and arcades have many more £2 gaming machines than we do, again that doesn’t make any sense. Our stakes and
prizes have not been addressed for over six years. We believe we have a very strong argument for correcting the number of machines and the stakes and prizes in casinos to where they should be and that can all be done under B1 by reviewing the stakes and prizes and just plain statutory instruments without any major complication.

Q30 Philip Davies: Just for clarity, what do you think the limit should be—the stake limit and prize limit?

Simion Thomas: We are proposing a £5 stake and a £10,000 prize. The challenge we are facing in the casinos, above us we have the internet with very high stake gaming machines available and below us we have the betting shops with £100 stake machines. We are asking for products that are commensurate with our position that will make us attractive to customers so people will come and gamble with us rather than our position that will make us attractive to customers are asking for products that are commensurate with the betting shops with £100 stake machines. We have been talking about with the Commission is not having a blanket stake and prize regime at the higher end but it is about knowing your customer—so that the controls are more focused, more surgically addressed to individuals than a blanket that affects everybody.

Q31 Philip Davies: You talk a lot about what the regime is in other parts of the gambling industry. Do you think that one of the things that has held back the gambling industry over the years is that different sections of it have been, in effect, squabbling among themselves, arguing with each other, trying to do each other down, rather than each part of the gambling industry supporting other parts of the gambling industry? Would you say that the industry has been guilty in the past of trying to argue among themselves too much?

Roy Ramm: I will take that, if I may. I think there is something in that. I think that we haven’t been the best, we haven’t been terribly collegiate, but let’s be really clear about it. As far as the National Casino Industry Forum is concerned, we had as a strline “Positive about Gambling” and that simply meant that we would not attack other sectors. We supported BACTA in its application to increase the stakes and prizes on B3 slot machines and now, as Simon rightly says, the stake in a slot machine in Margate is the same as the stake in a slot machine in Mayfair. But we didn’t choose to suggest that BACTA shouldn’t get an increase; we just hoped that it is recognised that we should also. Equally, we are not suggesting that B2 machines in bookmakers or machines in bingo clubs are wrong. We are not about attacking other sectors at all and we hope that they will take that lead from us.

Q32 Philip Davies: So you are quite content that they have got those machines in their shops?

Roy Ramm: It is not for us to make comment on that. It is for Government and policymakers to decide whether they are content.

Q33 Philip Davies: We will ask the Government when they come. I am asking you whether you are content.

Roy Ramm: What we are saying is that there is a regulatory pyramid. We sit at the top of it. If it is right and proper for bookmakers or bingo clubs to have a certain category of machine, a certain style of gaming product there, as Simon says, we sit above them on the pyramid so, what should we have in advance of that? We are not arguing against the bookmakers.

Q34 Mr Sanders: How would you describe the relationship between online casinos and land-based casinos?

Simion Thomas: I will take that one. To be honest, we have a degree of envy of them. They have much lower operating costs and they have much lower taxation, if any, and much lower regulation but, being blunt, they are here to stay. We have to accept them as part of the competition. There is definitely a degree of concern for players who, because there are less attractive products offline, are encouraged to play in less protected and regulated environments. If I was the taxman I would be concerned as well because there is very little income coming from the UK players playing online on overseas sites. They are selling into our traditional market and they have obviously less costs so they have a material advantage.

We welcome the Government proposal for national licensing and hope that it goes some way towards levelling the playing field. It cannot be right that an overseas operator can prey on UK customers to the detriment of UK businesses, jobs and tax. You have to remember, it is not just online. It is smartphones. Everyone that has a BlackBerry; you can gamble on them. It is not just computers; it is digital television. It is very pervasive and we are in that same competitive space and with our regulations it is quite hard to compete against, which comes back to our proposals. What we are doing is striving to make our premises as attractive as possible to encourage customers who want to gamble to come and gamble with us in highly taxed, highly regulated, highly protective environments—that are paying lots of tax obviously—and we are just asking for products that are commensurate and give us a competitive chance.

Q35 Mr Sanders: Do you see the issue as one of trying to win back people from online gambling? Surely that is quite a difficult thing to do once people have the convenience of going online.

Simion Thomas: There are a lot of people who don’t want to gamble online. There are a lot of people who are uncomfortable with gambling on a website in Antigua or Bogota or wherever, uncomfortable with putting their credit card numbers into an online site. I would certainly be very uncomfortable, personally. So there are differences between us and them and there will be people that are gambling online that are uncomfortable with it.
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Q36 Mr Sanders: I accept that but your point, Simon, was that you are losing and the Chancellor is losing revenue as a result of this development. So is it your intention to try and win back custom from online or is it to change how the online world operates?

Simon Thomas: I think there is an element of both. I think it has to be right for the online business to be forced by regulation to be based in the UK, pay UK tax and have UK regulation. At the same time, yes, we want to try to win back and be able to compete with the online companies and also to stop people feeling that they can only gamble at the level they want to online because there is no alternative. So it is a combination.

Q37 Mr Sanders: Do you have an estimate of how much business you think you have lost since the online industry was created?

Peter Brooks: Can I just have a shot at that? Let me declare an interest in the sense that we have some 40-plus land-based casinos in the UK and my group also has an offshore online business. It is just not possible to estimate how people have gone; we know we have said farewell to some people; we know equally that we are able to persuade, if that is the right word, encourage, online customers to come and play in our shops and vice versa. So it is a very mixed pattern. The reality is online is here to stay, it is part of the competitive marketplace. We are advocating a much more level playing field and it is both tax and instantaneousness of product. So if a new game comes out from a new film, players can see that immediately online. It will take us ages to have anything equivalent like that in the land-based operation. So it is level playing field we are talking about. Online is here to stay. We are no different to retailers or anybody else as far as that goes.

Q38 Mr Sanders: Would you be in favour of legislation that only allowed online companies licensed and taxed in the UK to advertise in the UK?

Roy Ramm: Absolutely. I think one of the things that the Gambling Commission picks up on in its annual report is that most online play in the UK is now on sites that are not regulated by the Commission. If you look at the Commission’s stats, they say, I think it is £630 million-odd in gross gaming revenue was declared by the sites that are here, so there is a big thing. We want to try to win back and be able to compete with the online companies and also to stop people feeling that they can only gamble at the level they want to online because there is no alternative. So it is a combination.

Q39 Mr Sanders: Is it possible, though, to have that in both online and offline without more regulation coming in? For example, would you not need to have ISP blocking of either payments or blocking of unlicensed operators, which would be a whole new set of regulations that you have been arguing against? Is it the case you are in favour of regulations so long as they are in your favour?

Peter Brooks: The fact is that there are different approaches around the world to this. The type of approach that is being adopted in mainland Europe seems to be the right way to go, I think. Yes, it does involve a new level of regulation but it is not really additive, it is only additive for people who are currently unregulated.

Q40 Mr Sanders: There are some variations within Europe, I think?

Peter Brooks: There are variations.

Mr Sanders: Is there a particular country that you think has cracked it? There are big differences between Belgium, France and Malta, for example.

Peter Brooks: It is a big subject and I would hesitate to say one is right. My feeling is that Denmark is getting pretty close, but there is learning to be done. We just think it is right to bring it, if for no other reason than consumer protection. It was always thought that the Alderney Gambling Commission was as good as or close to as good as the UK Gambling Commission but look what has happened with Full Tilt.

Roy Ramm: I think on one aspect of that modernisation and us getting access to the products, we don’t believe that it requires anything more than a couple of statutory instruments to give us electronic products of the same kind that you can get online.

Q41 Jim Sheridan: Can I move on to the question of problem gambling and ask just how big or small problem gambling is in the casino industry compared to other gambling organisations?

Roy Ramm: We welcomed the result of the prevalence study. We felt that that was reassuring for the whole of the industry. We also have drilled down into it and we are again reassured that as far as the casino industry is concerned we are very much on the right track. Having said that, this is not an issue for complacency, we think that one problem gambler is one problem gambler too many. What we try to achieve is a balance that really means that we provide a product for the great majority of our customers who don’t have any problems with their gambling, but we also provide trained people, we provide literature, we encourage people to gamble responsibly, we engage with the major service providers of care and counselling. I think it would be good to get on record that the gambling industry broadly, including the casino industry, started GamCare. We funded GamCare for a decade before the 2005 Act. So we have not been dragged to the table to be responsible; we were there first. We are very pleased with the way that is going. We are very pleased with the relationship we now have with agencies like GamCare who tell us what their concerns are, help us to train our staff and to certificate our businesses that they think that we are doing the right things.

Q42 Jim Sheridan: What is your definition of a problem gambler?

Roy Ramm: Goodness me.

Jim Sheridan: What are the signals? Someone comes into your casino; what are the signals to tell you this is a problem?

Roy Ramm: There are a number of definitions of a problem gambler. It is somebody who loses control of
their gambling and gambles beyond their means. I am going to ask Simon to join in in a moment because Simon is a trustee of GamCare as well and has a lot to contribute here. What we look for is people who are chasing losses, we look for people who are distressed, that become distressed, and we will intervene. Our staff will go along and find out what it is that is affecting their behaviour. Sometimes it is their gambling and sometimes it is not, it is something completely different, and they will tell you, “It’s not the gambling, I’ve got something else on my mind.” Simon, why don’t you pick up on that?

Simon Thomas: I have the unusual position of being the only person in the gambling industry who is a trustee of GamCare and it is something that I hold very dear. Nobody wants problem gambling but the challenge we all face is actually identifying what a problem gambler is and there is so much evidence as to comorbidity, issues with somebody being addicted to a whole range of things. It is almost impossible to really bore down to it. From a purely commercial point of view, we want a sound business that is reliant on happy customers spending their money, coming in; and in gambling the casinos want a very good environment because people generally have made a decision to go. It is part of a planned trip out; it isn’t just a spontaneous visit. In the prevalence study, we spent an awful lot of money trying to identify what problem gambling is and it identified that there is an element of society that has problems with gambling, but that is quite a fluid element. It has never come down to what a problem gambler is or what causes it, that is almost impossible. It has been tried worldwide. As a family man and a private business, I also want to sleep at night and hence why I am very comfortable working in the gambling industry knowing the protections that are put in place and the fact that our staff will intervene, will talk to people and have a chat. If they are showing signs of distress and they say, “Look, I’m just spending too much money on my gambling” we can say quite fairly to them, “Well, these are the avenues open to you. This is GamCare. They have very good counsellors. Talk to them. They will help you through this period. If you want to self-exclude we will self-exclude you.” It won’t just be from us, I know if Genting self-exclude from one of their casinos, they self-exclude from all of their casinos. We are, as an industry, looking at a piece of technology that sounds a bit like an Oceans 11 type thing, but it is facial recognition technology and they have got it to the point now where it is quite good. As an industry, we are looking to put it into the casinos and to have a common database for self-excluded people, so if a self-excluded person turns up it is not a case of they have never been in the casino before, if they are on the register they will be picked up and pointed out that they have self-excluded themselves from casinos. So we are working hard to try to prevent it.

Roy Ramm: Could I just add to that very particular point? That is the technological solution, but what we also do is we incentivise our staff to identify people who have self-excluded so if somebody does come in we will reward our staff for identifying somebody as a barred individual or a self-excluded individual.

Q43 Jim Sheridan: Your focus is very much on staff and training. The service and leisure sector are notorious for employing—some people would say exploiting—migrant labour. Would your industry fall into that category?

Simon Thomas: As the person who is probably employing the next tranche of employees in the gaming industry, no, not really, because we need British as the first language. We are a service industry.

Q44 Jim Sheridan: Is that a condition of employment?

Simon Thomas: It is certainly not a condition but it will be an essential requirement for people that their English is actually brilliant because we are a British industry and we have British standards of service. We need that understanding otherwise you can lose the nuances of what is going on.

Roy Ramm: We employ a couple of thousand people around the UK and quite clearly sometimes in London you will find that there are quite a high proportion of foreign individuals, but one thing I have to push back to you is we do not exploit, that is for sure. We pay the wage for the job. As you move around the country I think there are fewer foreign voices around the towns.

Peter Brooks: We have about 3,400 employees and a very high 80%, it is 87% or 88% of those are British.

Q45 Jim Sheridan: There have been a number of submissions that have argued for a consistent and evidence-based approach to gambling. Do you have any ideas or suggestions about that? Given your international experience as well, is there any other country you think that has a better system than we have?

Roy Ramm: I think there are bits that you can tease from lots of countries. I am the chairman of a business in South Africa where we have a casino with 600 slot machines, a restaurant, a resort area, a small zoo, and it is seen as part of the mainstream leisure fabric of that area. I think that for me, and my colleagues I am sure will speak for themselves, to see the casino industry not treated as an adjective to describe errant bankers, but rather embraced as part of the leisure fabric of the country is where I would like to see it, and people recognising that we have got a good, decent, honest, well regulated business and that for the great majority of people that come through our doors they have no problem with their gambling, they enjoy a night out.

Q46 Dr Coffey: The Gambling Commission was set up in 2005, taking over from the Gaming Board. What impact do you think it has had?

Roy Ramm: I guess my main portfolio is as a compliance director so I have probably had more to do with the Gaming Board as was and the Gambling Commission as is. It is our regulator. It has been more supportive and we have had a better dialogue with the Commission than we had with the Board. They have moved where they can. We have had a number of, for want of a better description, concessions from them around the way we introduce new games, the way we deal with gambling reserve and so on, and we have
found that from our perspective it is a reasonably productive dialogue with mutual respect.

Q47 Dr Coffey: So you would say it has been effective in fulfilling its regulatory requirements?
Roy Ramm: Yes, in fulfilling its regulatory requirements. Our problem is that we are looking for somebody to sponsor us and in our submission we have said that we would like it if there was some imperative on the Gambling Commission to be more concerned about the economic welfare of the industry and seeing it as a good and vibrant industry. That is not there and I think that is a bit of a pity.

Q48 Dr Coffey: Building on that, there are some people who say the Gambling Commission is too close to the industry and then I think Mr Thomas also put in his evidence that you would like to see a bit more of a cheerleader. I think the BBC Trust is the only regulator I know who is both champion and critic. I am not sure that most people would see a regulator as being there as a cheerleader for the industry. Do you want to say anything, Mr Thomas?
Simon Thomas: Yes. My submission differs from Ofcom. Ofcom say, “Helping to secure Britain’s energy supplies by promoting competitive gas and electricity markets and regulating them so that there is adequate investment.” So they are both regulating and making sure the commercial side works. Ofgem say, “Increasing the economic sustainability of the UK energy sector.” So they are both regulatory and ensuring competition can thrive”—good regulator—“while ensuring that competition can thrive”—promoting the industry. Ofcom say, “Helping to secure Britain’s energy supplies by promoting competitive gas and electricity markets and regulating them so that there is adequate investment.” So they are both regulating and making sure the commercial side works.

Q49 Dr Coffey: Building on that, there are some people who say the Gambling Commission is too close to the industry. Do you want to say anything, Mr Thomas?
Simon Thomas: Yes. My submission differs from Ofcom. Ofcom say, “Helping to secure Britain’s energy supplies by promoting competitive gas and electricity markets and regulating them so that there is adequate investment.” So they are both regulating and making sure the commercial side works.

Q50 Dr Coffey: There is a little bit here about the Gambling Commission being seen to be rather expensive, about how there would be new entrants into market. The Gambling Commission is taking on the lottery, with the potential change in legislation; it hasn’t quite gone through yet. Do you feel that there is an opportunity for them to save money, given what you have just said about how they do not have the resources to be tackling illegal poker clubs? Any thoughts from anyone about that?

Simon Thomas: The cost of the Gambling Commission compared to the Gaming Board was dramatically more and there was an anticipation they would be regulating a lot of very large casinos, which haven’t happened, and to give them credit they have pared down the costs. They are still more expensive than the Gaming Board was. Taking on the National Lottery obviously changes their whole business model and you just hope they keep as competitive as they can. We want very good value for money from them. We don’t mind paying for it but we do want value for money.

Roy Ramm: I would just like to pick up one point. You said some contributors have suggested that the Gambling Commission is too close to the industry. That is certainly not something that I have observed as a compliance officer. I think that they maintain a distance. I can think of a number of issues where we have had dialogue with the Commission over the last year where if they had been in some sort of cosy relationship the outcome would have been very different.

Q51 Chair: Can I just ask you one final question? Do you think the Government want to see a thriving casino industry or are they so scarred by the experience of the Act that they would rather pretend it didn’t really exist?
Roy Ramm: I would sooner you asked the Minister that. It is quite clear that it was a very bruising time for parliamentarians generally when the Act went through, and it has not been easy for us to get traction with Government since then but we continue to try. In my reply to Mr Sheridan earlier, I said that I think that it is critically important that we get drawn in by DCMS into the mainstream leisure fabric of this country and that they see that we don’t eat our own young and we can behave properly and that we have a contribution to make to the leisure industry. I think that the closer they get the more comfortable they will become.

Q52 Chair: You don’t feel that is being recognised sufficiently at the moment?
Roy Ramm: More would be nice.
Peter Brooks: Could I just add one thing to that, if I may, which is it really is a case of getting it back in perspective or keeping things in perspective. I think I am right in saying that if you go back to Hansard and the debates about the Bill, approximately 70% of the time was devoted to casinos. Casinos are about, by revenues, 11% of the gambling industry, so it was massively out of proportion. Out of that time, an enormous amount was spent on regional casinos. So in a way, going back to your comment, a lot of what we are asking for is very much framed by the realities. There is no doubt there are scars from that debate. We have suffered from that in terms of reputation, we think quite wrongly. We really hope that the Government thinks there is enough time gone by that
they can move on from that and keep us in perspective. One of the things that has gone wrong with the Act, going back to the pyramid, is simply not enough time was devoted to considering regulation of the industry as a whole—there was so much time spent on casinos. We hope that in this process you will be able to help the Government get back to a proper overall view of the industry, and we have our rightful place to play in it.

**Chair:** Indeed. I think that is a good note on which to finish. Thank you.

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**Examination of Witnesses**

**Witnesses:** Dirk Vennix, Chief Executive, Association of British Bookmakers, Warwick Bartlett, Chairman, Head of Public Affairs, William Hill, David Steele, Commercial Director, William Hill, and Richard Glynn, Chief Executive Officer, Ladbrokes, gave evidence.

**Chair:** For the second part of this morning’s session we are now going to turn to the bookmakers. Can I welcome Warwick Bartlett, the Chairman of the Association of British Bookmakers and Dirk Vennix, the Chief Executive, together with Richard Glynn, the Chief Executive of Ladbrokes, Andrew Lyman who is from William Hill, as is David Steele.

**Q53 Dr Coffey:** Are bookmakers in a better or worse position since the implementation of the 2005 Gambling Act?

**Dirk Vennix:** We are saying that it is difficult for our businesses and that is why we are calling on the Government to provide assistance for us to continue creating more jobs in the industry and contributing to local economies. We also ask, to put it into context, that betting is a mainstream leisure activity, which is consumed safely by millions of customers up and down the country. I think it is fair to say that. In that context, we are therefore saying treat us like any other retail sector on the high street and therefore reduction of taxation and new regulations should be considered.

I am thinking about the MGD rate that is coming in for electronic gaming machines and also thinking about looking at the gaming duty in the context of online gambling operators. On regulation, we are also calling for the triennial review, which Mr Ramm alluded to earlier, to include liberalisation of the number of machines in our shops. Also, as has been mentioned earlier, regulatory costs, which have increased as a result of the Act being implemented, should be looked at more closely.

We honestly and genuinely believe that there is a strong case for economic growth that we could fulfil if we are given the assistance by, for instance, DCMS, also the Gambling Commission has been mentioned in terms of a champion role. They could help us, I think, on the business growth agenda. We also think they could support us in terms of protecting us against any further unnecessary taxation and regulation.

**Q54 Dr Coffey:** Would Mr Glynn like to add anything? I understand the profitability of Ladbrokes has been struggling pre and post the Gambling Act, but I don’t know if the two are exactly linked.

**Richard Glynn:** It has certainly fallen over that time. I would make a couple of comments. I think that the industry faces an awful lot of competition now and certainly profitability has fallen but I think we are very well regulated industry now. I think with the right ability to compete effectively this is a great industry to drive jobs, to drive growth. It is a very tough time on the high street out there. It is a very tough time economically and I think the industry has a responsibility to make sure it continues investing very heavily in regulation and making sure that it, in a way, over-serves the customers who come in and provide us with that revenue. But there is no doubt that it is an incredibly tough time economically for the industry and anything that we can get that helps us, through really strong competition, to grow this industry, to put more jobs into the UK, to keep on investing in the high streets in the UK and to keep on paying high rates of tax, then we would welcome that.

**Warwick Bartlett:** Can I just pick up on the cost of regulation? This is something that concerns particularly the smaller independent bookmakers. If you are operating a company say with 2,000 shops, you pay £152 per shop but a company with one shop pays £1,531. Under this fee structure, I wrote to a member over the weekend to ask of his experience and he said that a 50-shop company pays £17,514 a year to the Gambling Commission. If he adds another shop to take him up to 51 he pays £45,426, which is an increase of £27,912, which is a real disincentive for him to expand his business. These are the new proposals. Looking at it further along, he was talking about the visits that the Gambling Commission make and he said they visit six to eight shops out of 49 a year. Each visit lasts around 90 minutes. Two of them also visit head office per year for a couple of hours. It is basically a tick-box exercise. There is rarely anything worthwhile to discuss. So in total we receive no more than 20 man-hour visits at a cost of £17,514, which for him is hardly good value for money.

**Q55 Dr Coffey:** From William Hill, Mr Steele or Mr Lyman, I understand that you think that the vision hasn’t materialised, and that actually there has been regulatory uncertainty discouraging investment. Can you say a bit more about that, please?

**David Steele:** Yes. Just echoing what Richard said, times have been tough in retail. I think if you look at our own estate we are probably something like 15% back on profit over the last three years. I don’t put that in the hands of Gambling Commission because there are other things out there, not least a recession. I think the important thing to recognise with the Gambling Commission is the fact that in terms of the Act it didn’t actually bring that much in terms of LBO estates. It brought regulation and, as Warwick has mentioned, the cost of regulation, but it didn’t bring...
much by way of deregulation. It allowed further around advertising in windows and on TV but very little more than that.

Q56 Mr Sanders: Given the ups and downs of revenue, has the actual revenue generated by the industry changed since the implementation of the Gambling Act?

Warwick Bartlett: I think the major change occurred with the introduction of gross profits tax, which enabled a larger payout to the customer, created a more exciting betting opportunity for the customer and allowed us to introduce fixed odds betting terminals. I think that was the major change.

Q57 Mr Sanders: So you have seen revenue rise in that area but fall in other areas?

Warwick Bartlett: Overall the profitability of the betting shop is in decline. David is right, overall the profitability is in decline but it is just that we are taking money in different areas according to customer demand.

David Steele: I think if you look at the industry as a whole, there are about 8,500 shops. The latest economic research that the ABB have commissioned suggests that something in the order of 2,600 of those shops will make around £22,000 profit, which is not a lot. It doesn’t take much to move that with changes in fees and other regulatory or economic issues.

Q58 Mr Sanders: Is this down to numbers of people visiting betting offices going down?

David Steele: That is a hard one to comment on because we don’t have a real measure on tracking headcount as such. What we tend to do is track slippage and I think if you took the William Hill estate over the last five years you have got—

Q59 Mr Sanders: Can you explain what that terminology means, what slippage means?

David Steele: Sorry, that is bets over the counter, one slip over the counter, and we would probably have an average of somewhere slightly north of about 300 million slips. It moves up and down a little bit but it is relatively static over five years. There will be more visible to us as a consequence of gaming machines or fixed odds betting terminals, but in terms of absolute numbers we really have no way of tracking it.

Richard Glynn: If I could just add to that, Ladbrokes has a retail loyalty card that it can use. We can then track when people come into the shops and I think that we would say that footfall is relatively stable over that period of time. You mentioned before about the revenue opportunities and things like that and tying it back into the Act. It is an anomaly that somebody can go into our shops where we pay all the staff’s employment, we pay the rent, we pay the rates, they can watch what are quite expensive picture content costs, they can sit and they can drink our coffee, and yet on a mobile device or an iPad device they can play a casino game for something offshore but I am not allowed to promote them to play on our own product where we could tax them, we could regulate them, from inside our own shops. These are the sorts of competitive pressures that the industry faces at the moment where through the Act there are possibilities to liberalise and keep up to speed with very fast moving technology, which would allow us to compete more effectively. Those are the revenue pressures that the industry faces at the moment.

Q60 Mr Sanders: This seems to be a very critical issue and I am not sure whether it is picked up later but it strikes me that what you are saying is that if you were able to get people to go online through your company people would choose to do that because you could market and you could get them. Is there not a danger that there might be an element of competition that better odds might be offered by an unregulated offshore concern, or are you confident that not just you, Ladbrokes, but the UK-based industry would be able to garner the majority of those people wanting to do it online?

Richard Glynn: You have raised a really important point there. There are two answers to the question, I think. The first one is to have the flexibility to compete, and nobody on this side of the table is saying that we don’t want to compete. We are quite confident in taking on competition. So the first point is allowing us to use technology, as it advances, to compete. The second point is to say Ladbrokes has 2,100 shops, 14,000 staff there, very few constituencies in the country that we don’t have a presence. We pay quite a lot in tax nowadays and we are a UK plc. We are delighted to be here. What we would like to see is— and it is an oft-used phrase already many times today so I will repeat it just once more—that level playing field, not only in terms of taxation but in terms of technological liberalisation, which allows us to compete and then we will take our chances about competition.

Q61 Damian Collins: The same question I asked to the casino people: as a proportion of the profit for a licensed betting office on the high street, how much of that will come from slot machines and how much of that will come from slippage—to use your term—people placing bets on sporting events and the like?

David Steele: If I do revenue first, because it is perhaps easier to put it into context. About 46% of our revenue comes from gaming machines and the balance comes from the over the counter sports activity. In terms of profit, it is difficult to allocate because, again, it is the cost of running that business. Our biggest overheads are staff and property, and we need both of those for both elements of the business. So I could say that probably somewhere around 50:50 is about the mark because all of those costs are necessary for both elements of the business.

Q62 Damian Collins: It is probably reasonable to assume that conventional betting is slightly more staff intensive than the machines overall?

David Steele: If you look at typical staffing in a shop you are only talking about probably two members of staff through the vast majority of the day. So it is a model that works for both elements and it is very hard. I would suggest that you could look at content costs, and somebody might argue they are there for the over
the counter customer, but if you then look at what goes on I think our own market research suggests that only 7% of our customers play machines only. So customers come in for multi-products. We are not there for one or the other so I think you have to look at the whole cost base and probably split it across the total revenue model. So if I said 50:50 as a broad brush and that might vary with other operators.

Q63 Damian Collins: Is the growth in revenue coming from the machines as opposed to conventional betting?

David Steele: It is 46% that is coming from the machines.

Q64 Damian Collins: If I had asked that question three years ago would it still have been 46% or would it have been less than that?

David Steele: No, it has been growing.

Q65 Damian Collins: It has been growing. Conventional betting is static, would you say, or declining?

David Steele: About static. There is growth in some areas. There has been growth in some sports, football being an obvious one, and no growth—it is probably going backwards a bit—in horse racing terms. It is very much around customer choice. We are a part of the leisure high street environment and to a large extent our customers shape the income streams.

Richard Glynn: I would like to try and give some colour on that, if I may. For our estate it is about 40% of the revenue that is gaming machines. You mentioned about OTC—over the counter—growing. If you were to look 10 years ago, the amount of betting that we would take on something like basketball was relatively small. The amount of betting that we would take on what they now call in-running football, betting during the game, was relatively small, but because of technology, using algorithms and very experienced traders, we can now offer very quick bets to the customers at relatively low margins to enhance their excitement during a game. If Man U are playing Scunthorpe City most of us know what the outcome will be but you don’t know what the outcome of the next free kick will be or the next penalty, and a lot of customers find that that is a very attractive way of enhancing the enjoyment of their experience. So that element of the over the counter is growing. I think it goes to the point of if you allow us the technology to do these things we can innovate quite well as an industry and thereby satisfy customer demand.

Q66 Damian Collins: Typically, what time in the morning do your betting shops open?

Richard Glynn: Typically 9 am.

Q67 Damian Collins: Do some open earlier than that?

Richard Glynn: There are a few locations that open earlier than that.

Q68 Damian Collins: 8 am?

Richard Glynn: I wouldn’t know.

Warwick Bartlett: There was a William Hill betting shop in Victoria this morning opened at 7 am. I wasn’t there. I was there at 9 am.

Damian Collins: Queuing up outside waiting at 6.30 am for it to open.

David Steele: It is a very small number and I think it is no more than a handful that would open around 7 am, 7.30 am, and then they come on stream gradually from 8 am, 8.30 am onwards. The majority would be about 9 am.

Q69 Damian Collins: Presumably people are just playing machines at that time of the day, or is it international sporting events or—

David Steele: No, we have virtual product, we have our own virtual product and that is available from when we open.

Q70 Damian Collins: Virtual product. What would that be?

David Steele: If you want, anything from cycling to horse racing to dogs in a virtual environment.

Richard Glynn: Quite a lot of people would want to come in if there is a 4 pm race at Haydock and they are working during the day but on their way into work they want to place a bet. They will come in and place the bet at 9 am. On the way out, when they have won from us, they will come and pick up the winnings.

David Steele: There is an over the counter product literally from opening to closing.

Q71 Damian Collins: Do you monitor the patterns during the day? Do you say if people are betting over the counter, there are peak times of the day when people might play on the machines? Is that something you look at?

David Steele: Yes.

Q72 Damian Collins: How does it pan out?

David Steele: Typically the large majority of the income comes in the lunchtime period through to the early afternoon. Horse racing is going to start at midday or 1 pm so that is typically where you would expect that volume to come from and, again, although you do have some people who will come in early morning, the vast majority are in about lunchtime, in their lunch hours or late morning.

Q73 Damian Collins: Some people have raised concerns about where you have problem gamblers would you spot people coming in earlier in the day, would you spot people playing particular games or doing particular things earlier in the day? Certainly that early morning session, as you said, there may be some people that will pop in on the way to work but I imagine that is a probably a pretty small minority. Do you monitor what happens in the early part of the day to see if there are patterns that concern you about your customers’ betting behaviour?

Andrew Lyman: If you think about the sort of square footage of the normal betting shop, even if we have one member of staff on, in the mornings for example, they are able to look at the door, control the floor, effectively, of the betting shop. We have a record of
customer interactions, for example, both customer-initiated and staff-initiated interactions, and obviously we monitor things like self-exclusion. So it is the same question, I think, that you put to the casino industry around what protections we have for customers. The protections we have for customers are clear processes around problem gambling, clear processes around customer interaction and an obligation to report certain matters to the Gambling Commission on our regulatory returns. So there is a monitored environment.

Q74 Damian Collins: Would you like to see more gaming machines in your shops? Do you think there is customer demand for that?
Warwick Bartlett: If there is customer demand, yes.

Q75 Damian Collins: No, would you like to see it and do you think there is?
Warwick Bartlett: I have one shop and I used to have three machines. I now have two because it was unprofitable to have the third machine so we took it out. But there are some shops in London, like for example Edgware Road, I would think that they would probably need more machines.

Richard Glynn: To answer your question rather directly, what we want is the ability to satisfy demand and we know that at certain times of the day in a number of the shops there is a requirement for more machines. What we would like to see is, I suppose, three things. We would like to see the ability to review the stakes, the ability to review the prizes and the ability to review the number of machines. The limits to us seem to a degree arbitrary. We know that there is latent demand, we know that by doing that we can satisfy the demand, which will hopefully allow us to perhaps employ more people, pay more taxation and so on, but there is certainly latent demand out there that further machines could be satisfying.

Q76 Damian Collins: If I could ask one other question just because you mentioned it, Mr Glynn, about in-game betting for football in particular. There are lots of reports about allegations of bribery and match fixing in football and people betting on how many goals a team will score and this sort of thing off in a game. There was an incident in Scotland with that. Do you have a concern about the rise of this type of betting and do you think there is more the industry could do to monitor unusual betting patterns on in-match betting?
Richard Glynn: I think it is important to differentiate the product from the problem. The incidence of problem gambling I think you won’t find actually exists predominantly in Europe. The phrase that I quite often use is the bookmakers, we are the canary in the mine. The people who pay the money out when the betting coups happen are the bookmakers. The people who will stop the betting coup happening are the bookmakers who track the incidence of irregular betting. We tell the authorities when that happens. In fact, I would turn it slightly on its head and say we spend a huge amount of money in the shops, in the central offices—I know William Hill do—tracking the prevalence and the incidences and the correct betting patterns. When something untoward happens we notify people. I think people should use the industry more to help them. This is not a betting-related problem. This is a problem for perhaps the sports and so on to make sure that they are regulating the incidences and putting the appropriate sanctions in place. We can help them, with pleasure, but I don’t believe this is a betting-related problem.

Q77 Damian Collins: That was what I was wondering, how you use the data you get.
Richard Glynn: We do use it and we track it and we hand on the data regularly to people.

Dirk Vennix: Just to add to that, you mentioned Scotland and the recent Jennings case is a very good example where our members raised suspicions of betting irregularities in this particular case. We then raised the alarm with the Gambling Commission and the sports governing body in Scotland and nine months later we have seen the conclusion of an investigation that has led to a prosecution.

Warwick Bartlett: A lot of the corruption in the sports emanates from the Far East where gambling is illegal and there are a lot of illegal bookmakers.

David Steele: Yes, the trigger for us as an industry is when does something that is the norm move to unusual and then move to suspicious. We all monitor field books because we are all trying to make a profit and when something starts to move from an unusual pattern to a suspicious pattern we are very quick to alert, not least if it is going to cost us money if indeed we are correct in our suspicions.

Q78 Chair: Can I come back to fixed odds betting terminals? A number of people have suggested that FOBTs are perhaps the most dangerous, that they are very available on the high street and that you can lose a lot of money very quickly. You will have listened to the evidence we had from the casino industry who displayed admirable restraint in not saying you shouldn’t be allowed to have FOBTs in the high street in your bookmakers but they did point out that they are at the top of the pyramid, subject to the greatest regulation, and yet they can only offer machines offering a £2 maximum stake. Does it not look a little imbalanced that you are on the high street offering a £2 maximum stake. Does it not look a little dangerous compared to what some people think are the most potentially dangerous type of gambling activity?
Dirk Vennix: I think our response is quite clear in terms of the way we like to approach these things, which is that it should be evidence-based. If we look at the evidence, and this has been endorsed by the Minister in a recent adjournment debate with Mr Davies, there is no clear link between problem gambling and electronic gaming machines, or FOBTs as they are being called. If you look back at when they were implemented in 2002 and then fast forward over the last nine years, again there is no significant evidence in the prevalence study, which the Gambling Commission has commissioned over the last few years. It is interesting to see some of the statistics where they show that the participation rate has stayed the same between 2007 and 2011. I am not minimising the figures at all. There are problem gamblers who have the problem with machines but on the other hand, like Richard was
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... saying earlier, we think we are best placed, given our understanding of consumer demand and of our business model, to make the right decisions and have the commercial discretion in terms of the location of the shop, the geography, the demographics, the volume, the footfall, because we generate a lot of footfall on the high street. So we should be well placed to determine how many machines are in the shop, and it does differ from the south to the north, as Warwick was indicating earlier. We think there is a pretty solid business case but, given that we do accept that as responsible businesses we should make sure that the customers who use the machines operate them safely.

David Steele: I think probably the most telling statistic for me is if you look at the incidence in the prevalence study, it was 1.4%. I don’t think there were any fixed odds betting terminals available in the market at that time. If there were it would be a handful. If you then fast forward to the prevalence study of 2007, it was still 0.6. During that time something in the order of 30,000 what are now gaming machines were introduced to the high street.

Q79 Chair: Even accepting your suggestion that there is not a linkage, do you have sympathy with the casino industry’s case that it looks pretty strange that they are not able to offer these and are restricted to B1s whereas you, who are arguably subject to less intrusive regulation, have B2s on the high street?

Andrew Lyman: I think the levels of regulation over high street bookmakers is a bit of a misnomer to say that they are short of the mark in any sense. If you look at the barriers to entry to the market in terms of obtaining a Gambling Commission operating licence, you look at the licensing conditions and codes of practice, which includes the Social Responsibility Code, and the obligations that there are on us as operators, not to promote the casino industry in our session but at the end of the day there may be an argument for there to be more liberalisation in the machine environment for the casino sector. I don’t think the answer is to reduce the stakes and prizes in the bookmaking sector, for example.

Richard Glynn: The overriding principle here is that the bookmaking and gaming sector is a mainstream entertainment activity. All of us offer different products. We all offer it, I hope, in a very well regulated, carefully controlled environment. I believe that it is the level of regulation and it is the care that we put into it that determines how we respond to those people, the unfortunate individuals who do exhibit problems. I think, as Roy said earlier, any one individual who exhibits that is one too many. The industry pays an awful lot of money every year, and willingly does it, to the GREaT Foundation to make sure that we are continuing to look into this. We spend huge amounts of money training our staff. Every single member of staff in the shops has to go through training, off the job training, to make sure that they are aware of these problems. We have systems in place. I believe that the industry has to move together as a more holistic industry to promote itself as an entertainment product, to up the standards continually of regulation and probity and to ask the Government’s permission for liberalisation and technological advances to allow us to offer strong competition on the high street, on the internet and wherever it may be.

Q80 Philip Davies: Can I link in machines with clustering of betting shops, perhaps? In terms of the limit of four machines in a shop, obviously I can see that that is nonsensical in the sense—and the Minister has admitted in the past—that there is no evidence of any link between the number of machines in a shop and problem gambling, largely because you can only play one at a time, maybe two if you are particularly proficient, but you certainly can’t play four at a time. So whether there is four in a shop or five in a shop or six in a shop clearly cannot be linked to problem gambling, I absolutely understand that. But in terms of that, if there was a liberalisation of the number of machines in a shop, how many would you want it to go up to? Would you want it to be five, six, eight, 20, 100, no limit at all? What is your view about how many machines each shop should be allowed?

David Steele: I think to Andrew’s point earlier there are physical constraints within the betting industry in terms of size of shop. Our own shops on average are probably only something like 650 square feet, so an unlimited number does not give us much by way of opportunity. I think if you look at the utilisation of machines during the course of the day you find peaks and troughs. To Mr Collins’ point earlier, it is very limited activity up until probably about lunchtime and I would think, speaking personally, five or six would certainly satisfy demand at the high points of the day for the vast majority of shops in the UK.

Q81 Philip Davies: So you are just looking for a small number increase. If, for example, the Government said there is no link between the number of machines and problem gambling, therefore there is no justification for a limit and the limit was taken away, what can you envisage the maximum number being in a Ladbrokes shop, say for example?

Richard Glynn: I think the economic reality is, as was said before, there are space requirements and overriding that there are commercial requirements. We won’t put machines in there. We have to pay money to rent the machines, we have to pay money to put staff in there. We won’t put machines in there where there is no demand. I think our penetration rate is about 3.85 at the moment in the shops so there is a number of shops there that just cannot sustain even the number of machines that we are allowed. If it was increased to five or six then I am sure if the demand was satisfied at that level we think that would be a very fair outcome.

Q82 Philip Davies: Linking that to clustering, some people in Parliament have been concerned at the number of betting shops that have sprung up on a particular high street or in a city centre or whatever it might be. Am I right in thinking that that is in some way linked to the issue of machines? In effect, just for argument’s sake take Shipley as an example, there is a demand in Shipley, perhaps, for—I had better make the maths easy so I can work it out—20 machines in Shipley and therefore, because each bookmaker is...
only allowed four, the upshot of that is that there will be five bookmakers in Shipley whereas, for example, if each betting shop was allowed six machines there might be three or four. There will be 20 machines, however many you allow in each shop, and this is governing the number of shops that there are on a high street or in a town. Am I right in—

David Steele: I don’t personally believe that is true. No, Philip, no, I don’t think it is. I think if you look at clustering generally—and there are a small number of high streets, all probably in and around inner London, where there has been a slight increase in numbers—I don’t believe it is anything to do with numbers of machines or caps on the numbers of machines. We are in a competitive environment. If I take two examples, which I think are quite relevant because they are often cited, and I take Hackney and Haringey, Hackney had 70 betting shops overall before the Act and it now has 65. It has five less. If I take Haringey, it had 59; it now has 63. So it has four more. As another one, Camden has four more. We are not talking about significant increases. If I look at our own estate in Hackney, we had 29 before the Act and we still have 29. If I take Haringey, we had 22 and now we have 19.

This is a competitive environment. It is supply and demand. The reason we have less is that they were not profitable in those locations. If I looked at our own estate within the London boroughs, we have moved from 651 to 628. We have gone backwards. If I looked within the M25, we have moved from 650 to 650, so within pretty much the whole of the southeast we have moved backwards. If I took Glasgow, we have moved forward one; Manchester one; Leeds two. These are not significant numbers and I think the reality is when the demand test was removed you were always going to get one or two places where there would be an increase in shops. I don’t think it is anything to do with machine numbers. This is a highly geared, fixed cost business. Nobody wants to operate the cost of an entire shop purely for machines. It doesn’t work.

Q83 Philip Davies: If the limit on the number of machines was increased you would still get the same clustering of shops?

David Steele: I think you would still get the potential for clustering. I don’t think it would move that away. If I give you another example, there has been no demand test in the Republic of Ireland as far as I am aware. We had an estate of just over 50 shops three years ago and we have progressively moved down to 15. It is supply and demand. It is not around machines. When you look at the overall numbers you are talking about leisure high street, you are talking about a broad spectrum of quantity there in terms of over the counter sports betting and the machines. It is the mix. It is not just about machines.

Warwick Bartlett: If I could just confirm the numbers of betting shops over time. In 1961 when we had the first Act there were 8,802 and today there are 8,822, after all those years, but we have had a 17% growth in population.

Q84 Dr Coffey: Can you tell us the difference between pre-Gambling Act, just before and now?

Warwick Bartlett: Yes, I can. In 2005 there were 8,840 and today there are 8,822 as at 2010, but our research now shows that 2011 it will be about 8,900, so there has been a fall.

David Steele: You have a peak in 1968 of 15,700 and then, with one or two little bobbles in it, it just slides down to about 8,500.

Warwick Bartlett: It is a consistent trend of decline in the number of shops.

Q85 Philip Davies: Can I just move on briefly. Warwick, you mentioned the Gambling Commission and the fees and, as you described it, the perceived unfairness of small bookmakers that they seem to pay a higher amount per shop than bigger bookmakers. Do you believe it should be a flat fee per shop?

Warwick Bartlett: I do, and one of the reasons is that there is a decline in the independent sector. If we look at the figure, say on bookmakers’ permits, in 1966 there were 11,251 and today there are about 1,200—half of those are racecourse bookmakers, so there are 519 betting shop operators. So the consolidation that has taken place is quite distinct. If this consolidation continues and shops are continuing to close in the independent sector how is the Gambling Commission going to raise its money? Under the current fee structure they will lose that enhanced fee from the independent sector, so at some point they will have to go to a single shop fee.

Q86 Philip Davies: Richard, how would you respond to the sort of allegation that seems to be coming out that in effect big bookmakers are underpaying on the back of small bookmakers for the Gambling Commission fees?

Richard Glynn: I am going to try and adopt the casino industry’s example and take a very unified approach to this. I think that the independents are having a tough time and if there are ways in which we can help them and maintain that very vibrant sector then I think that is appropriate to do. What I would say is that when you run a large company there are many other overheads that you have to pay—the training of staff, the regulatory aspects, the probity aspects. We talked before about all of the infrastructure that you put in place for tracking trends and things, which the independents don’t pay, so I would say in certain ways there is a disproportionate cost. We only need to mention that wonderful word “the levy” to see how the major bookmakers pay a disproportionate amount. If you look at the GREaT Foundation, the three major bookmakers underwrite 70%, 80% of that. So there are a lot of initiatives there that we will underwrite for which the industry gets the benefit of. I would like to see a very vibrant independent sector as well.

Warwick Bartlett: Can I just say also that an operator with six shops under the 1963 Act used to pay £300 plus a £25 renewal for three years. He is now paying £39,000.

Andrew Lyman: If I could just come in there and talk about it in terms of the Gambling Commission proposals for fees going forward. There is consultation out at the moment. I think it would be right to say that the large bookmakers fully support the view that the costs for small independent
bookmakers should move downwards, but what we don’t support is the idea that we should pick up the overhead in return for that. If you look at what the Gambling Commission is doing at the moment, it is doing well on sports integrity and it is doing well on fighting illegal machine supply. The BRE report said it needed to work harder at becoming a risk-based regulator and we feel that it probably has not worked as hard as it should in that area and needs to become more risk-based. For example, instead of suggesting that large operator operating licence cost fees should rise by 30%, which we found a very difficult figure to cope with in recessionary times, the Gambling Commission should reduce its policy and administration overhead and the costs of routine compliance visits, but not to the point where any of the three licensing objectives are undermined. The Gambling Commission has a role but simply transferring the overhead from one sector to another or from one subsector to another is not the right thing. It needs to look hard at the costs in the areas that I have identified there.

Warwick Bartlett: On another point, our smaller members ask that they can pay these Gambling Commission fees monthly—that would help them a lot—rather than having to pay thousands of pounds in one go. The other thing is if, during the course of a year, they go out of business and they have paid upfront to stay in business with the Gambling Commission there is no refund, which is unfair.

Richard Glynn: If I may, Mr Chairman, just pick up on something that Dr Coffey said earlier about the casino industry and the Gambling Commission acting as an advocate for it. I don’t think that what we are expecting is the Gambling Commission to don pompoms and start dancing around on our behalf. What we would like to see is the liberalisation to allow us the technological improvements and the level playing field by which we can then promote ourselves. We see that as their responsibility for leading and heralding the industry, not perhaps a more advertising-based approach.

Q87 Dr Coffey: Can I turn to online gambling and I particularly want to direct these questions at representatives from William Hill and Ladbrokes. The DCMS response, after its consultation on the Gambling Act, if you remember, was to open the market up.

Q88 Dr Coffey: I have had the Ladbrokes view. Could I have the William Hill view?

Richard Glynn: You would rather have the Ladbrokes view.

Dr Coffey: Sorry, the Ladbrokes view. I apologise.

Richard Glynn: I quite like the William Hill view, I have to say. I quite agree with it. I think you have to look at the realities of it. We operate in a high-volume, low-margin industry and when the offshore operators started looking at our customers there was a very clear view that said, “If, unfortunately”—and it was unfortunately—“we, as a business, do not move offshore then our competitors will take our customers offshore.” We had no option but to do that, but Ladbrokes, and I can only speak for Ladbrokes, is a UK plc. We pay a lot of tax here. We employ an awful lot of people. We are very proud to be a UK-based business. If the Government can work with us to make sure that the technology requirements that we have, the tax rates protect or level the playing field between the retail and the online, then we would probably endorse and support the proposals to bring the betting back onshore.

Q89 Dr Coffey: From what I heard, it started here from Mr Steele, there is a risk perceived by the industry that people will bet illegally in this country?

David Steele: Yes.

Warwick Bartlett: It depends on the tax rate. Denmark has achieved a differential rate that has had EU approval and I don’t think that the two industries can trade on the same tax rate. The purpose of the Gambling Act, if you remember, was to open the market up.

Q90 Dr Coffey: Online has a lower tax rate than offline?
Warwick Bartlett: Yes, in Denmark.
Dr Coffey: In Denmark.

Warwick Bartlett: The purpose of the Gambling Act was to bring the global gambling market to the UK and it was on target to do that, but the problem was it took too long for the Act to hit the statute book and become operable. So we were looking at from year 2000 with Budd going through to 2005 to get the 2005 Gambling Act. Then it came into operation in 2007. The whole world had changed by then. The offshore jurisdictions were really up to speed with this issue. So what they did is they amended their current Betting, Gaming and Lotteries Act and just added a clause to allow it. That is what the UK should have done and then revisited it with the 2005 Gambling Act. We lost the business opportunity and other jurisdictions are far greater than they are of being able to bring the jobs and everything back onshore. There

Jim Sheridan: On problem gambling, do you accept that there is far more likelihood that it could take place in the High Street as opposed to the regulated industries such as casinos? I base that on the point of view that if you go to many high streets throughout the UK one thing is guaranteed: you will probably see a bookie’s and a pub and usually they’re next door to each other. I don’t know if that is intentional or not but it certainly creates the impression that it could be a problem for gambling and particularly for people under 18.

Dirk Vennix: No, I don’t agree with that. We must not lose sight of what we have said earlier, that 99% of our customers bet safely and that is borne out by the statistics, and we do take our social responsibility very seriously. We increased our voluntary contribution from £2 million in 2005/2006 to £5 million in 2009/2010 and we have a duty of customer care that we take very seriously through a range of measures, whether it is the age verification testing that is now around 74%, which compares very favourably with other retail sectors on the high street. We also have a duty, which we take seriously, amongst our members that there is a High Street Betting Action Plan that has a board-level champion that looks at protecting children and young people, delivering the appropriate training, with the help of GamCare, commissions test purchasing of its own and reviews manager’s performance. These representatives also meet with the ABB to review the general performance on a quarterly basis and share best practice to see how they can improve that.

Jim Sheridan: I am a regular visitor to bookmaker shops and I don’t know very many managers who know their customers and their families. I think that is a bit Freudian. Just to this question about the £2.6 million, increased to £5 million, there must have been a reason for that, surely?

Dirk Vennix: That is because we take our responsibilities seriously.

Jim Sheridan: There must have been a problem then.

Dirk Vennix: No, it is not a problem. It is making sure that we put our money where our mouth is and so if we have dialogue and relationships, as we do

Q91 Philip Davies: Just on that particular point: what rate of tax would the Government have to introduce to get you back onshore? I mean, if it introduced a rate of tax online of 4% or 5%, something like that, would you come back or would you say, “It is still not worth our while coming back”?

Andrew Lyman: We would be quite happy to look at a proposal on that basis. We are realistic and the work that we have commissioned so far is around demonstrating the dangers in setting too high a tax rate and so if, at the end of the day, there was a political and legal imperative around a single-figure tax rate then that could work for us.

Q92 Philip Davies: Maybe it is me, I could be strange, but I would sooner have 4% of something than 15% of nothing and I am not entirely sure that sure there are many people, given the two choices, wouldn’t go for the same. Obviously if the Government—if we were to try and I can’t speak for them—but if we were to go along that line, it would be pointless if you were to come back and say, “Well, we’re still not going to come back anyway”.

Richard Glynn: No, and I think the industry is very, very prepared and is already exhibiting a willingness to work with Government to examine these things to try and reach a rate and I have said—and I believe William Hill and ourselves are in the same boat—we would welcome coming back onshore. The complexities of running businesses in multiple jurisdictions are far greater than they are of being able to bring the jobs and everything back onshore. There is a secondary element to this, which is not only to allow us the tax rate that allows us to compete effectively. Offshore operators who can plough far more of their non-taxed earnings into marketing and promotions to customers are at an advantage. We can’t face that disadvantage; but, by the same token, the Act has to have teeth because there will always be people who will try to avoid the net. What we need to make sure of, those of us who will be complying it, is that the regulation has teeth to try and prevent and catch those who try to avoid it.

David Steele: Yes. While we don’t believe there is a public protection issue, we are looking at it commercially and we have had some pre-consultation discussions with Treasury. To Richard’s point, I would absolutely endorse it. It is worth nothing if there aren’t teeth to make it happen and make it work.

Q93 Jim Sheridan: On problem gambling, do you accept that there is far more likelihood that it could take place in the High Street as opposed to the regulated industries such as casinos? I base that on the point of view that if you go to many high streets throughout the UK one thing is guaranteed: you will probably see a bookie’s and a pub and usually they’re next door to each other. I don’t know if that is intentional or not but it certainly creates the impression that it could be a problem for gambling and particularly for people under 18.
with gambler charities like GamCare, and they ask us to provide more money—

**Q95 Jim Sheridan:** You see what I am trying to establish. If you are putting £2.6 million voluntarily into a system and then you decide to put £5 million in, there must be a reason for that. There must be a problem there in order to have an increase from £2.6 million to £5 million. Why?

**Warwick Bartlett:** The reason is the Government asked for it.

**Q96 Jim Sheridan:** The Government just asked for it?

**Warwick Bartlett:** Yes. They wanted us to support the charity and that is what we did, we coughed up. That is the reason.

**Dirk Vennix:** Seriously, we have been asked by charities to provide funding through GREaT, which is an independent mechanism. I know GREaT will be delivering oral evidence as well, so I will leave them to explain how it works, but it is basically down to gambling charities asking for funding to fund research, education, prevention and treatment of problem gambling. It is really trying to help customers and we help them with all sorts of things like self-exclusion schemes, but if we can help them by providing money to gambling charities, who obviously need that to operate, then why shouldn’t we be doing that?

**Andrew Lyman:** I think at the end of the day, it is an issue of proportionality, isn’t it? Nobody sitting at this table is a problem gambling denier, but at the same time I think we would say that problem gambling should not dominate the whole agenda around gambling if you look at the problem gambling rates, which are very low by international standards. There are people who have a problem with gambling and we have signposting, we have funding for treatment, we have funding for research projects that are individually identified by the Responsible Gambling Strategy Board and I think the appropriate level of funding is in place.

**Q97 Jim Sheridan:** I am conscious of the time and I am thinking about the under-18s. What steps are in place? I mean, a significant number of 17-year-olds, for instance, according to the research, have been allowed to bet over the counter. Is there a strategy for instance, according to the research, have been allowed to bet over the counter. Is there a strategy in place to deal with that?

**Dirk Vennix:** I think you might be alluding to the Gambling Commission’s test purchasing report in 2009.

**Jim Sheridan:** A shopping survey, I think they called it.

**Dirk Vennix:** Yes, which did indicate compliance that was not good enough and we put our hands up and we agreed that that was not right. What we have done is a major and sustained effort to improve compliance and the 74% I was alluding to earlier was in October 2010. So you can see a marked increase in our compliance there.

**David Steele:** Another thing I would add to that is that we were genuinely horrified when we saw the results of that test purchase at Hills. I was part of the committee who developed modular learning for our staff. We took all our staff off-site for learning. It cost us something in the order of £500,000 to do that exercise. So when we failed, bluntly, we were genuinely shocked. What the industry did and what we did at Hills was then move to a Think 21 policy and we put in place our own test purchasing, which we routinely do, which is one of the reasons, I think Andrew said, it is perhaps now appropriate for the Commission to move more towards self-assessment because a lot of those checks and balances are actually happening now as of right with the major players.

**Q98 Jim Sheridan:** Just two very final brief questions. The loyalty card that runs at Ladbrokes, that is not just to track customers. I mean you offer incentives for the loyalty card, don’t you?

**Richard Glynn:** It is a proper loyalty-based system, yes.

**Q99 Jim Sheridan:** There are incentives to entice people to come into the betting shop. I declare an interest, Chairman. I have one. I put our own card in place there, and we are happy about that as well. I am delighted that you have one. In most digital-based businesses now it is about understanding the customer better so that you can reward the customer, so that you can make their experience better. The loyalty card system is no different from a Tesco club card/loyalty card.

**Q100 Jim Sheridan:** It is not described in the text books about somebody walking down the village green, “Oh, there’s a betting shop. I think I’ll go and put a bet on.” You are enticing them to come in.

**Richard Glynn:** I don’t accept that at all, I have to say. The enticement for people to bet is their enjoyment. They choose to bet. It is part of their entertainment. If what we can do is reward them for that and we can enhance their experience by understanding more about them, then that is no different from a Tesco club card/loyalty card.

**David Steele:** Just to put some financial context around it, the modal bet in a betting shop over the counter is about £4. The average bet is about £6 and the average stake on a machine, B2 and B3 mix, is about £6.50.

**Q101 Jim Sheridan:** Can I just ask a very final question? A significant amount of all your profits come from fixed-odds football. How much do you put back into football?

**Richard Glynn:** Let us answer that. A significant amount of our profits still, thankfully, come from horse racing. We put a huge amount into horse racing. If you look at sponsorship and so on in football, I think that you will see that quite a few of the premiership clubs are sponsored by bookmakers. What I think you do need to do is draw a very clear distinction between a sport like horse racing and a sport like football. I do not think that you see many people standing outside Woolworths holding a can, shaking it for the premiership. These guys have quite a lot of money now. They do not need our money to help them sustain their industry.
**Q102 Jim Sheridan:** I wasn’t particularly thinking about the premiership. We have just had an inquiry into football. Premiership can take care of themselves. I mean you are using fixed-odds coupons to league fixtures and so on. What I am asking is how much money is going back in to particularly grass-roots football?

**Richard Glynn:** I can’t answer the question for the industry. What I can say is that what the industry does is promote sport, it works very closely with sport. I believe it is for the sports themselves to promote grass-roots football. It is not for the betting industry to do that for them. We work very closely with them to help them foster it; to make sure, as we have said earlier, that there aren’t problems with corruption. We help them with the education on things like that. The industries must recycle their own funds.

**Chair:** I suppose they provide some money for forward players, don’t they?

**Q103 Damian Collins:** I wanted to ask about just forward players, don’t they?

**Chair:** industries must recycle their own funds. I suppose they provide some money for forward players, don’t they?

**Q104 Damian Collins:** Does it drive one more than the other?

**Andrew Lyman:** Plainly, if you are advertising at peak time in the middle of a major football match then that is likely to drive online revenues more than it would retail.

**Q105 Damian Collins:** What I am trying to get at is that what it is designed to do. When your marketing director comes to you and asks for his money or her money and you are analysing commercially for the business what the advertising is doing—is it being designed to do one thing rather than another, is it being pitched at driving online betting during sporting events or is it just general brand—

**Andrew Lyman:** Richard can answer for his own business. From our point of view we think our strength is effectively in a multi-channel offering. So the answer is it is not necessarily targeted entirely at the online market. It is targeted at the brand and the brand awareness and people betting in more than one environment.

**Q106 Damian Collins:** I appreciate that but from what—

**Andrew Lyman:** Sorry, I am not trying to be evasive. I am probably just—

**Damian Collins:** You are doing pretty well.

**David Steele:** Although some of the advertising will be specifically targeted at online and around football products, say, there will be rub-off because of the brand support into retail. What is impossible, because of the anonymity of betting in retail, is to judge what impact that might have had.

**Warwick Bartlett:** But most of the advertising is for online businesses.

**Richard Glynn:** Let’s just clarify that. Advertising is not a blunt tool. There is some advertising that is brand-promoted, which raises awareness. There is other advertising that you will see is directly focused on a mobile product, which drives mobile. I think that you use advertising now in a very sophisticated way to drive the proposition that you want to drive at a certain time. During a football match we will be driving in-play betting, but it is part of a holistic advertising mix, building on what was said before, to drive people to the Ladbrokes family or the William Hill family as opposed to just an individual product. We are hoping that a rising tide floats all boats, rather than just one boat.

**Q107 Damian Collins:** Sure. What I was getting at was, is that tool used to predominantly drive certain areas of the business?

**Richard Glynn:** At certain times it will be.

**Damian Collins:** So online gambling rather than, say, traffic into a betting shop?

**Richard Glynn:** No doubt around the Grand National the advertising will be used to drive people to the shops.

**Damian Collins:** I meant through the year, but I think it is reasonably clear, and I can’t imagine Ladbrokes is very different.

**Chair:** I think we will draw a line at that point. Thank you all very much.
Witnesses: Ian Burke, Chairman and Chief Executive, Rank Group, Alan Armstrong, Compliance and Development Director, Rank Group, Neil Goulden, Chairman Emeritus, Gala Coral Group, and Chairman, GREaT Foundation, and John O’Reilly, Managing Director, Coral Interactive, Gala Coral Group, gave evidence.

Chair: Good morning. This is a further session of the Committee’s inquiry into the implementation of the Gambling Act. I welcome Ian Burke and Alan Armstrong of the Rank Group, and Neil Goulden and John O’Reilly from the Gala Coral Group.

Q108 Dr Coffey: Mr Burke, Mr Goulden, in broad terms is the gambling industry as a whole in a better or worse position since the implementation of the 2005 Act?

Ian Burke: I think there are many positives in the 2005 Act but I think the original intentions of those who drafted it, namely to generate economic activity and put in place good consumer protections, have not been delivered. I can go into the reasons why I believe that to be the case but that would be my assessment.

Dr Coffey: Perhaps you could go into the reasons.

Ian Burke: I think there are a couple of main reasons. I think the first one is that the previous Government did not line up the tax policy with the social and economic policy. We were hit by a number of tax increases in the 2007 and 2009 budgets, which added to the tax burden in casinos, bingo and poker, and they more than offset any benefits those sectors achieved through the 2005 Act.

I think the second reason is even within the 2005 Act there are one or two significant flaws in the Act, in particular the thinking behind the 16 new casinos that are able to offer a broader range of products than the current 1968 Act casinos, and in many cases also, they compete in those permitted areas where there is already a 1968 Act casino, which are now competing on an unlevel playing field.

Neil Goulden: From our perspective, there have been some good things and some bad things in it. A good thing is a single regulator covering the whole of the industry, and I know you will be taking evidence on that as well later from the regulator. But on the bad side, the area that has suffered most is retail. The gambling retail industry is still very tightly regulated, predominantly members only, does not have that ability. I do think the retail industry is too tightly regulated and thus is a net loser in this.

Q109 Dr Coffey: Given that Sir Alan Budd had a much more deregulatory vision, are there any key regulations that you would like to see changed in the Gambling Act?

Ian Burke: The most obvious one to me is to level up the 1968 and the 2005 Act casinos to allow the 1968 Act to compete effectively with the 2005 Act casinos, and to grant the local authorities the ability to do so, and to give the casino sector the opportunity to move licences from one permitted area to another permitted area, should the local authority wish to see a casino investment within their designated area.

Neil Goulden: I would go back to what I have just said about retail. Retail is very tightly regulated. Retail is where you will develop economic growth and jobs rather than from online. You can sit at home online and maybe play a slots game for £1,000, £2,000 a spin, yet a casino in the UK that is tightly regulated, predominantly members only, does not have that ability. I do think the retail industry is too tightly regulated and thus is a net loser in this.

Q110 Dr Coffey: Can I take it from what you have just said— I heard very clearly what you said—that you want almost any area to be a permitted area as long as the local council agrees with it? For you, Mr Goulden, I am not quite sure whether it is a case of deregulate more tightly the online or liberate the offline— to £1,000 a spin or whatever.

Neil Goulden: No. I think it is much more a case of looking at a reasonable and socially responsible deregulation of the retail market because, if that is going online, to some extent the regulation of the retail market is largely ineffective because you can go and do it online anyway.

Q111 Chair: Following on from that, your two companies are both major casino operators. The debates on the Gambling Act were dominated by discussion of casinos—hours—and yet the great new regime that was finally ushered in as a result of the Gambling Act has produced not a single new casino and one licence has been issued. Do you see any prospect of either of your companies wanting to invest in new casinos under the present regime?

Ian Burke: Yes. We do intend to invest, both under the 1968 Act and the 2005 Act. I think the second reason is even within the 2005 Act casinos, and the 1968 Act casinos, and that is on a company making £400 million a year, so it is a 30% reduction in the profitability. However, I hasten to add, the bulk of that was the smoking ban and taxation rather than the Gambling Act.
of delays but there is some momentum behind that now with the first casino opening in Newham in a month or so. A number of others have been approved by the local authority and half a dozen others are in various stages of competitive tender. If there are going to be any changes, it is a timely opportunity to make some changes as regards the 1968 Act in order to bring them on to the same level playing field.

Neil Goulden: I think exactly the same. Gala Coral is bidding for a number of the licences, but we also believe that there should be a levelling up for the existing casino industry.

Q112 Chair: Yes. The position where you have two different regimes is clearly unsatisfactory. Are you inclined more to try and develop casinos under the old regime or under the new regime?

Neil Goulden: I think both, but you are exactly right. In what you are saying: it is a bit like having two pubs in a town and telling one of them they can’t sell lager, because 10 of the 16 new licences are in existing permitted areas where there are existing casinos. It is kind of a two-tier system that we think is unfair, and we would like to see that evened up as soon as possible between the two Acts.

Q113 Chair: Is the key to this machine numbers?

Neil Goulden: I think the key is machine numbers. If you look at the anomaly in the Act that a large casino is allowed five machines for every table, 150 machines, so it will put in 30 tables. A small casino is allowed two machines for every table, with a maximum of 80, so it will put in 40 tables. Therefore, a small casino will be bigger than a large casino. I know you are going to hear from John Greenway later, but it got a bit muddled towards the end, I think.

Q114 Chair: We heard from NCiF last week who took a similar view. They were suggesting to us that portability was one solution. Is that something you would favour? You could take a licence anywhere if you had a licence, essentially.

Ian Burke: Yes, we would do. We would not propose increasing the number of overall licences. There are around 190 licences currently in the UK, which were licensed under the 1968 Act, and about 140 of them are trading and a further 10 are in various stages of development. At Rank we are currently under construction in two 1968 Act licences. We do feel there would be job creation and contribution to the Exchequer, as well as local communities, through the development of some of those remaining 30 dormant licences that are not currently planned to be developed under the 1968 Act.

Q115 Chair: The other thing we heard from NCiF last week was that the industry had essentially lost its appetite for a regional casino, that even if the law did now change and we got a sensible place for it to be built there was no real enthusiasm to go ahead. Do you think that is true?

Neil Goulden: I think people are a little scared to put their head above the parapet on that particular one because I think a few people carry the scars. But recently, with another hat on—I am a member of the Low Pay Commission—we paid a visit to Blackpool and every single person we met in Blackpool said, “I just think what a regional casino could have done here, the regeneration it could have done to Blackpool”. So from a personal point of view, I think that a regional casino could well be a good thing but I don’t think anyone in the current industry is going to put their head above the parapet and push for it.

Ian Burke: I think there were many factors behind operators losing interest and no doubt tax was one of those factors. If you look at a game like poker, for instance, in the UK you can play poker online or you can play it in a number of land-based environments but there are seven different tax rates from 0% to 50%. I think a number of operators were just puzzled by the previous Government’s approach to gambling taxation. When you are making these significant long-term investments I think you need a fairly consistent policy on tax that is aligned with the social and economic policy. I think a number of operators lost confidence in that when they saw the various tax increases in 2007 and 2009.

Q116 Chair: But the concept, as it was advanced when we were looking at the Bill, was that this would be an entirely new leisure experience that included gambling but would have fine dining and shows and well-known rock stars and all sorts of things in one great entertainment complex. That at the time was going to deliver a heap of benefits, but do you think that concept has now passed?

Neil Goulden: No, I don’t think it has passed. I think Ian is right in terms of tax being an issue but the politics of it are quite difficult. If you go to somewhere like Singapore where they recently allowed two brand new casinos, one on the mainland and one on Sentosa island, you see the huge regeneration and the positive effect of those casinos for the economy and jobs. I think there could still well be a place but I doubt that anyone is going to push too hard for it.

John O’Reilly: Not at 50% tax.

Neil Goulden: Not at 50% tax, no.

Q117 Dr Coffey: You have already talked about restrictive UK taxation and high taxation, but focusing on bingo, how significant is the issue? I understand that you are highly reliant on gaming machines for revenue and profit and that the changes that were put in place had an adverse reaction.

Ian Burke: I think the bingo industry has had a tough five years. Rank is the only publicly quoted company operating in the bingo and casino sector so the impact of Government policies can be readily seen in our reported numbers. If you look at our bingo business, Mecca, we have had declining profits every year since 2006—the last year before not just the Act but also the smoking ban in England and Wales and then the tax hike affecting bingo in 2009. I think we have stabilised the business. We have put in nearly £100 million of capital expenditure. We are doing our best to try and modernise the business, and I believe the Committee might get a chance to see one of our new concepts in Dagenham next week. What we are asking Government to do is to support the industry through sensible deregulation without requiring any changes
to primary legislation and also to put bingo taxation on the same footing as the start rates for all the other sectors within the gambling industry, which is at 15%. Bingo has a tax rate in the land-based environment of 20% currently and that has an adverse impact on the industry's ability to invest.

**Neil Goulden:** From a Gala Bingo point of view, yes, we have also seen a three-to-four-year decline in profitability, exactly the same as Ian reported from Mecca. Our profit is down from about £150 million a year to £60 million a year over that period and it has been quite devastated by the smoking ban and other forms of regulation. The one thing I would dispel is the idea that it is a dead product: there are still 2.5 million regular bingo players in the UK and they deserve our support.

**Q118 Dr Coffey:** Can you tell us more? To what extent are you reliant on not just the main game, as it were— I know there are varieties of that— but on the other gaming machines available in bingo halls?

**Neil Goulden:** In bingo it is a total mix. One of the reasons why bingo was more exposed to the smoking ban than other products was the fact that a lot of money was spent during the interval, and that is when people went outside for a cigarette because they could no longer smoke inside. But, yes, the tendency in bingo has been to give to those who want to come along to bingo a cheap, really good, main stage bingo experience, lots of bingo for an average price of a tenner, maybe a bit less, and let people come along and enjoy their games of bingo. If they want to spend then on food, beverage, interval games, machines, a discretionary spend, they are able to do so. The discretionary spend on the whole is more than the main bingo spend but not from all the customers. If you are on a tight budget you can still come along and play bingo for £10.

**Ian Burke:** If I look at Mecca’s figures, our typical customer will spend about £16 per visit. A bout £10 of that spend is bingo, about £4 is on the various machines and then the rest is on food and drink.

**Q119 Philip Davies:** Ian, just to go back to a previous answer that you gave, you said that you did not believe that the number of casino licences should be increased. Can you just explain why?

**Ian Burke:** Essentially because the UK has a 40-year history of taking a view that there should be limits on the number of casino licences. Rank by instinct and I by instinct are free marketeers. I would rather let the market decide on all these issues. But I think there are policy considerations through the practice of time that have resulted in there being limits on the number of casinos in the UK and I am not unhappy with that because I think it has worked.

**Q120 Philip Davies:** It is not that you do not believe there should be an increase, but that you are not asking for an increase because you do not think it is politically acceptable?

**Ian Burke:** Yes.

**Q121 Philip Davies:** In terms of the competition you face from betting shops—you said you believed in the free market—do you believe in the free market when it comes to things like fixed odds betting terminals on the high street in betting shops? Are you a free marketeer as far as that goes too?

**Ian Burke:** Yes, I am. Across the land-based environment in the UK I think there is healthy competition. Customers have quite a bit of choice and we welcome that choice. We are investing in new land-based experiences, both in our casino business and our bingo business. I think there are some differences when you start looking in the online channels, particularly those unlicensed operators that sit outside either UK licensing or Alderney licensing, but broadly we welcome the competition from other forms of gambling in the UK, on the high street, through adult gaming centres or bookmakers.
you would accept, or would there still be five betting shops all with seven machines in them?

John O'Reilly: There might be four betting shops rather than three but, yes, in principle you are right. That is exactly what is happening, unfortunately.

Q 126 Philip Davies: The clustering is all around machines and so if there was a proposal—

John O'Reilly: The arbitrary restriction on the number of machines is what is causing it.

Philip Davies: If the Government relaxed the rules you would have fewer betting shops clustered around each other?

John O'Reilly: No question. You would.

Q 127 Philip Davies: Would you have fewer betting shops in total around the country or would they be more spread out?

John O'Reilly: I don't know.

Q 128 Philip Davies: Would it make other betting shops more viable to continue that otherwise are not viable at the moment?

John O'Reilly: I think in today's economic climate there is a restriction on capital and therefore one puts capital in a place where you get a fast return. So, yes, that might lead to betting shops being more spread out, it might indeed.

Q 129 Philip Davies: Neil, finally to you as somebody who has been involved with a business that does all forms of gambling, how has the issue of fixed odds betting terminals in betting shops affected the other parts of your industry—casinos and bingo? Has that had a negative impact on those other parts of your business or not?

Neil Goulden: That is an interesting one, because we purchased Coral in 2005 and FOBTs were in before that. When we were just Gala Bingo and Gala Casinos we did a lot of analysis on the impact of FOBTs on our business. We found virtually no impact, certainly no impact on bingo. We found that there might be a little bit of impact on some of our casino players during the afternoon. Rather than go into a casino, go through all the membership, get in there and play a roulette table, they will say, "Oh, if I only have half an hour I can pop into the betting office". There was a little bit of an impact in casinos but no impact on bingo.

Q 130 Philip Davies: John and Neil, between you, if the Government did change the number of machines that they allowed in betting shops, should there be a limit? Should there be no limit at all or do you want a limit but just higher? What would you like to see?

John O'Reilly: I don't know what the average is now, it is probably 3.85, and if the restriction is four currently there are about 3.85 machines per betting shop up and down the land. Some betting shops can only sustain two machines, some three. A lot of shops sustain four and some of those could sustain more than four and should have more than four, in my view. Now, there probably does need to be some level but four is not the right level. What is the level? I don't know. I can understand the kind of policy issue that says, "We don't want large roulette arcades on high streets." I can kind of understand that, but the level cannot be four. It has to be a higher number than four.

Q 131 Philip Davies: What would you like? What do you think it should be?

John O'Reilly: Eight. Another arbitrary number, I am afraid.

Q 132 Philip Davies: If it was increased to eight, if it was doubled, how many betting shops do you think would have eight? The majority?

John O'Reilly: No. A few hundred, I would have thought, would meet that level.

Q 133 Philip Davies: A few hundred out of 8,500?

John O'Reilly: Yes. Typically, city centre locations, high traffic locations would meet that level, perhaps.

Q 134 Philip Davies: Is eight the maximum that you would ever need? If the Government said there was no limit at all of a sudden, would you still not put any more than eight because there would not be the demand for it, or would you end up with some shops that were basically surrounded with machines all the way round the side of the shop?

John O'Reilly: I think there is a natural limit on this. I don't know what the number is, but I suspect it is high single figures. I can't see a demand for large outlets that are simply offering B2 and B3 games. I can't see the economic justification for that.

Q 135 Mr Sanders: The Government have recently announced a review of stake and prize limits for gaming machines. What issues do you think it should focus on?

Ian Burke: We welcome the Minister's statement on the reintroduction of a triennial review. It worked very well over a couple of decades across the industry. The Minister has indicated he is going to go out into consultation on this in the next month or two. For us it is an opportunity for DCMS to look at all the issues around stakes, prizes and numbers of machines across the different outlets we have been talking about.

Q 136 Mr Sanders: Are triennial reviews frequent enough?

Ian Burke: I think so, yes.

Q 137 Mr Sanders: Is that view shared?

Neil Goulden: No, we have a slightly different position to Ian. We welcome the triennial review—I would point out that it is six years rather than a triennial review for this particular review, and it is urgently needed—but we believe that there should be an annual review. Why wait? Things are moving, technology is moving; why wait three years? Have a simple review every year. It may be that in a year nothing happens, but just have an annual review based on recommendations from the Gambling Commission. They make recommendations, Ministers can look at them, and we can do that quite simply once a year.

John O'Reilly: Part of the triennial review, historically, was about the investment cost in coin
mechs\(^2\) and so on in machines, which is not relevant today. It should be more frequent.

**Q138 Damian Collins:** Do you think that online companies offering gambling products to UK citizens should face a regime of licensing, tax and regulation that is similar to the offline market?

**John O'Reilly:** Yes and no. I think the objective is laudable, but it presents some challenges in terms of how it is going to be achieved. The difficulty that is faced is that the sort of jurisprudence in the area from the European Court centres around liberalising markets that are currently closed, or not very open shall we say, I think that presents a challenge because effectively the UK market has been an open market. To regulate now those operators that are targeting the UK from offshore locations like Gibraltar, which is acknowledged in the Act, and Alderney and others that are on the white list, presents some legal issues.

I suspect it is not going to be an easy ride to deliver a licensed and taxed regime for online in the UK. That said, if it can be achieved through legal process and if it can be delivered with proper enforcement—that is, it is not just a tax on UK plc as we would describe it—then it has to be the right way forward. If it is delivered with a regime of tax that does not massively distinguish the online from the retail industry—and what we propose in our papers is a 10% flat rate of tax across all forms of gambling, online and offline—I think that is a regime that could work.

**Q139 Damian Collins:** Other comments from the panel?

**Ian Burke:** We broadly support the direction the Government are headed in, but we echo many of the comments John has made. We would like the Government to avoid the errors of the previous Government in terms of taking a piecemeal approach to gambling taxation. It is a real patchwork quilt of six different regimes currently. There is an opportunity to introduce a flat rate across all gambling products, regardless of channel, whether it is land-based or online. We think that is achievable, but I think the tax has to be lined up with the policy objectives in the social arena.

**Q140 Damian Collins:** If the licensing system was open, I would have thought that would get around some of the legal issues as long as the licensing system was not restrictive in terms of restricting access to the market, but you both highlighted tax. Do you think if the tax regime is right you would also see companies coming back onshore into the UK?

**Ian Burke:** I think it is a combination of the licensing regime, the tax regime and also the regulator being determined to use its enforcement powers to enforce the licensing objectives. We have seen the Gambling Commission do that in a number of situations now in land-based environments in the UK, closing down illegal poker clubs, for instance. They would have to follow that through with unlicensed online operators otherwise, as John said, it would be the public companies and the major companies who would be licensed and paying tax in the UK and they would still be at a competitive disadvantage against any unlicensed operators operating offshore online.

**Q141 Damian Collins:** Do you have any views about what you think would be an appropriate model for enforcement of a licensing regime?

**Ian Burke:** As other Governments grapple with this now, other jurisdictions are introducing some creative ways to enforce the licensing through tackling the payment processing, obviously restricting advertising—and locking the odd director up tends to focus the mind.

**Q142 Damian Collins:** But do you think the offline market is leading customers to the online market because it has a lower cost base and is not regulated? Is that your concern, given the nature of your businesses?

**John O'Reilly:** I am not really sure what the ill is that the proposal is trying to fix. There is clearly a competitive issue online to offline, and Neil made some very valid points about the retail industry not seeing the fillip from the Gambling Act in 2005 that it maybe thought at one point it would see. The online industry has been free to develop from low-tax jurisdictions that are either identified in the Act, like Gibraltar, or recognised through the white listing process, and they have been able to flourish in the UK with regulatory regimes that are not different to that proposed by the Gambling Act. So it is difficult to now close that market without identifying clearly what the ill is that the current system has created. Actually, the ill that it has created is an unfair competition between online and retail.

**Ian Burke:** There is no doubt in my mind that online is a form of competition to land-based environments, and that is fine. If you look at bingo, bingo land-based is paying 20% tax and online is paying 0% tax. The tax does distort the way the market operates and the European Commission has recently indicated that different rates of tax applied to online versus land-based might even constitute illegal state aid. There are some significant issues around this from the tax point of view.

**Neil Goulden:** I was just going to pick up from what John was saying. It is very clear that online business is impacting retail business, and that was my point about why I think we need to look at the retail business because that is where the jobs and economic growth could come from. But we are no different to other industries. No one is standing here bleeding hearts about it; it is no different to other industries. The internet is here to stay. We just need balanced legislation that recognises the economic value of the retail industry in the UK.

**Q143 Damian Collins:** I want to ask a few questions about problem gambling. What types of gambling do

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\(^2\) Note by Witness: As in mechanisms.
Q145 Damian Collins: I will put on my other hat as Chairman of GREat and talk about that. There is a paucity of research in the area of problem gambling and part of the reason for that is that academics do not agree even on the definition of a problem gambler. For example, there are probably two types of problem gamblers. There is the problem gambler that is obsessive, has a psychological problem and will bet on all forms of gambling. You are, therefore, dealing with the nature of the individual. They will often have drug problems, they will often have alcohol problems, they are predominantly smokers, and the person has a problem, because gambling in itself is not intrinsically addictive. On the other side you have excessive gamblers, and they sometimes get lumped together. A excessive gambler is someone who gambles a lot and probably gambles too much, a bit like a drinker who drinks too much for their own good but is not an alcoholic.

They are two separate things: one is about education and the other one is about treatment and psychology. It is very difficult at the moment with the paucity of research, and I know that the Minister in particular has been calling for more research in this area. We need to understand a lot more about what problem gambling is and how best to deal with it.

Q144 Damian Collins: Do you think certain types of gambling are more addictive than others?
Neil Goulden: No. There are two points I would make, one of which is that all of the research shows that there is no causal link between any particular product and problem or excessive gambling. The only absolute evidence is that if someone has a problem with their gambling they play on lots of different types of gambling products. They play it all: an addictive or an excessive gambler will go to all forms of gambling. One example you could use is that in 1999 the prevalence study showed 0.7% problem gambling, and in 2007 it showed 0.7% problem gambling. Between those years, 30,000 new machines, fixed odds betting terminals, came on to the market and had no impact on the levels of problem gambling. From a machine perspective, it shows that it is not necessarily causing problem gambling. So I do not think products cause problem gambling. They obviously can add to the potential of a person’s problem once they are an excessive gambler but there is no causal link between any particular product and a problem gambler.

Q145 Damian Collins: John, did you want to come in?
John O’Reilly: No, I agree. I think that is exactly right. All the evidence appears to be that those customers that gamble across a whole array of betting and gaming services are the ones most likely to have a problem.

Q146 Damian Collins: I want to bring up fixed odds betting terminals. This clearly is something you see as an important growth area of the industry. I was interested when we had our session last week, and again from comments today, that it is what underpins the commercial viability of a casino as well. Lots of other things go on in a casino, but whether you own a casino or not, it seems to be based on how many machines you have in a casino and other things seem to hang from that. Should this be an area of concern for us? I would imagine this is the type of gambling where you can bet a lot of money and lose a lot of money very quickly and all through the day.

John O’Reilly: I don’t think so and here is the reason why. As you will remember, fixed odds betting terminals, or whatever they were called in those days, were challenged and the solution became the industry coming up with its own code of conduct, which included a restriction of four. We caused our own problem, in truth. The stark reality is it does not matter how closely you put the machines together, you can’t play two at the same time. I don’t think the number of machines has any real bearing on it. Clearly, if somebody has a problem with gambling, they will be attracted to machines, as they will to any other gambling product, in the same way as they will be attracted to racing at Chepstow this afternoon. That is the way the industry works.

Q147 Damian Collins: If there is a proliferation of machines in a town— Philip Davies talked about clustering— do you think it becomes harder to monitor customer behaviour? If customers can move between several betting shops in the high street that all offer the machines, is it that much harder for staff in those betting shops to determine how much that customer is spending?

John O’Reilly: I don’t think so. If a customer is playing on a machine, they will play on a machine. There is a thing about lucky machines and they will go to another outlet to play a machine in another location that they deem to be luckier for them today; that does happen. I don’t think the number of machines in a high street has any real bearing on the level of problem gambling in that location. No evidence of that.

Q148 Damian Collins: Do you think more needs to be done in monitoring underage gambling on the high street?
John O’Reilly: Yes. I worked in a betting shop when I was 16—I lied about my age. It is difficult, in truth, but no excuses. We as an industry got a bit of a wake-up call, and there is much greater rigour now to management of underage gambling on the high street than was the case previously.

Q149 Damian Collins: I am interested in the way in which the industry promotes responsible gaming, if you like. If you compare it, say, to the drinks industry and the work of the Portman Group or Drinkaware, there you find much more proactive marketing of the issues. There are television adverts about responsible drinking and there is a code of practice that affects marketing as well as licensing. Do you think there should be more proactive education through marketing and communications and more resource behind it from the industry, similar to the drinks industry?
Neil Goulden: Yes, is the simple answer to that. I am speaking now as chairman of GREAT. The focus of GREAT so far, and the distributor, has been on treatment provision and research rather than into the area of education. I have recently met with Drinkaware. The GREAT budget in total is £5 million. Drinkaware spends £5 million on education programmes. "Don't Spoil It", I think, is their current campaign, meaning have a great night out but don’t spoil it. It looks like it is fairly effective. I am very impressed with some of the work that Drinkaware is doing. We have gambleaware.co.uk as a website. We need to get more voluntary donations in to uplift our budget from the £5 million, which is predominantly going towards treatment and research. I would like to see, in the long term, us spending more money on education and I think that is a very important way forward for the industry.

Q150 Damian Collins: If there was, if you like, a licensing regime or a broader sort of white list of online companies, do you think there should more obligation for them to put money into a UK fund for promoting responsible gambling as a condition of operating in the UK?

Neil Goulden: I think we should be encouraging everyone to make contributions. GREAT has 900 donors; there are 2,800 licensed operators in the UK. Forget those that are not licensed in the UK—there are 1,900 licensed operators in the UK who do not contribute towards GREAT’s activities. If we could get them to contribute even at a minimum level we would have £10 million and we could spend £5 million on education as well as all of the treatment and other provisions. I think the key is working with our new trustees—Ian, indeed, is a trustee of GREAT—but working together we can get the whole industry to contribute, not because we threaten them with a statutory levy but because they believe that is the right thing to do.

Q151 Damian Collins: Do you think that the decisions on how money is spent to promote responsible gambling, to deal with problems of addiction, should be more marketing—should be made by a body that is more independent or completely separate from the industry?

Neil Goulden: No, I do not. You are talking about the old tripartite system. Since I took over at GREAT we found that the old system was unwieldy, bureaucratic and costly, particularly for a £5 million budget, and it was diverting money from front-line services. When you are spending only £5 million what you need is an approach that is streamlined, integrated and based on partnership working. When you have a distributor that after two and a half years had not signed a helpline contract and was involved in a costly mediation process with GamCare, and questions were being asked in the House of Commons, you begin to think maybe the system is not working too well. We have no divergence of interest with anyone else in terms of treatment and education. We want to make sure that people do not have a problem with their gambling, and if they do that they receive speedy and effective treatment, support and help, therefore reducing the number of problem gamblers in Britain. Absolutely no divergence there. The Minister has stated to me quite clearly that the industry must own this problem and the industry must sort out a better working arrangement for the voluntary and we are determined to do that.

The last thing, though, is about research. I do agree that the research should be independent of industry, independent of Government. I have given a commitment to the Minister that we will put in place procedures to make sure that the research that is done is proper, independent and not in any way directed by the industry. I think that is right; we should not be directing the research.

Q152 Damian Collins: How many problem gamblers do you think there are in the UK?

Neil Goulden: It depends which screening you look at and whether you believe either of the screenings are accurate but, give or take 100,000, 400,000. That compares to 16 million clinically obese, 11 million smokers, 6 million with an alcohol problem, 5 million who use illegal narcotics. It is about 400,000 problem gamblers.

Q153 Damian Collins: How does one arrive at that number?

Neil Goulden: The Gambling Commission arrives at the number of 400,000? I don’t.

Damian Collins: How does one arrive at that number?

Neil Goulden: There is a screening process that asks nine particular questions and if you score yes to more than three you are defined as a problem gambler. I think at three and four you are an at-risk gambler or a low-level problem gambler, and if you get all nine you have a bit of a problem.

Q154 Damian Collins: How is the screening process undertaken?

Neil Goulden: Just questions on the street and they do a select sample of people, go through that and by that you arrive at a statistically—hopefully statistically—sound estimate of the number of problem gamblers. It is only an estimate based on research.

Q155 Damian Collins: It is just face-to-face interviews in the street?

Neil Goulden: Yes.

Q156 Damian Collins: A lot of research companies don’t do that any more because they think people largely answer not truthfully but they give the answer they think they should give. I think you have looked at that?

Neil Goulden: I think that is a very good point you raise. We don’t do the research, by the way. The Gambling Commission do the prevalence study. I think that is right because last time they did the research one of the problems they struggled with was that the “no response” rate was huge and that can bias the findings of a piece of research. As soon as we said, “We want to talk to you about gambling”, people
did not want to talk to the researcher. You start off with 35% of people saying, “I am not going to answer your questions”. Those 35% who would not answer the question, which way were they going to go? I think it is a very difficult research area and I know the Gambling Commission are looking at maybe omnibus surveys, tagging it on the end of other things, different ways in which you can get towards a number.

Q157 Damian Collins: People do different sorts of tests on the high street but it tends to be marketing testing by showing someone something, but no opinion research company conducts research based on face-to-face interviews any more. I would not be certain how much confidence to have in that number of 400,000; it might be quite a bit higher.

Ian Burke: Can I look at it another way. In our casino business last year we had about 1.1 million customer visits—different customers—and we had about 2,000 who got to the point where they wanted to exclude themselves because they felt they had a problem with their gambling. In our bingo business, again we had about 1 million customers a year and we had about 150 people who excluded themselves because they felt they had a problem with their gambling.

Q158 Damian Collins: Yes, but that would be a bit like saying we should monitor problem drinking by about 99% of our Alcoholics Anonymous.

Ian Burke: Not necessarily. We know 99% of our customers do not have a problem with their gambling, enjoy it responsibly and see it as a good afternoon or a night out. As an operator, our policies are there to, firstly, prevent problem gambling, then recognise it when we see it through behavioural changes—we train all our customer-facing staff to spot those sorts of behavioural changes—and then intervene in terms of conversations between the general manager and the customer. The consequence of that leads to those sorts of numbers of customers excluding themselves.

Alan Armstrong: Those exclusions came about because of the conversation we had with the customer. We recognised that there may be some behavioural problems with the customer. We went through a series of interviews with the customer and we came to a joint position where in the best interests of the customer they should refrain from gambling in our units for perhaps six months.

Neil Goulden: Going back to what I said earlier, 400,000 is as good an estimate as one could get at the moment. One has to be careful about this definition of addictive, obsessive, problem gamblers who need psychological treatment, which is much less than 400,000, and what I would call excessive gamblers. There needs to be more work. A lot of work has been done in Canada on that, trying to say there are two segments of problem gamblers. There are the psychologically addicted gamblers and there are people who are just gambling too much.

Q159 Damian Collins: What percentage is that 400,000 of the overall regular gambling population of the UK? How many people are regularly using betting shops, playing bingo, going to casinos? Do you have a sense of what the customer base is for the UK?

Neil Goulden: 75% of the adult population gamble.

Q160 Damian Collins: Does that include people who have a flutter on the Grand National every year?

Neil Goulden: Yes, it does and it would include people who play the lottery as well.

Q161 Damian Collins: If we take those people out and look at people who are more habitual visitors to betting shops, play bingo every week or once a month, can we get an idea of what that regular market is?

Neil Goulden: There was a piece of research the Committee might like to get their hands on, done by Ernst & Young, called A Winning Hand, and they did some research in that area. Broadly speaking, they said 25% of the population gamble regularly and on more than one thing, 50% of the population gamble occasionally—Grand National flutter, just the National Lottery—and 25% of the population do not gamble.

Q162 Philip Davies: Can I ask you about the Gambling Commission and how effective you think it is as a regulator?

Alan Armstrong: Can I take that one? I would say two things. The reason gambling companies have had the reputation in this country for excellence in how they conduct their business has been historically due to both the efforts of the Gaming Board for nearly 40 years and the subsequent efforts of the Gambling Commission. We would pay tribute to both those regulators in maintaining high standards of regulation and the companies stepping up to the plate and their responsibilities. In terms of effectiveness, if you were to go around the world and ask colleagues who work across jurisdictions, both the Gaming Board and the current Gambling Commission have a very high reputation.

Q163 Philip Davies: One thing that some people in the gambling industry tell me is that they feel that the Gambling Commission does not know enough about gambling. What would you say about that?

Alan Armstrong: I think it is the industry’s job to ensure that the issues around operations are fully aired with the Gambling Commission at regular intervals, and we do that.

Q164 Philip Davies: Do you agree or disagree with the premise I gave you?

Alan Armstrong: I think they have sufficient knowledge within their estate, within their population of experienced investigators, to know sufficient about the industry to regulate it.

John O’Reilly: I think it is a bit unfair.

Q165 Philip Davies: A bit unfair or totally unfair?

John O’Reilly: No, it is unfair.

Q166 Philip Davies: What about the cost of the Gambling Commission? One of the other complaints I hear from people in the gambling industry is that it is too expensive. What do you make of that?
Alan Armstrong: Can I just make two quick points on that. I think the Gambling Commission were asked to take a much wider brief than the Gaming Board. The number of units that they had responsibility for went to something like 12,000; the Gaming Board had responsibility for about 900 licensed units. I think the cost base of the Gambling Commission went up significantly to bring the Act into force, so there was a period of time between 2007 and 2009 where extra resources were acquired to bed the Act in. I think the current run rate in terms of staffing is about 200 at the Gambling Commission and I think the budget is around £12 million to £13 million. In relative terms, the Gaming Board in its last few years was around £4 million and it had a staff about 85, so pro rata it is there or thereabouts.

Neil Goulden: I think I can add to that. I think it was in this room I gave a talk to the all-party betting and gaming group where I analysed that if you go back to the 1968 Act the Gaming Board’s cost as a percentage of gross gaming yield of what it was regulating compared to the new Gambling Commission is almost exactly the same, and therefore I think broadly that the cost is about right. I personally would like to see the Gambling Commission evolve. I would like to see them become a bit more risk-based and I would like to see them deal more with illegal operations. Why did they visit 240 Coral betting offices last year—they are all the same and all the controls are at the centre anyway? Become more risk-based, look at the illegal operators, look at where the real problems are. A modern regulator, I believe, should promote the economic health of the industry that they regulate and I don’t think our regulator does that. I would like to see them evolve, and I think they will.

Q167 Philip Davies: I might come on to that in a second, but in terms of the cost again, even if you think the overall cost is reasonable would you accept, as somebody from a large betting shop chain, that the costs to small bookmakers compared to large bookmakers are excessive?

Neil Goulden: I don’t think I would use those exact words, but I know they are going through a fees consultation at the moment. Our position is quite simple. We welcome the help the Gambling Commission want to give to small businesses, and I do use the word small businesses rather than independent bookmakers because it is about small businesses. I do think the help they can give to small businesses is welcome and the correct thing to do. I would just like to see them become more efficient and not put the extra cost on us.

Q168 Philip Davies: If you think the overall budget is about right and if it charges smaller operators less, then presumably by definition it has to charge bigger operators more.

Neil Goulden: Or become more efficient.

Q169 Philip Davies: Or become more efficient. You think that maybe they are too costly overall?

Neil Goulden: I think they could become more efficient.
Neil Goulten: Yes, I think that is a very fair comment and I think part of the reason why the industry has become so sectoral is because the regulation is sectorial and therefore we have different parts of the industry looking at their regulation against what other people are getting in their regulation, so it drives a silo approach. I know I speak for the people around this table, because Ian and I have talked about it and John and I have talked about it in the past: the gambling industry does need to come together. It needs to be positive about gambling, it needs to be socially responsible and it needs to up its game, so I agree with you totally.

Q175 Chair: I think there is a general view that all those who lived through the experience of the debates on the Gambling Bill still bear considerable scars. The appetite for doing anything in the arena of gambling on the part of Government is pretty limited. Do you detect that you get enough support from Government? Are Government committed to a thriving gambling industry?

Ian Burke: I think the DCMS has been supportive and I think the Minister has made a number of positive announcements in recent months, which have helped bingo with the additional B3 machines. I think there is a lot more scope. If you on this Committee are able to recommend to Government that they line up their thinking on tax with the social and economic policies and also take a step-by-step approach to sensible deregulation that does not require primary legislation, such as granting the 1968 Act casinos parity with the 2005 Act casinos, and portability of licences, Government could play their part in helping us to achieve that. I think the DCMS has been supportive of our sector.

John O'Reilly: I have been at this game a long time and the 1990s was a period when we successfully pushed through a lot of changes in regulation right across the industry without any great profile or media coverage. Then Budd was met with huge approval by the industry. Then we went through the regulatory process. I agree with the comment that the industry did not help itself during that period particularly. The whole process achieved lots of media headlines and the enabling Act, as it was called at the time, became anything but. The industry is now pretty much stuck in a quagmire and it needs regulatory change to move on. The problem is it needs the help of Government to achieve that.

Neil Goulten: The gambling industry in the UK can add economic growth, and jobs, which are very important at this point in time. We can do it without financial aid from Government. All we really ask for is to be treated as a socially responsible industry and not a social problem, and then we can play our part in economic recovery.

Q176 Philip Davies: Can I ask one final question? John and Adrian will know that over the last five or six years on this Committee we have covered lots of different areas for inquiries and everybody seems to come along with the same argument, which was, “DCMS, they are all very nice and very helpful. No clout, absolutely no clout at all”. Is that something that you feel too?

Ian Burke: I didn’t say that and I don’t feel that, no.

Q177 Philip Davies: No, I didn’t say you said that. This is what previous people have said to us when they have come to previous inquiries about all sorts of different issues.

Ian Burke: No. In the 18 months the Minister has been in his new role we have seen him increasingly get a grip of the issues and he has been very supportive of our sector.

Neil Goulten: I have worked closely with five Ministers working in the gambling area, and indeed Opposition spokespeople. Once they had got to grips with their brief, I found them all to be supportive and to punch their weight, so I agree with Ian.

Q178 Philip Davies: Are you happy that DCMS is responsible for the gambling industry rather than, say, BIS?

Ian Burke: Yes. Definitely.

Chair: Thank you very much.

Examination of Witness

Witness: John Greenway, Former Chairman of the Joint Committee on the Draft Gambling Bill, gave evidence.

Q179 Chair: Can I welcome to the second part of this morning’s session John Greenway, who is the former Member of Parliament for Ryedale and chaired the Joint Committee on the Draft Gambling Bill. You are also the Life President of the GREaT Foundation.

John Greenway: This is true.

Q180 Dr Coffey: Mr Greenway, in the first report that was published by the Joint Committee on the Draft Gambling Bill you suggest that if legislation were delayed you would anticipate there would be a sharp increase in gambling of doubtful legality. Was that the pressing reason why there was a need for new gambling legislation that led to the 2005 Act?

John Greenway: No, I don’t think so. I think that the pressing reason for the Act was a sense, which was captured in the Budd report, that the industry was working under some pretty arcane and archaic legislative and regulatory environments and the Budd vision was to deregulate the industry, bring it into mainstream leisure—I seem to remember that kind of comment coming from Ministers at the time—and that a great deal of work had been done by Government and by the industry. Some of the people you have just been interviewing had a role in that, and we had reached a point where it really was time to try and bring the regulatory process up to date and to make it future-proof.
The point about the illegality is that, for example, if you studied the report, I seem to remember that we had concerns about customer lotteries in local high street shops and there were concerns about prize competitions, all of which competed with the National Lottery. They were not properly regulated and the Act made a change there. But perhaps the biggest issue, unresolved in my judgment, about the dubious or more doubtful aspect of gambling, is the growth of online gambling. No one had any clue as to how far this would go and the sense that the online sector should be regulated. I share some of the comments that were made earlier, and you might want to ask me about them. I think the pressing point about the Act, and, John, you and I used to share a small suite of offices in Portcullis House and we remember the day of the wash-up. My Committee had recommended there should be an open market on large casinos— one per region, so there might be seven, and we ended up, in the legislative process, getting down to four. On the day of the wash-up we got it down to one and I think people were just getting really fed up about, “How long has this gone on?” We had a shadow gambling commission virtually running the Gambling Board; we just had to grasp the nettle and do it. But that was a very small factor I would say.

Q 181 Dr Coffey: Clearly there were changes in Government intentions with regard to the industry change between First Reading and the final passage, as you were mentioning regarding the wash-up. A large proportion of debates on the Bill focused on casinos, whether it was the new licence conditions, the regional, the super. Did the rest of the gambling industry suffer because of lack of scrutiny of the Bill? John Greenway: Absolutely not, I think the Bill was hugely scrutinised. It may sound like a sweeping statement, but apart from those in Government and the shadow team who took the time to study the report, which had 139 recommendations—and they were all unanimous in the Joint Committee of both Houses across parties, in a contentious issue like gambling. We were very thorough in what we did, but large sections of the media, and then as a consequence a lot of my former colleagues in the House of Commons, did not study any of that. It was almost as though the Bill had arrived at Second Reading having had no scrutiny at all. The idea of pre-legislative scrutiny was still pretty new at that time and I think it was a wholly helpful process. Not all the recommendations were not carried through—many of them were; issues related to the Gambling Commission, role of local authorities and the issue of social responsibility, which we might come on to. I think the brouhaha that occurred—this question is probably as good a point as any on which to give the answer—is that certain sections of the media came to the conclusion that the concept of a casino in every high street was a stick with which they could hit the Prime Minister and the then Secretary of State for Culture Media and Sport—certainly in her case, wholly unreasonably in my judgment. This whipped up local opposition in constituencies. People wondered what on earth was going on. That was not the proposal but that is what people perceived to be the proposal, so we are where we are.

Q 182 Dr Coffey: Do you think it was external pressure that encouraged the Committee to perhaps recommend more cautious change to the gambling industry than that proposed by Sir Alan Budd? John Greenway: I think there is a very short answer—yes. The political game that was then played in relation to the Bill—Chairman, you will remember the thoughts about dealing with this legislation in the last year of a five-year Parliament, “All pretty uncontentious. There has been a pre-legislative scrutiny committee. This is the sort of thing you can do. Not mainstream for what was in the Government’s manifesto. Let’s get it over with”. Actually, because of the political pressures and misconceptions about it, it became, I think, probably the worst thing you could do, because everybody was conscious of the fact there was an election looming and people reacted to what they read in newspapers. So I think, yes, it was the political pressure that ended up with the result that we did.

Q 183 Dr Coffey: Earlier, Mr Greenway, in your response you talked about future-proofing. There is the feeling that the Gambling Act 2005 was not future-proofed to enable a flexible response to the economic, social and technological change. Is that a fair criticism? John Greenway: Yes, I think it is. If you analyse all of the differing objectives that lay behind the Bill, certainly there was the concept of having a regulatory framework to deal with future technological change, not just within country but crossing the international stage, and the previous Government deserve credit for trying to get other jurisdictions on side and on board to take an international view and to co-operate. Unfortunately it did not happen, but what we were left with, and some of the questions that were asked earlier of the previous witnesses about the unfair competition from internet sites that are not located in the United Kingdom, all of that remains. In that respect I think it was a failure.

Q 184 Dr Coffey: I think some of my colleagues are going to comment specifically about online and offshore gambling. You just mentioned international comparisons. I understand you took evidence from Australia and some others. Which other regimes around the world would you see as being most similar to that of the UK, or most directional for us? John Greenway: Well, it depends which gambling sector you are looking at. You mentioned Australia. I went to Australia—it is the only time I have been there—with another member of the committee, Baroness Golding, and we came away with a very clear message, which is that if machines, high stake and prize machines, are a cause of problem gambling at all, the real problem is if they are easily accessible on the corner of the high street on the way home from work. However, if you build a huge casino like the Crown casino in Melbourne, which we visited, and you are talking about destination gambling within a major leisure product, all the evidence seemed to
show that there was less of a problem. The so-called “pokie machines”, which are on the street corner in every suburb of Australia, and which fund the sports clubs, are still a major problem for Australia, as far as I am aware.

If, however, you are looking at other sectors then certainly the Alderney Gambling Control Commission, which regulates a lot of online operators that face into the UK, and the online regulatory framework that has been introduced for those companies that are licensed here, all of that has been extremely effective, but in the online sector the problem has been that in other countries they have taken a wholly different view. Somebody mentioned earlier that people end up going to prison in certain places. America has turned their face completely against it because they suddenly realised there might have been some competitive advantage in stopping all these other people coming into the USA. The European Commission, I know, has tried manfully to see if there could be some common view on how you would regulate online gambling across the whole EU, but of course in other jurisdictions they have gambling monopolies that they wish to protect—France being a good example—so this has not occurred. I would have said that what is now needed is a fresh look at how we regulate the online gambling activity that comes into the UK with the chance of creating some kind of level playing field in terms of taxation, contributions to horse racing, greyhounds, contributions to the GREaT Foundation—and I was the previous Chairman for three years.

Q185 Dr Coffey: Some of my colleagues are going to go into online gambling in more detail. Can I just take you on to taxation. Your Committee was clear on the need for the regulatory regime proposed in the Bill to sit alongside every taxation regime, and earlier evidence was given that it seemed to be out of line in the end. Is the gambling industry right to criticise the Government for failing to deliver that?

John Greenway: Totally. There was a complete disconnect across several Departments. There was a complete disconnect between the objective of regeneration through regional casinos—and we might want to talk about Blackpool because I have very strong views about it—that clearly required there to be some sensible taxation regime to encourage the kind of investment, whether it was inward investment from American operators or investment by some of the major UK operators, and the Treasury suddenly coming along saying, “We need the money”, smack, “Here’s a 50% tax rate” and other tax increases, which made many of the business plans that had been put together completely and utterly unworkable. So the Americans effectively, as far as I can see, have all gone away and the vision of what you could have done in a place like Blackpool is just left in tatters.

Q186 Dr Coffey: So your assertion, strongly it seems, would be that Government taxation policy has hindered the development of the gambling industry?

John Greenway: I don’t think there is any doubt about it. It is hindering the industry now. You talked earlier about bingo. How we get ourselves into a position where the husband goes in the betting shop and pays one level of tax and the housewife goes in the bingo club and pays virtually twice as much is beyond me. There has to be a solution.

Q187 Dr Coffey: Or vice versa, of course.

John Greenway: Or vice versa, yes. I am not being in any way sexist. It does not make any difference. It could be the other way around. I know plenty of women who bet a lot on horse racing in betting shops.

Q188 Mr Sanders: John, does it matter if most online UK customers are using online companies based offshore, and if so why?

John Greenway: I think it matters for three reasons. First, it is important that the same regulatory standards apply to all of gambling. This has been achieved in part through the white list. Secondly, it matters because those companies that have chosen to site their operations and remain here in the UK are suffering an unfair taxation advantage. There is equally a taxation disadvantage to high street premises gambling, which you have heard about. I personally think that it ought to be an objective of the Government to try and resolve that. Thirdly, it matters because—I declare an interest, I was chairman of the all-party racing and bloodstock committee for many years—the contribution from the UK gambling industry into horse racing through the levy has been going down, partly because much of the gambling is not making the same contribution through the levy system. The first two reasons are obviously the more important.

Q189 Mr Sanders: Why did the Gambling Act 2005 fail to create a significant UK-based online industry?

John Greenway: I can only say because the offshore opportunity, less tax, fewer contributions, not contributing to GREaT Foundation as it is now, or IG T then, was an incentive for them not to be here and that is the problem. I think the objective was wholly laudable. I seem to remember Tessa Jowell and Richard Caborn running a seminar in Ascot and bringing overseas Governments along and they all signed up to the general protocol of what would be desirable, but their own national Governments took a different view. I think that is probably the issue. Looking back it is all very interesting but if I were in your position, all of you, I would be wanting to try and find a way where you can try to solve some of this, without—I think it was Ian Burke who said this at the end of the session—resorting to primary legislation, because I don’t think there is any chance of that whatsoever. You do have an opportunity. I can’t see why we could not be taking a tougher line on some of the offshore sites on the three key points I have made.

Q190 Damian Collins: I want to go back to casinos and the industry generally, and then I want to talk about regeneration and the regional casinos. Do you feel that the casino industry has moved forward at all since the passing of the Gambling Act?

John Greenway: No. In truth we have ended up with a worse position than we had before we started. I remember, probably sitting in this Committee Room
or the one next door, back in the late 1980s when I was on the Home Affairs Committee and we looked at gambling issues. The casino problem always was the 48-hour rule, you had to be a member and so on, things you could do, couldn’t do, how many machines. It was literally archaic, the kind of regulation, and the sense of trying to bring the casino into the 21st century leisure industry was the real attraction of Bud. I suppose this is as good a point as any to make the statement, but I have made this comment publicly before: if Bud had been implemented, you would have seen a revolution in the UK gambling scene, and of course it was the prospect of that that caused the fragmentation and different elements within the industry arguing with each other as to what the problem would be. Quite frankly, if you take a city like York, where part of my constituency was, you have a premier league racecourse, probably as good a racecourse as any in the world. You can go on race day, sit in a bar and watch it all on screen, never go out and watch a live race at all and gamble your shirt away, and nobody would know, absolutely not, because that is what you can do, but on non-race days you can’t do it at all. So if you were to have established a casino in such a facility, which would not strike me as being beyond the general vision of bringing the leisure industry up-to-date, what would the consequence be? Would you rather stand in a scruffy betting shop where you can’t even get a seat, can’t get a cup of coffee, watching the 3.00pm race, or would you rather go to the casino where you could sit in comfort and watch it all on the screen? Equally if you wanted to go and play machines, would you rather have machines in the high street where even little kids can try to wander in and no one spots them, or would you say, “Well, no, it’s much better you have them in a destination facility” and people can, in some sense, have greater control over them and what they do. In other words, a number of existing outlets would have closed if that had happened. There was not, and I don’t ever think there was, the probability that the whole thing would have been put out of business. There is displacement to a degree but it is pretty constant. There is displacement to a degree but it is pretty constant. What you would have seen is a change in how the industry faces to the general public. That has gone now, completely gone, because the vision was not accepted and you are left with, as your previous witnesses said, an industry that is fragmented by nomenclature. Is it a betting shop? Is it a High Street arcade? Is it a bingo club? Is it a casino? Actually what people want to do is go and bet on a horse, go and play bingo or go and play on machines, or a mixture of all three; they may want to go and have a drink. They are having to fit that experience into the kind of stratjacket of where these outlets are. That is what I think the tragedy is of what happened with the 2005 Act.

Q191 Damian Collins: The casino representatives have said in our previous session today and in the one we had last week that they would like a common standard for the ratio between gaming tables and machines in small and large casinos, with the ratio of one table to five machines. If that existed in small casinos, what do you think the impact would be?

John Greenway: I think it might make some of the smaller casinos that are struggling—either of your previous witnesses, Ian Burke and Neil Goulden, referred to the fact that some of their estate has shut—probably a bit more viable. I can’t see the logic myself in all of the differentiations. Incidentally, I seem to remember, I think it is in here, that we recommended on the small casino a 3:1 ratio, not the 2:1 that we ended up with. I am sure that is true. The problem you have at the moment is you have these two different legislative regimes. I can’t see any huge appetite at the moment for an increase in the number of casinos that we have. I would have thought the solution would be through SI—which I think, Chairman, would be an affirmative procedure—to allow portability of licences, to change the ratio of machines, to bring the two lots together, because none of the 16, so-called eight large, eight small, have opened. There will be one at Westfield because of the Olympic village, which I think, again, is an illustration that for industry investment in a kind of facility there has to be a wider perspective. The location is somewhere that people are going to go. I just allow the industry to look at where there is a business proposition that holds up and makes sense within the framework that Parliament and Government have laid down as to what the ratios are.

Q192 Damian Collins: It seems to me that what we are really talking about is the regulation of fixed odds betting terminal machines and where they go, be it betting shops, small casinos, large casinos. That seems to be what the debate is about because that underpins the commercial viability of all these different formats of gambling.

John Greenway: We were clear that FOBTs should only be in casinos and in betting shops. I don’t know what in the end the Government view is going to be about FOBTs. It looks as though by default the probation period has come to an end, but I don’t think it has ever been formally lifted, has it? I am not sure about that. Undoubtedly they are profitable for the facilities, but equally undoubtedly people enjoy playing them, because they wouldn’t do it otherwise. None of the research that has been done, and certainly the most recent review, has come up with a concept that they are particularly more addictive than other forms of gambling. People thought there might be a problem; I personally can’t see there is huge evidence of that.

Back to my earlier point, what is the difference between a casino with FOBTs and a betting shop with FOBTs? One you have gaming tables, the other one you have a counter where you go and place bets. More and more people are placing bets through telephone apps on horse races or by telephone betting or online through Betfair and so on. The whole idea was that there should have been more of a free market in this, but within the regulatory framework that the Gambling Commission imposed on everybody. I must say I do agree with the point that was made earlier. It happens in insurance and financial services, which is
probably where my real expertise in life lies, that regulators have to have regard for the competitive nature of the industry and its health. Quite why the Gambling Commission should not have that as a responsibility as well, I don’t know. I think that is a change you could recommend.

Q193 Damian Collins: Finally, for the concept of the large regional casinos—and you said in your report you recommended seven in the different regions in the country—do you think there should be an open market for where they go or do you think they should be targeted at areas for regeneration? You highlighted Blackpool. I would be interested in your views as well on the case of the trial casino either going in Blackpool or Manchester.

John Greenway: Well, Chairman, you know that I have very strong views about this, so thank you for allowing me the opportunity to articulate them.

The Crow committee was a complete and unmitigated disaster. Why the Government, given the total muddle that there was—and it is clear within our report. You don’t get—how many of us were there, 16 on the Committee, eight from each House, unanimity over a recommendation that says there is no joined-up thinking between the Department for Communities and Local Government, as it then was, and all the regional development agencies that should decide where or where not they should go, and the Department for Culture, Media and Sport, and the Treasury over the taxation, which we have touched on. For goodness sake, reconvene the committee and allow it to sit down and work this out. Quite frankly, once the process through the normal committee procedure—not the scrutiny Committee, the committee that, John, you acted for our party as spokesman, and Malcolm Moss, now working with the committee—was concluded, the committee should have been reconvened to look at this.

I had to constrain certain members of my Committee from insisting that we made a recommendation that a regional casino should be developed in Blackpool. They would have recommended to a man and woman a regional casino should not be located in east Manchester or westManchester because all the evidence showed that you don’t get the same type of demand in these types of locations like that. That is my point about the Australian example. Quite how you could deal with it now I don’t know, but I agree, again, with the comment made earlier, that the appetite in Blackpool to do something, and this was a great opportunity, remains.

This may shock you but when you undertake a job like this it leaves an indelible impression on you. If I can share them with you, I have two memories that can share them with you, I have two memories that like this it leaves an indelible impression on you. If I can share them with you, I have two memories that can share them with you, I have two memories that

Q194 Damian Collins: This is my last question, but is your vision of them as destination resorts?

John Greenway: Absolutely. Absolute destination resorts. People have to make the effort to go and just like in Las Vegas a lot of people will go. They will go into the Venetian and they will go to the wonderful restaurant and never go anywhere near the gaming floor.

Q195 Philip Davies: Is the amount of money the gambling industry gives to tackle problem gambling enough?

John Greenway: It probably is not, but I have to say one of the few positives that has emerged from the Gambling Act has been the huge increase that the industry has given for problem gambling. When I took over as chairman of what was then RIGT, in the previous year we had raised just less than £22 million. Three years later, by the time I gave up, and then I did a year as the president, we were virtually on £5 million and this has all been voluntarily given by the sector.

Let me comment on the conversation I overheard before. Mr Collins, I think it was you who asked the question about the drinks industry. I have no axe to grind in this at all, just let’s get some facts out. The drinks industry is not contributing money to the real treatment of people who have alcohol problems like that. That is my point about the Australian example. Quite how you could deal with it now I don’t know, but I agree, again, with the comment made earlier, that the appetite in Blackpool to do something, and this was a great opportunity, remains.

This may shock you but when you undertake a job like this it leaves an indelible impression on you. If I can share them with you, I have two memories that drive a coach and horses through the argument that the whole of society was against any of this kind of work. We interviewed two Salvation Army captains, one in Australia where we took formal evidence and one in Blackpool. Both were in favour of the big casino as against the gambling premises on the corner of the street. Both. We took evidence in Blackpool and there was only one voice against having the regional casino and that was a Liberal Democrat councillor. Adrian, no disrespect to you, but he was a Liberal Democrat councillor who had a bee in his bonnet and said, “We didn’t want this”. The shop union was ambivalent. They were all over the place because they could see that certain jobs would be lost when certain shops got knocked down. On the other hand, there would then be new facilities and so on and so forth.

I think it is just a shame that this didn’t happen but Blackpool would have been as great a place as any to have placed it. Come on, Philip, you represent a seat in the north as well, and I used to, and both Yorkshire. The fact is that towards the end of the 19th century these kinds of seaside towns became the place that people went because it had the facilities for things that people wanted to do. In the modern era I think a multifunctional development that included a casino that helped pay for it was a very good idea, but it has sadly gone.
the Government deregulating the industry can be summed up by using the words 

Do you think that there is enough evidence about the causes and prevalence of problem gambling in order to justify the Government further deregulating the gambling industry?

I would answer your question by putting it the other way around. Successive prevalence studies have shown that the proportion of problem gamblers in society is pretty static. Let us be fair about this, people are not stupid and people have tight budgets, so their spend at the bingo club or in the betting shop is an area where they suddenly start to spend less. I do not think the prevalence studies have indicated that there is an issue such that you should keep the total grip of restrictions on the sector that we have now, but it is quite clear that changes need to be done. I am not sure, to be honest, that in relation to what is now the GREaT Foundation— I know it is the Gambling, Research, Education and Treatment Foundation— there is a huge argument in favour of it contributing hugely to research. Education is different, but I think for the research to be completely independent of the industry I would much prefer to see that funded elsewhere.

I agree with Neil Goulden and his view as current chairman is no different to what mine was. I would like to see more emphasis on education. We set up the Gamble Aware website when I was chairman and to what extent it has been effective is hard to judge but I do think it is a vehicle through which you can educate people to stop them becoming problem gamblers in the first place. I don’t think Government can just say, "Well we have no interest in any of this". As I said earlier, if the Treasury suddenly whacks huge great taxation increases on an activity that is regulated by Government and allowed by Parliament to take place then surely to goodness they have an interest as well. I think that more could be done. I am not sure, to be honest, that in relation to what is now the GREaT Foundation— I know it is the Gambling, Research, Education and Treatment Foundation— there is a huge argument in favour of it contributing hugely to research. Education is different, but I think for the research to be completely independent of the industry I would much prefer to see that funded elsewhere.

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Do you think that the Government deregulating the industry can be summed up by using the words Daily Mail?

The Daily Mail did a hatchet job on all 16 members of the scrutiny committee. On a Saturday morning I went to Newmarket races, I think it was probably about this time. I looked it up: we started taking gambling evidence, Chairman, on 21 October 2003, and I think it might well have been at the end of that week— it was about that time. They said that every member of the committee bar one, who was Lord Walpole, had links to gambling. Alan Meale and I were both advisers to the Tote on horse racing, somebody else had something else— so they had an agenda. I said earlier, they saw this as a way of blaming Tony Blair because at that time— come on, you and I as Conservatives, I have to smile about that, that it was all his fault, which it wasn’t, but nevertheless that was the line of attack they took. Quite frankly, the arguments against what they were saying were all in the scrutiny Committee evidence. There are two other volumes this big, and I don’t think opinion has changed in any of this.

The worry I would have now, which maybe lies behind your question, is clearly there are some sensible changes that need to be made. You have listened to all the evidence, and I have only heard third hand what some of it was, but I think you could make some changes in a SI form that do not require primary legislation that would just help the industry a bit. If you could find a way to have a big new regional casino— come on, the economy is on its knees, people need jobs. There is a huge opportunity and other countries have done it. You are not reading in national newspapers in Spain that the big casino there causes trouble, or in the Far East. Now people from the UK get on a plane and go there. We should do it. Come on, you are in a big seaside town, you know exactly what I am saying.

There doesn’t appear to be huge enthusiasm from the operating side.

Well, I think the Americans have gone home. That is why I think as well, another observation, that there is no limit on stake and prize machines— I think we recommended £1,250 on them be a limit, this was going to fund all of this. I think that is not going to happen, they have gone away, but I still think there is a—

You think they have gone away. Even though you would allow a regional casino, you do not want—

You would have to ask them, John, but I am not conscious that there would be any appetite now, and I don’t think the sector has. You heard it this morning: I don’t think Ian Burke actually said, "We are happy if the regulator says it can only be 186. I think there could be some modest growth” but there never ever was going to be anything other than modest growth, and the fact is that the large and small licences that were applied for, 10 out of 16 in existing permitted areas, have not been taken up. It has to change.

Finally, what do you think of the Gambling Commission? Do you think it is doing a good job?

One thing we have not talked about is the three statutory objectives, and I think these are important. The statutory objectives are keeping crime out of gambling, making sure that punters, people who
take part in gambling activity, get a fair deal, and protecting the vulnerable and children, I think they are all extremely important. To what extent they were a problem before the 2005 Act I think is something that is open to argument, it is open to debate, but the industry has embraced all of that. You heard again from the earlier witnesses. I think the sense that the huge cost increase they all experienced the minute the Commission came in, three or four times what they paid before, was a bit of a jolt. I think to some extent that has now stabilised. Where I think the Commission could perhaps be more effective is to take a more risk-based approach. Look at where the risks are in relation to those three objectives, because that is what they are answerable to the Minister and to Parliament over. Having an advisory or a role in which they say to Government, “This aspect of the industry, there are problems here, you need to do something about this”; making recommendations more forcefully, perhaps on machine numbers, without this constant sense that somehow or other they will be badly judged if a mistake is made; a gradual change of culture within the Commission to be slightly more pro the industry and a good go-between, between you in Parliament and the sector, and guardians of, in a sense, the public interest in this area—I would have thought that was a way in which this could progress. It certainly is more expensive than it was before but, Philip, it is nothing compared to the Financial Services Authority.

Chair: I think that is all we have. Can I thank you very much, John.

John Greenway: It has been a great pleasure.
Tuesday 1 November 2011

Members present:  
Mr John Whittingdale (Chair)  
Dr Thérèse Coffey  
Damian Collins  
Philip Davies  
Mrs Louise Mensch  
Steve Rotheram

Examination of Witnesses

Witnesses:  
Paul Talboys, Chief Executive, Bingo Association  
Kevin Allcock, Operations Director, Mecca Bingo  
John Carpenter, Chief Executive, Bingo Association

Chair: Good morning. This is a further session of the Select Committee's inquiry into the implementation of the Gambling Act, and we have deliberately chosen to leave the ivory tower of Westminster and come out to see at first hand the Mecca Bingo Hall in Dagenham. I thank Rank and the management of the bingo hall here for their hospitality and for entertaining the Committee this morning. We are going to have two public sessions and then, hopefully, the Committee will be able to stay on to see a little bit of the game this afternoon.

For our first session, I welcome Paul Talboys, the Chief Executive of the Bingo Association, Kevin Allcock, the Director of Operations for Mecca, and John Carpenter of the New Coronet Bingo Hall. Louise Mensch is going to start.

Q202 Mrs Mensch: To start with a very general question to all three of you, in the broadest terms, would you say that the bingo industry is better off or worse off since the implementation of the 2005 Act?

Paul Talboys: I think, in overall terms, the industry welcomes, for example, stake retention. On the other hand, there are some issues around remote gaming that cause the industry problems and we would like to see those mopped up. Broadly, I think we are supportive.

Mrs Mensch: Do you share that view, Mr Carpenter?

John Carpenter: I do, yes. I agree totally with Paul on this.

Mrs Mensch: You, Mr Allcock?

Kevin Allcock: Yes, I would. The 2007 smoking ban hurt the industry particularly badly. It is important not to confuse the two issues—the 2005 Act impact and the impact of the 2007 smoking ban. I guess the only thing that would concern us as an organisation would be the impact of the loss of the section 21 machines associated with the 2005 Act, but other than that, I think overall we are better off as an industry.

Q203 Mrs Mensch: Would you say that the Act has had the same impact on various types of bingo hall, or has it had a differential effect? Obviously, here at Dagenham we are in a large, flagship, very big establishment. Would you say that the Act has had a similar effect across bingo halls up and down the country, or has it affected different types of hall differently?

Paul Talboys: Aspects of it have affected all clubs equally, but probably the single biggest issue—we are very grateful that the Committee are minded to listen to discussion on tax—would be tax. That has had a particular impact on large and small clubs. Perhaps I could ask John to comment on that.

John Carpenter: Yes, for me, the tax is the biggest problem. It is the inability to invest. At a time when we can see things beginning to turn, I would really like to invest in the business, but with the tax being so high, we just cannot at the moment. That is my main concern—my only concern, really.

Kevin Allcock: It is the single biggest issue we face as an industry in terms of providing a taxation system that gives parity across all bingo revenues. Because of the taxation levels that we face, it does stifle investment. We as an organisation obviously have the support of the overall group, the Rank Group, so we have invested in six of these types of businesses. We can see what can be done with investment. I just think a fairer tax process, a fairer approach to tax and the industry, would help to promote that and would help to encourage investment like this.

Q204 Mrs Mensch: Just to be sure, you have touched then on the taxation and its effect on the industry, but in terms of the Gambling Act having the same impact on the different types of halls, the large and the small, you think it is pretty much of a muchness, do you, across the industry?

Paul Talboys: Broadly yes, I think. Kevin touched on, for example, the removal of what were termed section 21 machines, which were a particularly popular machine in a bingo club. That had an impact that clearly financially impacted on the larger clubs because there would have been more of them, but smaller clubs had their share of section 21 machines and that impact was spread equally across all sorts of clubs.

Q205 Mrs Mensch: You have mentioned both the tax regime and the implementation of the smoking ban as things that have affected your industry. Would you say that you have a problem with getting younger players to come in and play bingo—the future of it? If I look around your hall here, I see it is a very modern environment. You have free WiFi and you are offering different types of gambling environment in your quiet room and a family thing here, but it is still difficult to
attract younger players, is it not? How do you feel that is affecting bingo, and what are your plans to remedy that or to make an offer attractive to younger players?

Paul Talboys: I will ask Kevin to comment, if I may, in a second. You are probably looking at a good example of what the industry is doing to address that particular issue. I am old enough to well remember the stereotype that bingo used to have—I think it has dissipated to some degree—of smoke-filled halls and trestle tables. That equated in the general populace to people assuming that bingo was just full of old people. That just is not the case. The demographics do not support that and the environment that you are sitting in today does not support that. The industry would be doing a lot more of what you are seeing today, I think. Again, just being boring for a second and going back to tax, the investment environment is currently so hostile that for these sorts of initiatives, which cost a lot of money, the stimulation is not there and the confidence is not there to make those investments to a huge degree. Maybe Kevin would want to add to that.

Kevin Allcock: Yes, sure. We have invested as a company in the last five years, so since the Act we have invested about £80 million within bingo, within our land-based bingo businesses. We have created six of these, where we see a lower age profile of customers, certainly in the evening. We would call the environment in which you are sitting a shush-free environment where you can have a chat, socialise with your friends and talk while the bingo is being played. In the environment in there, where 70% of our customers enjoy bingo, you cannot do that. The age profile in there would be about early-50s; in here, it is mid-40s to early-50s. Not only have we invested in these £1.6 million, £1.5 million sites, but we have invested quite a bit of money in refurbishing some of our smaller, traditional businesses, modernising the interior and giving them a more modern, fresh feel. That has not necessarily lowered our age profile of customers, but our customers have really appreciated the investment in what is their social experience.

John Carpenter: I would love to do something like this in my club—when I say "I", I am talking for the owner/operators or a majority, because I am representing them—but because I have used all my reserves just to remain in business, I cannot do that at the moment. That is my problem. I would love to, and I could do it on a much smaller scale, nothing as grand as this, but that would definitely help me to move forward.

Q 206 Mrs Mensch: Finally, can you all touch a little bit on both the revenue that you generate and how that has changed since the Act, and also numbers? I have been very interested in my tour today to hear that this particular bingo hall is a sort of high-volume bingo hall—something that the Government would wish to see—with lots of people spending modest amounts of money to enjoy a night out, which is an optimum environment for gambling. How do you feel that the Act has changed both your revenue intake and the numbers coming through the door? For better or worse?

Paul Talboys: Kevin, do you want to take that initially?

Kevin Allcock: Yes, sure. In terms of our own performance, is this wholly attributable to the Act? It is difficult to say, but we have seen a decline of 25% in visitor numbers since 2005. We have seen income and revenue levels drop by between 15% and 20%, including prize funds for customers, and our profitability has dropped by over 40% in that period of time. Again, let us just balance it with the impact of the smoking ban. It is difficult to say how much of it is entirely attributable to the 2005 Act, in fairness. The interesting point in all of that is that the amount of money we pay in bingo taxation has actually gone up. It has increased by 10%. With all those declines within our performance over the last five years, bingo tax actually has gone up by 10%—£2.5 million a year to us—which does not feel quite right. That has broadly been the impact for us.

John Carpenter: I would agree with Kevin. Yes, there has been a 25% decrease in admissions, but I think that is a lot to do with the smoking ban and the recession. We have just been through a huge recession. I do not think I can attribute anything to the Gambling Act itself.

Q 207 Mrs Mensch: To the Act itself, you attribute no particular change either way? You attribute your decline in revenue numbers to a combination of the recession and the smoking ban?

John Carpenter: There was a drop in revenue because they took away the section 21 machines. There was definitely a drop in revenue from those, but apart from that I do not think there was a—

Paul Talboys: No.

Kevin Allcock: Just on that point of section 21, from a Mecca point of view, we probably lost about half a million pounds of income overnight and we have worked hard to recover that position as well.

Paul Talboys: I deliberately went last on that one, if you will forgive me, in that the numbers I would have said in terms of the whole industry figure would have more or less exactly married up with the numbers that Kevin gave for Mecca. I would add that that from the beginning of 2007, just before the Act came in, until now we have lost 109 bingo clubs—about 20% of the total. I certainly concur and most definitely say that that has not been a result of the 2005 Act. It is a result of a combination of factors—certainly smoking, but more specifically, I would say, unfair taxation. It is manifestly mad for bingo clubs in their local communities to be paying 20% tax while virtually all other forms of gambling pay 15% tax. That is mad, it is inequitable and it does cause that environment wherein businesses do not have the confidence to invest and innovate, which is what we must do as an industry.

Q 208 Chair: It is apparently a little difficult for people behind you to hear, so if you can raise your voice a little bit, that would be helpful. You have identified specific factors such as the tax regime, the recession and the smoking ban, but over 10 years ago Alan Budd said in his report that the bingo sector is in long-term decline. That was not because of the
specific factors; it was just a trend away from playing bingo to other forms of entertainment. Is that still the case?

Paul Talboys: It certainly has been for the last three to four years; that’s for sure. This year we are seeing significant signs of a stabilisation in terms of volume, so admissions are not—I think it is probably a slight exaggeration to say “not in decline” this year, but they are not much in decline versus previous declines. There is no doubt in my view that the leisure offer, if you like, generally in the UK over the last 20 to 30 years has significantly changed with the advent of computers, et cetera. The consumer choice, rightly, is huge now versus 20 to 30 years ago. I think bingo customers are still coming; the difference is that they are perhaps being less frequenently than they were, but there are still 3 million people who play bingo in the UK and virtually 10% of all adult women still play bingo. The product is good; it is sustainable. What it needs is some help, effectively.

Chair: Q209 This is obviously a very impressive, upward trend as I assume that people are attracted to come here because you offer quite a wide range. You can come and have a meal, you can come and have a drink, you can chat to friends and you can play bingo.

Paul Talboys: Yes.

Chair: You have achieved that, as we talked about a little earlier, by investing quite a lot of money here. My question firstly to Kevin is: have you achieved that basically through cross-subsidy? Have your other gaming and entertainment operations essentially subsidised your bingo clubs?

Kevin Allcock: No, I would say not. We have six of these types of environments where we are attracting a younger customer base that spends around about £20 in terms of their overall experience. We are pleased with the returns and the results where we invest, but even in some of the smaller businesses, where we might invest £100,000 to provide a sparkle to the environment, customer reaction has been very positive. Where we have struggled to invest—where we have not invested—those businesses have very much struggled to perform, whether it is in bingo or food and beverage or amusements or cash line performance. All areas of the business are going to struggle in terms of performance without investment. There is no doubt about that. I do not think that is unique to the bingo industry, actually.

Q210 Chair: That brings me to John. You, as the independent operator, were talking about how you were not making the profits you needed to invest back into the business. How much do you think you need to spend? If you do not manage to do so, do you see a bleak future for your business?

John Carpenter: Yes. We increased admissions through the 2000s up to 2007 when the smoking ban came in. They then dropped drastically when the recession really kicked in. We are seeing them bottom out now. I have been through two recessions in the last 30 years, and this would be the time that I would be investing because I can see it kick-starting. £100,000 is a good example of what we could spend on a club to create something similar to this—not as good as here, but it would be a similar experience. That is what I would like to be doing now, but I just do not have the money to do it. I do not like to keep on about tax, but if the tax rate were to go down, I could see a light at the end of the tunnel and say, “Right, this is the time to try to invest.” So, yes.

Q211 Damian Collins: You have seen tax raised quite a lot. I was a Member of Parliament when the 2005 Gambling Act was going through. Why have you ended up in this position where you have such an unfavourable tax law? Were you all sleeping on the job at the time?

Paul Talboys: Thank you for asking the question. If you were to ask Treasury, which we have done, as I am sure you can imagine, “What on earth is the justification for bingo paying 20% when everybody else pays 15%, and if you are offshore you pay 2%?” Treasury’s only answer is, “It is historical.” I can vouch for that because I have been around some time. I believe it is some sort of throwback to when we used to have double taxation in bingo, i.e. we paid VAT and bingo duty at the time. To cut a long story short, that was changed and converted into GPT, gross profit tax, but the calculation the Treasury did was flawed. They initially put it in at 22%. We argued strongly that that was wrong and they reduced it by 2% to 20%, but still left everybody else at 15%.

There is no logic to it. I was listening to John Whittingdale say the same thing. There is no logic to somebody going into a betting shop or any other form of gambling and paying that 15% while the bingo player, who may be male or female—I take the point of the Committee—pays 20%. It is mad, particularly when you offset that against the good that these clubs, in the main, do in their communities. There is a social impact to bingo that is well proved and I do not think anybody argues that a bingo club, particularly small clubs like John’s, are the hub of their communities. Why on earth would they be taxed beyond anything else that you can think of? It does not make any sense. I know that was not a particularly good answer, but it is the facts.

Q212 Damian Collins: You mentioned betting shops. Obviously, from a tax point of view it is a good argument to make. Are you in competition with betting shops or is this really a very different sort of an offer—you just happen to be in the same industry?

Paul Talboys: I think the realistic answer is not really, no. Your classic bingo customer, shall we say, is predominantly female, predominantly over 50, and predominantly does not do much of anything else, gambling-wise anywhere else. Some of the guys may pop to the betting shop, but by and large there is not a lot of cross-fertilisation. There will be some, but not a huge amount. Kevin, do you agree with that?

Kevin Allcock: Yes, I would agree with that, Paul. It would not be top of our list of competitors, in honesty, but there is a degree of competition between us in terms of particularly machine play.
Q213 Damian Collins: What is your competition? Is it just other types of evening entertainment rather than other types of gambling, do you think?

Kevin Allcock: It is a really broad church. It is from staying in at home and having an M&S experience £10 meal for two to other gambling operations. It really is as broad as that. We do see ourselves, particularly in these types of environments, as a much broader leisure experience, but even in our traditional bingo businesses, which do operate at the heart of their local communities, we are in competition with staying at home and having a night in and with betting shops and so on.

Q214 Damian Collins: On the community point of view, you mentioned trestle tables in halls, albeit no longer smoke-filled halls, and I can think of a place in my constituency where bingo is still very popular in that type of environment. Do you have a sense of the health of the industry outside of the main professional bingo halls, like this one, in what you call the independent market of bingo clubs and halls?

Paul Talboys: Yes, I think I do. I think John is probably closer to it than I am, so do you want to take that one, John, in terms of bingo elsewhere and then I will come back, if I may?

John Carpenter: Yes. I think the majority of the 109 clubs that have closed will be small traditional clubs and they will be, as I am, in a town of 23,000 people—a small town. If that bingo club closes in that town, neither Gala nor M.ecca, the two big organisations, are going to come into that because it is much too small a town for them to operate a club. That town loses that club, and that whole society—everyone—loses that meeting place, because a bingo club is a club. It is where people meet. That is the majority.

Q215 Damian Collins: That matters, and that would obviously be very sad, but would not bingo players hire a village hall and play there on a Saturday morning for cash prizes and they would carry on in that way?

John Carpenter: It is possible they might go to a certain extent, but from my experience, where bingo has closed in a town, that town no longer plays bingo, and no longer has that meeting place where people that have been going for years and years meet up two or three times a week and socialise, which is a lovely thing to do.

Paul Talboys: Coming back to me again, there is no doubt that some of the more proactive customers in that situation, I am sure, will get together and organise something along those lines. The research that we have done—albeit it is fairly old now, five or six years in fact—by the Henley Centre indicated that there is a sense of social loss when a bingo club closes that in the main is not replaced, particularly in the afternoons. It is usually the afternoon customers’ only out-of-home leisure activity and when it is gone, they just do not go out. In the evenings, that is less so; they will perhaps travel and if they can drive, they will drive, so it is slightly less of an impact. Certainly, if there are local clubs—working men’s clubs, institutes, you name it, the village halls even—if they can play bingo, they will, and I know they do. I play in my own village hall, strangely, and the sense of community is palpable even in that environment, because the product is fun. There will be some product played and even that has been impacted, to my knowledge, but it will sustain.

Q216 Damian Collins: How important is the prize money structure for bingo? Do people come for the cash?

Paul Talboys: Again, I will defer to my much more learned colleagues on that, but I think the Association’s answer would be that if you ask a bingo punter in the main why they play bingo, winning prize money is on the list, but it is certainly not number 1 and probably not number 2. Number 1 is virtually always to meet their friends and mates and have a good time; there would be a couple of other reasons, and somewhere down there probably, “Oh, and I might win some money.” Realistically, you might expect that to be a little higher, so perhaps it should be number 2, but I would say it is not number 1.

John Carpenter: Yes, there is a lovely quote in one of the reports that we had from a lady who said that she goes to bingo, she spends £20 and that is the cost of going out. That is how she views it. She does not seem to think she is gambling. She is paying £20 for a night out. She said, if she goes to the theatre, she feels that is a gamble because she is paying £20 for a seat and she may not enjoy it. In her mind, that is gambling. She actually looked at it as the cost of a night out. Winning is a bonus and she just liked the fun.

Kevin Allcock: What is quite interesting is—we are currently undertaking this—I actually spent a full day with a customer in our biggest business in Scotland to understand her experience of bingo. One of the first questions I asked her was, “Why do you come here?” and she said, “Well, yes, I come here to win money but it is not the primary reason. The primary reason is to socialise, to mix with friends and likeminded people. Winning is a bonus. If we don’t win or if I don’t win, it is disappointing for a very short period of time, but actually I come here to socialise first and foremost.” That was fresh out of a customer’s mouth, and we are seeing that in all of these immersion experiences that we are undertaking at the moment in M.ecca. There is lots of feedback on that.

Q217 Damian Collins: Obviously that is a great side benefit, but it is not why you are in business. From a hall like this, where do you make the money? What are the most profitable areas of a venue like this?

Kevin Allcock: It is kind of spread across all the elements of the proposition, really, fairly evenly. Bingo provides a good income stream for us. It probably accounts for 50% of our overall income. 30% of our income would come from amusement machines and the remainder from food and beverage and entertainment.

Q218 Damian Collins: That is income, but what about profitability?
Kevin Allcock: Amusement machines are the most profitable element of our business, followed by bingo.

Q219 Damian Collins: What percentage of profits would come—I do not want to give away trade secrets, but just broadly speaking—

Kevin Allcock: We are a listed company anyway so—

Damian Collins:—would over half your profits come from the slot machines, for example?

Kevin Allcock: No, no, not quite.

Q220 Damian Collins: Just under? I am just saying, if it is 30% of your income, roughly what percentage—

Kevin Allcock: A similar percentage in terms of profit.

Q221 Damian Collins: That does not quite tally with what you said, because you just said that they were the most profitable area, so that would suggest it is a bit higher than that.

Kevin Allcock: Sorry, I meant in terms of—

Paul Talboys: Single profitable area.

Kevin Allcock: Single profitable area, yes, because bingo is split down into cash line and into main stage bingo where you play games of bingo, which you will see later on today. I kind of lump those two together to call them bingo as one product. If I was to split it all down, probably the single biggest profit contributor would be the machines.

Paul Talboys: If I can add to that, nationally that would be replicated in that, certainly in terms of gross profit, machines would be broadly, universally, about a third of an average club’s profit. It varies a bit depending on city centre versus rural, but broadly that would be the case. Our issue going beyond gross to net is a little more tricky in that the staff cost in these places is quite huge and it does not tend to be directly allocated to particular income areas. It comes off at the bottom end. Clearly, activities like the bars and the diners are quite labour-intensive, as are some of the bingo operations. Machines are not—not particularly anyway. But I think that would be a reasonable average—about a third across the bingo estate—so it is very significantly important.

Q222 Damian Collins: You referenced earlier that the loss of high-stake slot machines has had a big impact on your business. Was this a growth area for you?

Kevin Allcock: Yes. There are roughly 36 million people who are of gambling age that gamble in the UK, and about 6 million would gamble online in retail businesses. A very small number, 1 million, would purely gamble online, so it is becoming a bigger part of our business. We operate, obviously, online businesses as well as land-based businesses, and what we are looking to do is probably leverage the synergies between the two where we can work closely with our online partners. Our customers are becoming more and more technology-savvy, internet-savvy, and are therefore much more attracted to online playing of bingo. For us as an organisation, we have an online arm, so it has been healthy competition for our land-based businesses, shall we say, but without having an online business alongside us, we would see it as quite challenging.

Q223 Damian Collins: Just one final question. How many people would come into a club like this just to play machines and not actually play bingo?

Paul Talboys: Definitely one for the operators, but I am going to say virtually none, depending on the layout of the club.

John Carpenter: It is none for me, because we do not have machines on while we are playing main stage bingo. They are around the hall, so there is nobody—

Kevin Allcock: Yes, it is a very small number in proportion to the overall visitor number here.

Q224 Dr Coffey: What impact has online bingo had on the traditional bingo industry?

Paul Talboys: If I was asked that a year ago, I would have said, “Very little.” I am being told—I do not run clubs, so I am going by the numbers and the research that we do—that there is now more of an impact and perhaps up to 20% of bingo players have now tried online. There is starting to be an impact, but it is not huge as yet.

Q225 Dr Coffey: Any thoughts from the other witnesses?

Kevin Allcock: Yes. There are roughly 36 million people who are of gambling age that gamble in the UK, and about 6 million would gamble online in retail businesses. A very small number, 1 million, would purely gamble online, so it is becoming a bigger part of our business. We operate, obviously, online businesses as well as land-based businesses, and what we are looking to do is probably leverage the synergies between the two where we can work closely together with our online partners. Our customers are becoming more and more technology-savvy, internet-savvy, and are therefore much more attracted to online playing of bingo. For us as an organisation, we have an online arm, so it has been healthy competition for our land-based businesses, shall we say, but without having an online business alongside us, we would see it as quite challenging.

Q226 Dr Coffey: As you were saying, you have an online section and I am sure there are other well-advertised competitors to that. How do you think online gaming companies offering products in bingo format to customers should be regulated or taxed?

Paul Talboys: I think they should be both. We have argued this for some time now, and we are not alone, I know. We would welcome with open arms the recently announced review in terms of online regulation by DCMS, and equally and particularly the review of taxation of it by Treasury. The fact that bingo particularly can be offered offshore at no tax and without regulation, whitelisted or otherwise, is a matter of concern for us. We would support any measures to bring it back home, effectively, and have a consistent regime across the piece for all forms of gambling, with ideally all taxation being consistent at the same time. To us, it makes no sense for a customer to be sitting at home, able to play bingo via a server thousands of miles away, alone in their home. That is
not social, that is not positive, it is not productive in communities and it does not drive anything for UK plc at the moment either. That situation needs to be addressed and regulated at the very least, and certainly, we would argue, taxed.

Q227 Dr Coffey: That is a more general thing about online/offshore, as it were, as opposed to this. In a situation here, you will have breaks between games. Of course, people can play the stuff that is on the tables, yes, but do you have any concerns that online bingo is leading to people playing more, or do you see that in your business revenue? Are people playing for, say, six hours in a go without many breaks in between?

Kevin Allcock: The issue is that we do not have any control over that. We do not see that. We do not have any visibility of it, really. We would—

Q228 Dr Coffey: Do you not see that from your customers and your online customers?

Kevin Allcock: We do, but the issue is that online customers can play wherever they choose, so we are not sure how big a representative sample that is. About 50,000 of our customers who play in a club will play online. That is the kind of visibility we have off a base of 15 million visits and 930,000 customers that visit our land-based businesses. As an operator of online and land-based, we would welcome increased regulatory control and we would certainly welcome tax parity even at 15%. We would welcome that.

Q229 Dr Coffey: Forgive me, I am trying to understand, because I would have thought that, with your customer relationship management that you are trying to do, you would know that Mrs Smith had been on there for six hours?

Kevin Allcock: We do, but what I am saying is that it is a small representative sample, in honesty, because at 50,000 it is not a huge number of customers that we have visibility over. If we had a situation where at 50,000 it is not a huge number of customers that is a small representative sample, in honesty, because at 50,000 it is not a huge number of customers that we have visibility over. If we had a situation where we could promote the relationship between online and land-based, that would unlock a great deal more visibility over. If we had visibility over. If we had a situation where we could promote the relationship between online and land-based, that would unlock a great deal more visibility for us in that area, but we do not have access to that kind of data.

Q230 Dr Coffey: In terms of stakes that are levied in the two different environments, online and hall-based, what kind of stakes do you see that your customers would be paying? Are people paying a lot more to play, as it were, online, or spending a lot more?

Kevin Allcock: They tend to spend more, yes.

Q231 Dr Coffey: Unless you have anything to add, I just want to ask a very specific question. I understand that when you link up the different bingo halls, you have to have an additional licence for that. What is the cost of that, and is that impacting on profitability as well—the additional licensing?

Paul Talboys: That is one of the anomalies that we seek to address. It is a relatively minor issue, but it does perhaps illustrate what went slightly wrong. Bingo clubs have joined—linked as it is called—with each other for dozens and dozens of years without any problem at all. The 2005 Act arrives and, all of a sudden, that very same process of linking via a telephone line is deemed remote gambling, the same as offshore. Almost overnight, every bingo club had to have initially a full remote gambling licence, although that was quickly changed to what is called an ancillary remote, which I think is the licence you are talking about. Unless things have changed, I believe that is £200 per club, and that has to be renewed for no reason at all.1

Q232 Dr Coffey: If M ecca is linking 99 clubs, that is £250 times 99?

Paul Talboys: Yes. It is an annual licence, so it is not each time it is played. May I just go back to your earlier question?

Dr Coffey: Oh, sure.

Paul Talboys: Also, the Association is arguing on another anomaly, which relates directly to your question, in that at the moment it is perfectly legal and acceptable for anybody, our customers included, to play bingo online at home on an iPad or any other equipment or their home PC. It is equally legal for them to go and sit in the House of Commons and do the same. It is also legal for them to go into a bingo club and do that and play whatever game they like, but let us say it is bingo. What would be illegal would be for the operator to see that and provide facilities for it in his own club. That would be illegal.

Q233 Dr Coffey: Would that include the provision of free internet?

Paul Talboys: Yes. Well, he is allowed to provide free internet, but he is not allowed to direct the consumer to anything in particular on the internet. If they find it themselves, that is okay, but if the operator—

Dr Coffey: No big posters around the place.

Paul Talboys:—puts a notice on the top, that would be illegal. We would argue strongly that if people are going to play online, it would be much, much better, coming back to your point, for them to do that in the club, where they are surrounded by other people. They can play online if they wish, but on terminals with facilities, with the lights on and with interaction, in a bingo club. That is currently illegal, and we are asking the DCMS to help us with that particular aspect of it.

Q234 Dr Coffey: Could I quickly just ask a little bit about product development online? Do you end up almost having a Facebook of bingo friends to try to recreate the bingo atmosphere, or is it just very monodimensional and you are there against the system?

Kevin Allcock: No. Facebook is a medium that we use to promote and market the business more than anything. Yes, there is still a sense of community, if you will, by playing online bingo wherever you play it, regardless of wherever you play it. We would have chatrooms and so on, so it is not just about playing the game itself.

Q235 Chair: Just going back to your remote licence, as I recall, I do not think it was the intention of Parliament that bingo should be captured by that, so who decided that bingo suddenly should require this?

1 £100 per operator plus £25 per year for its renewal.
Paul Talboys: The Gambling Commission must at some point have taken advice that that was legally required by the construction of the Act. We have looked at that and we cannot argue against it.
Chair: When you say you cannot argue against it, what do you mean?
Paul Talboys: Well, the way the Act is written, we cannot argue that it is not remote gambling under the definition of remote gambling. I cannot remember the exact words, but it is “by any means”. If the person is gambling outside their own premises, it is remote under the new definition.

Q236 Chair: Even though it was not intended, if we were to remove it, it would require primary legislation to change the Act?
Paul Talboys: Yes, primary.

Q237 Dr Coffey: Or you could make the licence free.
Paul Talboys: Yes, that would work too.
Chair: Innovative. I had not thought of that.

Q238 Damian Collins: Why do you offer free WiFi in a club like this?
Kevin Allcock: Particularly in the environment in which you are sat, rather than in there, we would like to attract people to come in and enjoy a business lunch in the afternoon and use internet access on their laptops. We see it not that frequently, in fairness, but we do see it in modern environments like this, where I might have a meeting with a couple of colleagues and internet access would be useful, so we offer it primarily for that reason.

Q239 Damian Collins: It is not an obvious audience, though, is it?
Kevin Allcock: Well, it is not an obvious current audience.

Q240 Dr Coffey: McDonald’s offers it, does it not, to try to get people in?
Damian Collins: Yes, but that is different, though, isn’t it?
Kevin Allcock: But it is a service—a facility that, yes, however small the capture that we have, still enables us to capture people who may choose a pub to have a business meeting, because lots of pubs and bars offer that kind of facility.

Q241 Damian Collins: But from what you said earlier, I can sit in here playing bingo online?
Kevin Allcock: Yes.
Damian Collins: As long as you have not directed me to do it, I can sit in the club doing that?
Paul Talboys: Yes.
Kevin Allcock: Yes.

Q242 Steve Rotheram: My question is about when perhaps a bit of fun becomes slightly more addictive. It appears from the evidence that you submitted that you do not believe there is a significant issue of problem gambling. What do you base that assumption on, and what evidence do you have to support your supposition?

Paul Talboys: I am probably light on evidence, to be honest. We would regard any instance of problem gambling as a problem. I will ask my colleagues to comment on their own measures. As an industry, we take the whole issue completely seriously and have done for many years, well before the 2005 Act. We have worked closely with GREA and GamCare previously and continue to do so.

The main reason I know that to be the case, based on my own experience, is the product itself and how it works. As you have seen, the primary product is bingo itself. You cannot chase your losses in bingo. You do not primarily come to win; you come to enjoy some interaction, and if you win, it is a bonus. It is in my view very difficult to be addicted to bingo other than you just like it a lot. The fruit machines are slightly different; there are potential problems there, of course, but generally in bingo clubs, fruit machines are played when bingo is not played. When the main session is on, the machines are, in the main, silent and quiet and nobody is on them, and then if there is an interval, it is vice versa. It is very interrupted play the whole time. I think it is not an environment that is likely to cause those issues.

Having said that, the industry, as I say, takes it seriously and makes certain that staff are aware of the risks and are looking out for behaviour that might be indicative of an issue, and appropriate measures would be taken at that point. Maybe I could ask you to comment on that, Kevin?
Kevin Allcock: A single problem gambler is a big issue for us, however under control we think we have it. I can give you some numbers from a Mecca perspective. The reality is we had 158 self-exclusions in 2010, and a very similar number in 2009; it will be a similar number this year. That represents 0.01% of our 15 million visits a year and 0.02% of our membership base of 930,000. It is a very, very small percentage, but we do not take this matter lightly at all.

We invest an awful lot of time and money in operating responsible gambling policies. We have a pretty strict training regime for all of our customer facing staff and our management teams. We have a “stay in control” website for online and land-based customers to access. In England, we operate a Think 21 policy, and a Think 25 policy in Scotland, so if you appear to be under the age of 21 in England and 25 in Scotland, we will ask you to prove that you are 18 in order to get in. Our environments are well supervised. Even in our amusement area, we would have an amusement team leader working in that environment throughout the trading day and that person is well trained to recognise issues. We share information between all of our businesses, between casinos, and between our land-based businesses, and we take it very seriously, but if you look at the numbers, it is a relatively small issue for us, fortunately.

John Carpenter: As far as we are concerned, you have to take it very seriously, of course. Since the Act came into force, we have to keep a record of any interaction we have. I only have reports on two people that I have had to interact with in the last four years. One was a lady who was spending too much that night, but she did not have a problem. She had had a
couple of drinks too many and she just was spending more than she wanted to. We had a talk and I talked to her the next time she came in. That was not a problem. The other lady did have a problem gambling and she had lost a lot of money, not with us but elsewhere—casinos and bookie shops and online—and was trying to get money back via a fruit machine. We did stop that particular lady playing the fruit machines for six months after having full discussions with her, but that is the type of thing we do. We take it very, very seriously, as indeed I know Kevin does.

Q243 Steve Rotheram: Is your belief based on experience rather than evidence?

John Carpenter: Absolutely, yes.

Q244 Steve Rotheram: I am not in any way indicating that all gambling is habit-forming—people have a flutter on the Grand National and it does not mean that they go into a bookies’ shop and bet every other week—but in an environment like this, can that taste of perhaps winning on those fruit machines get people into the habit of gambling?

John Carpenter: Not in my experience, but—

Paul Talboys: Realistically, if that is what you want to do, you would find somewhere you would be able to do it in easier. That is a pure guess, but if you look at the British gambling prevalence study that is done every three years, I think I am right in saying that the incidence of problem gambling in this country is close to 0.7%. That was the same before the Act came in. It has not really changed. That equates to probably 3 to 4 hundred thousand problem gamblers in the UK, which should be a manageable number. It is still 3 to 4 hundred thousand too high, but those are the sort of numbers we are looking at. I do not believe you are going to find too many of those in a bingo club.

Q245 Steve Rotheram: It seems that you are being quite dismissive, actually, because in our notes—I have only got them today, and it gives you the statistics—Professor Hancock argues that the increase in problem gambling is internationally recognised as a robust significant level, so it has been identified as being an issue and a problem.

Kevin Allcock: In the UK?

Steve Rotheram: Where is Professor Hancock, John?

Chair: Well, the prevalence study has shown that it has gone up to 0.9%, but there is an argument about whether that is a statistically significant increase. The professor thinks it is, but not everybody, I understand, in the industry necessarily agrees.

Paul Talboys: She will certainly know more than I, so I accept that.

Q246 Mrs Mensch: Just to chime in on this, when we hear from many people in gambling, there is always a reference to self-excluded gamblers. These are people who have identified their own problem and excluded themselves. The obvious corollary strikes me. What happens to people who have a gambling problem but do not exclude themselves? They are not on the self-excluded list. They have a problem, but they do not choose to address it. They are not reformed alcoholics. Presumably, there must be a coterie of people who have a serious gambling problem who do not put themselves on self-excluded lists. What do you do about identifying those people who have a problem and who have not voluntarily excluded themselves from gambling?

Paul Talboys: I will defer to my colleagues in a second, but I think all you can do is try your very best through your systems, procedures and training to identify those people. They have to be identified through either behaviour or perhaps spending patterns, if you are able to analyse those. If you cannot identify them through either of those two, it is really hard unless they put their heads above the parapet in some way that can be identified. My colleagues may be able to answer that better than I can.

Kevin Allcock: The specific examples you give in our experience are few and far between because of the effort that we put into training our people to identify those types of people who potentially are heading in that direction. In terms of your question about what we do to help them, it is about discretion. It is about consultation with individuals. It is about putting an arm round the shoulder. Literally, we do that. Our people are trained to do that.

Q247 Mrs Mensch: Do you retain the right to ban people from your premises if you feel that they are problem gamblers and they are not self-excluding, and will you then put them on some sort of a watch list?

Kevin Allcock: Absolutely.

Chair: John Carpenter: Yes, absolutely, yes.

Q248 Mrs Mensch: In your experience as an independent operator, has that ever happened?

J ohn Carpenter: It has not happened to me. In the two incidents I told you about just now, we resolved the issues with discussion and pointed them in the right direction of help. If they actually point-blank refused help, then I would stop them coming in, yes. I would feel duty-bound to do that.

Q249 Chair: In a pub, the landlord obviously watches and says, “You have had enough.” Now, the speed with which the Committee managed to lose £20 on a B3 machine earlier was quite striking, actually. Do you have a similar arrangement whereby somebody will say, “Look, I think you have probably spent enough this evening”?

Kevin Allcock: Yes is the honest answer to that, but it is perhaps not as visible as you would see within a licensed retail environment where somebody has had too much to drink. It is done discreetly and with concern for the individual, rather than escorting somebody to the door. It is more of a consultation and discussion process with our trained teams.

Q250 Chair: If somebody either, as Louise says, self-excludes or is deemed to be a person who should not be gambling, to what extent is that information passed around to all operators?

Kevin Allcock: We share that with all 99 of our clubs and with our online business and, indeed, with our casino business.
Q251 Chair: But you would not share it with other operators?  
Kevin Alcock: I do not believe we currently do.

Q252 Chair: There is nothing in principle why you could not say to John Carpenter, “This chap has self-excluded. If he happens to be in your neck of the woods, don’t let him in”?  
Kevin Alcock: It is the mechanisms to make that happen, but it is certainly something we would consider.

Q253 Chair: Finally, I mentioned B3s. To what extent do you feel that you should be entitled to more B3s or that it is unfair that you are only allowed B3s and, for instance, next door you might have a bookmaker with B2s? Is that a big issue for the industry?  
Dr Coffey: Can I add, would you want section 21 machines back?  
Paul Talboys: Thank you. The short answer is no, we would not necessarily argue for section 21 back. Times move on. What we would argue for, and have and will, would be the ability to deploy whatever machines our customers demonstrate they would like to have. They are grown-ups in a grown-up environment and this is a well supervised environment, so I think we are well equipped to operate any machine, but we are not arguing for that at the moment. Equally, latterly the DCMS have improved the B3 allocations and we are grateful to them for that. That has yet to fully manifest itself out in the estate, so it is too early to be talking about numbers. We are broadly comfortable with those. Neither do we have any comments to make about FOBTs. They appear to work satisfactorily. If our customers show up there is a demand, then that is different, but at the moment that is not the case.

Q254 Chair: You are not pressing to have B2s in bingo?  
Paul Talboys: No. What we will make a case for would be prize level increase on the machines generally as part of the also recently announced triennial review from the DCMS.

Q255 Philip Davies: Just coming back to online gambling for a second, you are saying you lose customers from here to online. Was I right in saying that?  
Kevin Alcock: Do we currently lose customers? Is that your question?  
Philip Davies: Yes. Well, the thing I am struggling with is that earlier on when you were asked why people play bingo, it was because it was a social event, a night out, all the rest of it. If that is the reason why people are playing bingo, why would you lose people from a night out and the social experience to play online? Surely, from what you said at the start, I would have imagined that you would have two totally separate groups of customers: people who would play online, where your competition would be other online forms of gambling, and that you would not be taking people from a club like this to go online. I do not quite follow how those two things are compatible.

Paul Talboys: By and large, that is absolutely the case. There are clearly different motivations in terms of the activity, but there is some middle ground that initially was very small but latterly appears to be a bit larger. I am talking anecdotally as opposed to having any demonstrable data. I think the reasons for that are manifold, but perhaps it is that whoever it is has been out once this week does not particularly want to go out again and might do that instead, or is ill, or any one of a number of reasons why leaving the house—Dr Coffey: Kids.  
Paul Talboys: Yes, kids could be another one. There are numbers of reasons, and I guess the amount of TV advertising would be another one.  
John Carpenter: But I do not see that as my competition, online gaming or online bingo.

Q256 Philip Davies: You do not see it as competition?  
John Carpenter: No. My competition is Strictly Come Dancing and X Factor. That is my competition, to be honest.

Q257 Philip Davies: Fair enough. Kevin, you have your clubs where people are all playing in your 99 clubs around the country, all playing for the same big prize on occasions?  
Kevin Alcock: Yes.

Q258 Philip Davies: If I play online, can I tap into that same game? Can I play for that same big prize in the same way? Can I join in exactly the same game as they are playing in the club?  
Q259 Kevin Alcock: No.

Q260 Philip Davies: You cannot?  
Kevin Alcock: Legislation does not allow that at the moment.

Q261 Philip Davies: Are you not allowed to do that?  
Paul Talboys: That is what we are asking for.  
Q262 Philip Davies: But you would like to be able to do that?  
Kevin Alcock: Yes.  
Paul Talboys: Yes. I see no reason why not.

Q263 Philip Davies: Fair enough. In terms of the problem gambling, how much does the bingo industry contribute to the GREaT Foundation?  
Paul Talboys: I am afraid I cannot give you the numbers as we do not have those. The vast majority—in fact virtually all—of our members, contribute in excess of the minimum requirement, but I am afraid I cannot give you any numbers on that. Certainly we communicate frequently with GREaT, and when we get data on that, we would action data and talk to members.

Q264 Philip Davies: Are you happy with what you pay? It is voluntary, so presumably you are.  
Paul Talboys: I think so, yes. Certainly our members have always been happy to contribute because clearly
there is a social need there and it needs to happen. We
are happy to play our part.

Q265 Philip Davies: In terms of your other
contributions, it seems from the evidence that you
have submitted that one of the things that you are not
happy about is the amount of money that you spend
to the Gambling Commission, that you think that it is
not as effective as the old Gaming Board and it is
more expensive, and it gives poor value for money. I
think those were the words that you used. Why do you
say that? What evidence do you have to back up
that it provides poor value for money and is less
effective than its predecessor?

Paul Talboys: To a certain extent we have been a little
overtaken by events in that once again another
consultation has been announced by the Commission
on the specific matter of fees, and we will certainly
be contributing to that. I suspect, if we were to write
our response to you now, that would impact on what
we said, but you cannot escape from the fact that to
run a bingo club under the 2005 Act it is virtually
time more than the old Gaming Board.

John Carpenter: I pay £1,750 now—about three
times more than I used to, which I think was about
£600.

Q267 Philip Davies: Just as an illustration, John,
what did you pay before the Gambling Commission
was established and what do you pay now?

John Carpenter: I paid £1,750 a year—a bit more than
what we used to, which I think was about

Q268 Philip Davies: Mecca, what did you pay before
and what do you pay now?

Kevin Allcock: I do not have the exact figures to hand
but I do know it is about two and a half to three times
as much now. I do not want to misquote numbers, so
I would need to check the number.

Q269 Philip Davies: Do you get more visits now
than you did before? What happens? What do you get
for your money that you throw into the pot?

John Carpenter: Yes, I am thinking that.

Q270 Philip Davies: One of the things that people in
the gambling industry say to me about the Gambling
Commission is that they do not know much about
gambling. Is that your experience of the Gambling
Commission?

John Carpenter: Oh, putting me on the spot here. I
would say that under the Gaming Board the inspectors
were extremely knowledgeable, with encyclopaedic
knowledge of the law.

Q271 Philip Davies: I did not ask you about the
Gaming Board people.

John Carpenter: I was trying to get out of the
question. I am sure they have the knowledge that they
need to do the job.

Kevin Allcock: I would agree with that.

Q272 Philip Davies: Will you be more forthcoming
than that?

Kevin Allcock: No, I am not going to be more
forthcoming than that.

Q273 Philip Davies: Are you petrified of these
people?

Kevin Allcock: Not at all, not at all. I think the
Gambling Commission are effective in what they do.
I hear what John is saying and I kind of echo what he
is saying. Do they represent good value for money?
Well, I guess the jury is out on that, but we would not
be overly critical.

Paul Talboys: What we do not see at the moment, and
I think universally people would agree with this, is a
champion of the industry. For that money and perhaps
the lack of visibility at the sharp end, we would like
to think the Commission takes a view on some of the
issues that are a problem for the industry—and they
can be a multitude—and argues with us if we are
wrong; but if we are right and they agree then they
should be our best advocate. If that is happening, it
may be happening under the radar, but we certainly
do not see it. I think we would all welcome that.

There has been a change in terms of philosophy. The
Gaming Board was a policeman; the Gambling
Commission is not a policeman. It is a regulator and
it assumes that there is compliance going on. That is
a major change, and I guess maybe we are going
through an adjustment period. We have an excellent
relationship with the Commission, have done in the
past and will continue to do so, but times are really
tough out there on the streets and we want to see that
we are getting value for money for a licence fee that
is three times what it was.

Q274 Chair: Finally, while you may not feel that you
have a sympathetic ear in the Treasury, do you feel at
least you have a sympathetic ear in the DCMS?

Paul Talboys: Latterly particularly, the DCMS have
announced the consultations that I have referred to,
and that is great news. That is a solution to some of
the industry’s problems. I guess the same comment
might apply in terms of championing. I am well aware
of the difficulties that we all have with the Treasury,
and somebody has to look after the nation’s purse, but
this industry is not looking for a handout. It is looking for fairnes. We have done significant research, particularly with Ernst & Young, and showed that with DCMS; it clearly says that if you put bingo back on 15%, not only will it not cost HMT anything, it will actually produce a benefit of £65 million over the next three or four years through a better investment environment and the closure rate of clubs falling to zero. Those two factors alone increase investment. We would just love DCMS to be much more active in helping us get that message across.

Chair: That is a good note on which to draw a line, I think.

**Kevin Allcock:** Could I just add one final thing?

**Chair:** Yes.

**Kevin Allcock:** I think it is particularly encouraging that you have taken the time to come out here today and see what potentially the future of bingo can look like. I speak for obviously everybody on this panel and everybody in the room who is associated with bingo. We think it has a really, really bright future. I hope you can see that from today. This is an example of it, and we thank you for making the journey here today.

**Chair:** Thank you.

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**Examination of Witnesses**

**Witnesses:** Peter Harvey, CEO, Talarius, Elizabeth Speed, Group Solicitor, Noble Group, John Bollom, Trustee, BACTA (and owner of Mumbles Pier), Derek Petrie, President, BACTA and Leslie MacLeod-Miller, CEO, BACTA, gave evidence.

**Q275 Chair:** I would like to welcome Leslie MacLeod-Miller, Chief Executive of BACTA, Derek Petrie, the President, John Bollom of Mumbles Pier, Peter Harvey, Chief Executive of Talarius, and Elizabeth Speed of the Noble Group. Perhaps I might begin by asking you to give a view of the current state of the industry. You have obviously seen a quite significant fall in the number of both adult gaming centres and family entertainment centres. Has the situation stabilised, or are you still seeing a continuing decline?

**Derek Petrie:** We saw a manufacturer close last week, and that is the reason people are not buying machines.

**Q276 Chair:** A manufacturer of machines?

**Derek Petrie:** One of the oldest ones standing closed their doors in Cardiff last week. In reality there are only two or three manufacturers left, so I don’t think we are out of the woods quite yet.

**J John Bollom:** I would like to add that I think it has continued the perfect storm of impact on this sector of the industry, in terms of the Act, the smoking ban and the recession. It has all added: income has been squeezed, particularly by the smoking ban and the Act, and costs have increased dramatically over the last three years, with additional fees and general inflation.

**Q277 Chair:** You identify the Act as a contributory to the problems. Can you give a little bit more detail as to how the Act has made things harder?

**Derek Petrie:** I think the Act has almost destroyed our industry. It took away a stake that was popular with the customer, and at the same time took away a machine that was popular with the customer and replaced it with something that was not.

**Chair:** Can you speak up a little bit?

**Derek Petrie:** Yes, surely. It took away a stake and a machine that were popular with the customer and, more importantly in my view, it took away some of the technical standards or imposed new technical standards on machines. Technical standards are the way machines are played, the speed of play, the features they can offer, whether you can gamble once you have won, and how the machine plays generally, and the customers just walked away from them. They did not like them.

I will give you an example. In the four years and one month since the Act came in, I have operated 48 category D fruit machines and 18 category C. I have bought one new category C and two new category D, and the reason I bought those is because the machines I replaced them with are falling apart. They do not do very well and the customers do not like them. Four years down the line, some action has been taken on that, but I fear it may be too late for our industry.

**Q278 Chair:** What action?

**Derek Petrie:** The Gambling Commission have just at last agreed to replace the speed of play and the technical standards.

**Leslie MacLeod-Miller:** Could I just give a snapshot that deals with both of your questions? Firstly, of the state of the industry we say that arcade revenues are down somewhere between 20% and 30%. There have been more than 280 closures of arcades. Manufacturing was at 85,000 machines in 2004. It is now down to 12,000 machines. That gives you an idea not just of the downturn, but also what impact this has on families, jobs and communities. This industry existed before the Act. You will recall that during the Parliamentary process it was said that the existing traditional industry was well regulated, had a worldwide reputation for probity and that the Gambling Act was needed in order to introduce flexibility to deal with remote and to provide a regulator that was sufficiently empowered to deal with the new regime that would follow, which was to bring remote into Britain, have a Las Vegas-style casino regime and ensure that we had a regulator of the size and resource to deal with that.

Now we have a falling traditional industry. We do have a gold-plated regulator and it is an issue. We do not enjoy the same relationship we had with the previous regulator, which I think is regrettable, and we need to do something about it. It is also important to recognise that this legislation was formed in a wash-up, and like every wash-up, the sacrifice was of
I would echo what Peter has said.

**Q279 Chair:** Can I ask this of the bigger group?  
**Peter Harvey:** Yes. Can I give you an operator’s perspective? The Act, first of all, with the banning of the machines, took a section of our customers away to other gambling organisations, so that immediately took away some of our sales. We lost 30% of sales, and we are a largely fixed-cost business so that dropped through to the bottom line. We lost 75% of our profit that first year and we only managed to keep it there because we had to take out jobs, effectively. On top of that, the Act has also given us a 12-fold increase in regulatory costs. The Act has also given us a 12-fold increase in the amount of staff we have had to employ, effectively, to just sort out the licences and so on. As I say, we have managed to survive because we have have closed shops consistently over the years as they become unprofitable and we have lost over 250 jobs.

**Q280 Chair:** Is that trend going to continue?  
**Peter Harvey:** I am still closing shops. It is slowing down. We are starting to see some turning but, like the whole of the UK, it is very fragile at the moment.

**Q281 Chair:** How many shops do you have?  
**Peter Harvey:** We have 168. We are currently the UK’s largest AGC operator.

**Q282 Chair:** How many of those are making money?  
**Peter Harvey:** I would say probably in the region of 80/20; 80% of them are making money, but it is very geographically specific.

**Elizabeth Speed:** I would echo what Peter has said. We have seen a 40% reduction in sites since the Act was introduced and we have shed 355 jobs. Profits have been hit and our regulatory burden, and particularly regulatory cost, has gone through the roof. To give you a feel for that, one of our divisions had a cost before the Act came in of around £11,000 a year, and the first year the Act came into effect, that went up to £800,000.

**Q283 Chair:** Do you see the restrictions on machines as being perhaps the most damaging aspect of the legislation?  
**Derek Petrie:** On numbers?  
**Chair:** Numbers and types.

**Derek Petrie:** Yes, it didn’t make any sense why a 400-square-foot high street shop and a 20,000-square-foot seaside amusement arcade could have four machines. It just did not make sense of the footfall, so we subdivided premises. The Minister, who, I am happy to say, now understands seaside businesses, has taken action on that and allowed us to have more of a percentage of the machinery, which always made sense. If you had 1,000 machines, you should be allowed to have a percentage of those, not four.

**Q284 Chair:** Are you now up to 20%? Has that solved the problem?  
**Derek Petrie:** Now 20% of the machines on the premises can be B3s, whereas the Act only gave us four.

**Chair:** Has that now solved the problem?  
**Derek Petrie:** It has gone a long way to doing it and it has taken a long time, over four years, to do, but I am pleased to say the Minister now understands seaside businesses and has taken some action.

**Leslie MacLeod-Miller:** We are very grateful to the Minister, John Penrose, for being such an effective advocate for our industry, and because he is located at Weston-super-M are he does understand it. That is a tremendous thing for our sector, and rare. It is true that the B3 change is welcome, but it will take a long time for the benefits of that to come through. There are some businesses for whom that will just be too late, and of course that is regrettable, but what the B3 change did was reverse one of the changes that the Act brought in, which was done without evidence, which was to take away the section 16 and section 21 machines.

What it still has not addressed, though, is a basic lack of consistency with regulation, and we need to carefully consider whether it is appropriate that there are some adult premises that have a different form of entitlement to machines than other adult premises. Why is that the case, and where is the evidence for it?  
**Peter Harvey:** Commercially, I want to provide the sort of gaming machines that my customers want. In some instances that will be significantly less and probably in one or two instances it might be more, but we need to take a commercial view. I would like the opportunity to compete equally across all of the sectors in gaming machines and just give the customers what they want in our locations.

**Q285 Chair:** Now the limit has been raised for B3, are you putting B3 machines into all your venues?  
**Peter Harvey:** I have increased them in some venues but, in fact, in some venues I have actually reduced them because they are not commercially viable. It really is what is right for each of those locations and those customers.

**Q286 Chair:** So more B3s is not necessarily going to solve the problem?  
**Peter Harvey:** I don’t believe the increase in stake has increased the problem. The increase in number in some sites has been a welcome change. The technical changes, which Derek was referring to earlier, still have not been changed in the category B machines, so there is more room there.

**Elizabeth Speed:** I would echo that and again emphasise that machines are what we do as a sector—we are the arcade sector—and yet, for some reason, even though we are adult-only premises and we have all the same social responsibility codes and compliance obligations, we are not able to provide our customers with B2 machines that betting premises can without any additional obligations or social responsibility codes in place.

**Leslie MacLeod-Miller:** It is also true that the industry is suffering, not just from social regulation but from taxation regulation. I know that this has been raised in other sessions, but we are suffering from a sort of “death by consultation”. Again, our gross profits tax has been mooted since 2003 and it was decided in 2003, after extensive consultation, that the...
industry was too fragile and there was too much uncertainty to change something as fundamental as your tax regime. This has come back through successive Finance Ministers, most recently Chloe Smith. We have undertaken a report from Ernst & Young that says that their plans could fundamentally destroy many small seaside businesses because of the issue of partial exemption, which we might go into further detail about later, but it is certainly a huge factor for businesses with the uncertainty of a potential announcement in December that could fundamentally change their business model.

Q287 Damian Collins: Elizabeth Speed, following on from the comments you made about B2 machines in betting shop, what evidence do you have that the industry is losing customers to betting shops? That is, customers who want to play on those types of machines?

Elizabeth Speed: The evidence is largely anecdotal and it is what we experience on the ground.

Q288 Damian Collins: Has your business has not looked at changing customer behaviour, loss of customers, and inquired as to what that might be? You have not done any analysis of your own business in that regard?

Elizabeth Speed: We have spoken to customers and we know that they go to play the machines that they would like to play, and unfortunately we cannot offer those in our adult premises.

Damian Collins: For the other members of the panel, is that common with your businesses? Are people leaving adult gaming centres to go and play on B2 machines in betting shops?

Derek Petrie: Very much so. On 1 September I had customers say, “Well, why can we only play for a pound today?” and I said, “Well, the Government has changed it.” “Don’t talk nonsense. The Government wouldn’t do things like that.” They soon found out that they could go and play for the same stake in the LBOs, and if I want to see those customers today, I know where to find them. I walk along the street to the LBO and they are playing.

Q289 Damian Collins: Is there a particular segment of your customers or, in your experience, do people play a variety of machines if they are in a gaming centre?

Peter Harvey: In our experience, those that play the old section 16 machines were a particular segment that went and have not come back. The balance of the customers varies by site, to be perfectly honest. It really is location-specific. For instance, in one site you could track the profile of the day where you get a lot of older people coming in in the morning to get a free cup of coffee, pay the 10p slots, meet their friends, do the whole social thing, and as you go through the day, you see the different profile of the customers that come in.

Q290 Damian Collins: For a certain type of customer, the important thing is not the environment they are in, but access to the machines that they want to play on, isn’t it?

Peter Harvey: I think that you have a slightly distorted view of an AGC, because there is a complete mix of customers that come into our venue. Those that play section 16s have definitely gone, but the rest of them just flit around the arcade playing.

Damian Collins: Yes, but that is why I ask. To some customers, the environment is secondary to the machines they want to play on, and that is what you are saying is the case?

Peter Harvey: Those customers are no longer in our venues, so—

Damian Collins: So that was the case.

Peter Harvey: Yes.

Derek Petrie: Possibly the games that they were enjoying have gone, and the technical standards are different now and they just don’t like them.

Damian Collins: No, so they have gone to where they can play them.

Derek Petrie: They have gone to where they are satisfied.

Q291 Damian Collins: Do you think the amusement industry has benefited from the Government prohibition on gaming machines, with the restrictions on venues such as cafés and taxi cab offices? Has taking them out of there helped you at all, or have people gone to where they can find them again?

Derek Petrie: I don’t think that made an awful lot of difference, quite honestly, but firstly, to the manufacturers, they were always the bottom end of the market. They put in machines that no one else wanted, that had been in the pubs for eight weeks and another one for eight weeks, and were possibly two or three years old, and people didn’t stand there and gamble, in my experience, where I have ever seen them. They would go in while they were waiting for their takeaway to be done or while they were waiting for their food to be cooked. They might put £2 or £3 in the machine, but I have never known people who would stay there all day playing them.

Q292 Damian Collins: People just follow the machines. People don’t want to play unless they can follow the machines. I want to ask Elizabeth Speed again, does Noble Group have both betting shops and adult gaming centres? Would you have a strategy, or do you think...
people have a strategy, whether you pursue it yourself? Other operators might have a strategy of locating betting shops near to adult gaming centres where they can offer the type of machines that are not available in the gaming centres.

**Elizabeth Speed:** We have three betting premises so it really is very—

**Damian Collins:** But in general, if there are new betting shops opening up—people have referred to that today; we have heard evidence on that so far in this inquiry—do you think that is something that is being done? Are people opening betting shops near gaming centres where they know the sort of machines that were available there are not available anymore and, therefore, can meet that demand in a different environment?

**Elizabeth Speed:** Yes, I think you would find that would be the case. High streets, yes, and where we do have our limited number of betting premises, we have are exactly same policies, procedures, standards, training and records maintained there as we do in the AGCs.

**Q293 Chair:** When it comes to the competition that you face from betting shops, is your position that you would rather betting shops did not have B2s or that you would rather adult betting centres should have B2s?

**Leslie MacLeod-Miller:** I think our position is—I will defer to my colleagues after this—that regulation should follow Hampton and best regulation principles, which means it should be evidence-based and consistent. If there is evidence that B2 machines are a problem, they should be addressed. If the evidence is that they are not, they should be provided in all adult premises.

**John Bollom:** It should be the same. We have the same controls and physically the same or very similar premises. I don’t understand why there are different machines. Whether it goes up or whether it goes down does not matter, as long as it is the same.

**Peter Harvey:** In giving oral evidence, both the casinos and the bookies have said they welcome competition. We cannot currently compete on the same level. We just want the opportunity to be able to do that.

**Q294 Chair:** What about online gambling? How significant a problem do you see that being in terms of competition?

**Leslie MacLeod-Miller:** I think there are two issues with remote. Firstly, it is fundamentally unfair to have two games that are identical, which can be watched on television or on your mobile phone and without any regulation at all, and another that is provided in our premises with a regulatory burden but, rightly, with correct procedures in place to protect the vulnerable. There is also a problem with tax. It is unfair for a taxpayer that there are companies that are offshore, monetising British taxpayers and not paying towards the infrastructure.

You will be aware that the recent Danish case said that in order to bring these companies onshore, you should provide them with a preferential rate. I am certain that is not the answer. We need to have consistency again in regulation and taxation. Remote is just another form of distribution. It should be subject to the same regulation and the same tax structure.

**Q295 Chair:** Do you worry about online?

**Peter Harvey:** It is the same competition rules for us, really. We are all chasing the leisure pound. We would just like to see parity in terms of taxes, costs and operating in the UK customer market.

**Q296 Mrs Mensch:** You have talked a little bit about the regulatory environment, especially your social responsibility. You will be aware that there are different views across the gambling industry about how much problem gambling is a problem, particularly for adult gaming centres. How do you see the issue of problem gambling in your centres? How big an issue is it for you?

**Elizabeth Speed:** One problem gambler is too many for us, and you will have heard throughout the sessions you have attended that the industry takes it very seriously. We have policies and procedures in place; all our staff are trained, the training is refreshed frequently, and failure to adhere to those policies and procedures is a disciplinary matter. We take it extremely seriously.

You heard a little bit this morning about self-exclusion and the interaction that we are obliged to and indeed do undertake with customers that we see may have an issue, whether they come to us or whether we approach them. There is an issue, and I think that has been proven, but it needs to be kept in perspective of the number of people: 73% of the adult population gamble and the proportions of problem gambling need to be viewed in that context.

**Q297 Mrs Mensch:** In terms of keeping an eye on it, you need to have some data, don’t you? What levels do you perceive and what records do you keep of the prevalence of problem gambling in adult gaming centres? I am particularly interested in how that compares to other gambling products and other gambling offers, because many of your competitors argue that it is a bigger problem in adult gaming centres because machines—just machines—are more addictive than a more sociable environment, let us say a bingo hall. How do you respond to those concerns and what data do you keep on the prevalence of problem gambling needs to be viewed in that context.

**Q298 Mrs Mensch:** How big are the levels? How big are the levels at adult gaming centres?

**Elizabeth Speed:** I don’t have the figures with me, I am afraid.
Q299 Mrs Mensch: Do you know?
Peter Harvey: I don’t know the numbers but I would like to come in, because your premise is that gambling machines are problems. We do not see that in our venues because socially responsible processes are in place. Elizabeth has already talked about the training—the induction and ongoing training that they do. We do the same; we also have an ongoing live document in the venue, which is used every day in the way the staff work with the customers and record any instances like that. It is our people who uphold the principles of the LCCP, and that is an ongoing core principle of the way we operate our AGCs.

Leslie MacLeod-Miller: I think it is important to note, because it is all about evidence, that the best evidence we have apart from our social responsibility procedures, which I have talked about, and if for over a decade—well before we had the new Act—is that the prevalence study said that slot machine use was down. There were other sectors where there was an increase, particularly betting moving from 3% to 9% on matters that were not racing related, also on scratch cards, on the lottery. I think the evidence shows that slot machines are down, and there is no evidence to say that our particular sector is increasing in its problem gambling profile. In fact, I would be very surprised if it was, because we have made such an investment in dealing with problem gambling. We helped set up GamCare. We run GamCare training. We have members of the industry on the GamCare board and we contribute. As an industry, we contributed £22 million—it is not that much, is it—towards research, education and treatment since 2004/2005, and a contribution towards research, education and treatment is a condition of membership.

Q300 Mrs Mensch: That answers the next question about what measures you are taking to reduce the risk of problem gambling, but if we go back to the evidence base, I was struck in this session and the last how heavy on anecdote things are about problem gambling and how light on data the industry appears to be. If we are talking about an evidence-based problem, my colleague Mr Rotheram referred to Professor Hancock’s evidence. She cites your own evidence figures—and I am quoting her—“a 7% rise in profits, £87 million of which comes from B3s, and that is hard evidence that there is a lot more gambling going on on these machines and might be hard evidence of problem gambling.”

Leslie MacLeod-Miller: Can I point out that, of course, academics have their own particular wish to analyse any data and create their own profile, so we need to be very careful about understanding the motivation for comments such as that. You will find there are many academics with different points of view. What we are interested in is objective evidence and that objective evidence in the prevalence study. That prevalence study said that playing on slot machines was down, from 14% down to 13%. There is actually less play on B3 machines.

Mrs Mensch: Do you agree with that, Mrs Speed?
Elizabeth Speed: Yes, I do.

Leslie MacLeod-Miller: I would like to point out, of course, academics have their own particular wish to analyse any data and create their own profile, so we need to be very careful about understanding the motivation for comments such as that. You will find there are many academics with different points of view. What we are interested in is objective evidence and that objective evidence in the prevalence study. That prevalence study said that playing on slot machines was down, from 14% down to 13%. There is actually less play on B3 machines.

Q301 Mrs Mensch: Do you not accept that they are actual industry revenue figures that have a 7% rise in profit, and £87 million of that is coming from B3 machines, and that is hard evidence that there is a lot more gambling going on on these machines and might be hard evidence of problem gambling?

Derek Petrie: I certainly wouldn’t accept that, and I would cite the arcades closing and the manufacturers closing down. If I had money to spend on new machines and they were right, I would buy them.

Peter Harvey: You have to go back to what we are. Our revenues have dropped in the first instance. We have to go back to what we are. We have got a very low stake venue. You do not go to an AGC to try to chase a big win. There are other gambling environments that you can go in and lose your week’s wages very quickly. It will take you a very long time to lose a lot of money in our venues, and our staff are trained to help the people that do that.

Mrs Mensch: Do you agree with that, Mrs Speed?
Elizabeth Speed: Yes, I do.

Leslie MacLeod-Miller: I would like to point out that, of course, academics have their own particular wish to analyse any data and create their own profile, so we need to be very careful about understanding the motivation for comments such as that. You will find there are many academics with different points of view. What we are interested in is objective evidence and that objective evidence in the prevalence study. That prevalence study said that playing on slot machines was down, from 14% down to 13%. There is actually less play on B3 machines.

Q302 Steve Rotheram: Following on from the last question, I understand the importance of seaside resorts and the arcades. I live about 10 miles away from Southport, where I go with the kids; and when I was a young child myself, my aspirations were to go to Blackpool. Now, apparently, it is a Vegas sort of place, so let me ask Louise here earlier—so, how times have changed. In regard to the steps that the industry have taken to ensure that children do not play on inappropriate gambling machines and stick to category D, so that category D games are on your
premises, should they be able to play at all on any machines given that the rest of Europe prohibits it?
John Bollom: I have a small seaside amusement arcade and I have had it for 25 years. When I was a kid, the only place we could play them was at the seaside, and I used to go with my old grandmother once a year. I firmly believe that because children can play them, and it is the only country in the civilised world where they are allowed to play them legally, it teaches them early on that you can't win on them. It is harmless amusement.

Leslie MacLeod-Miller: This matter was discussed at great length during the parliamentary debate, which is why we have section 59 of the Act, which says that if there is evidence of an issue with children playing on category D machines, the Secretary of State can prescribe specific machines or specific ages at which children can play. Following intensive parliamentary debate, it was decided that it was appropriate by Parliament that children in this country should be entitled to play. After all, in our country, while they do play, we have one of the lowest records on problem gambling in the world, of which we are very justly proud.

Q303 Chair: Derek, I am quite interested, in your comment that it teaches them that they cannot win. I never saw anybody actually get a teddy bear with a grabber, but occasionally somebody did.
Derek Petrie: I spend £20,000 a year on teddy bears, so somebody does, and in our business, as I say, many machines don't pay. If people see people winning, they will carry on winning, and I am proud to say that no one ever leaves my arcade without a prize; if they do not win one, we give them something.
Chair: Oh, really?
Derek Petrie: Yes.
Leslie MacLeod-Miller: Where is that arcade?
Derek Petrie: In Somerset.
John Bollom: At the seaside, a lot of it is actually selling time. It isn't necessarily about the gambling and the winning. It is entertainment on a machine, and children enjoy seeing tuppenny coins falling down off the shelf, and yes, they win a few and it all goes back in, but it isn't actually gambling as such. They do not set off with the premise of walking away with a lot more money than they came in with.
Q304 Steve Rotheram: I don't necessarily agree with that. That is exactly what I think—
John Bollom: I don't at all. I think the—
Steve Rotheram: With the excitement of the lights and that—I just said it when we walked into there—I felt almost obliged to put a couple of pounds into the slot machines, because that is what arcades are. They are very enticing and they do pull you in.
John Bollom: No, I was talking specifically about children and lower-level machines, like the redemption ticket machines, the pusher machines and the teddy bear machines, not the type of machines you are seeing across the—
Derek Petrie: In family arcades, we are selling time, really. They will bring the kids out for a couple of hours in the evening or if it is raining and they can't go on the beach they will come in. Two or three pounds would last them the best part of an hour and a half.
Q305 Steve Rotheram: The best way to do it so that you don't lose any money at all—I know this because I was absolutely skirt but I took the kids there—is if you give them £1 and they put it in the change machine for 5p and you get £1 outright, and then you go and change it for the £1 and they think that they have won all the time.
Derek Petrie: So that is where they are coming from. Mrs Mensch: I used to do exactly the same thing. I find it works an absolute treat. I am interested because, I must say, I never actually thought of the teddy bear machines as gambling machines and, having three children with ages between eight and four, I use these machines all the time in a sort of soft play centre.
You say it teaches the children that they never win, and as a mother I can tell you it can be pretty frustrating dealing with the tears of a child when they don't get the teddy bear. I am encouraged to see the new generation of machines where you always win something. The toys are very small and very cheap and your child cannot walk away without winning something. They may not win the one they want, but they will get a little plastic toy.
John Bollom: That really is a vending machine, actually.
Q306 Mrs Mensch: Yes. Do you put those in or do you specifically stick to the machines where you might win a teddy or you might lose a teddy, or do you get the winning every time thing? They are not quite gambling machines.
Derek Petrie: We have both, for exactly the reason you said. If your children are in tears, you can go to that machine and you can pay £1 and you can get them a toy, and that is my family business.
Mrs Mensch: Yes. Although it is not strictly a gambling thing, it strikes me as a socially responsible thing to put in for all the mothers with an overtired child at the seaside and fathers at the seaside. That is good to know.
Q307 Philip Davies: Coming back to problem gambling, can you explain to me from your
Peter Harvey: I think the answer to that is we don’t see that many. We generally do not.

Q308 Philip Davies: What are you looking for? If you had one, how would you know you have one?

Peter Harvey: If you go back to largely what an adult gaming centre is, it is typically a place where people come for fun, enjoyment and slots, and look for a good atmosphere. Most of our staff know most of the customers who come in because it is about community, and they recognise behavioural changes and they can pick up on that and they can talk to them. I think the Bingo Association talked about being discreet in some of the conversations that they have had with people who are displaying unusual behavioural patterns, if I can put it like that, and then they will work with them.

Q309 Philip Davies: People who might normally come in and spend—I don’t know—an hour at a time on a machine all of a sudden are now in there for five hours at a time. Is that in effect what you are talking about?

Peter Harvey: I would believe that if somebody came in and started doing something like that and there was a complete change of behaviour, the member of staff would engage with them and they would work with them.

Elizabeth Speed: Yes, I concur with that—any display of high emotion, any display of extreme upset, for example, in the outcome of their gambling. Yes, staff are trained and, as Peter says, these are generally return customers, so staff and the customers have a very good relationship.

Q310 Philip Davies: Leslie, you were rattling off a load of figures earlier. I might have missed it, but how much does your sector provide to the GREaT Foundation?

Leslie MacLeod-Miller: We used to have access to that figure which isn’t available to us anymore. While as an industry, we put together an amount of £5 million, we used to collect the amount on their behalf. That changed so that those figures now go directly to GREaT, and the way it works is that GREaT contacts our members directly, and then, if there is a problem with collection, they come back to us, but contribution to GREaT is a condition of membership.

Q311 Philip Davies: So you do not do a survey of all your members to find out how much they contribute or anything like that?

Leslie MacLeod-Miller: We work with GREaT, and you will understand that the management of GREaT has recently changed and we are still engaging with the new management.

Derek Petrie: You could get those figures. It is a condition of your Gambling Commission licence that you make a contribution to research, education and treatment, and on the annual return it is, “How much have you made and how have you made it?” So the Gambling Commission would have those figures.

Q312 Philip Davies: Do you think that the money that you give to GREaT is well spent? Do you hand it over painstakingly or do you hand it over willingly?

Leslie MacLeod-Miller: It is a huge issue for us. The Gambling Commission has suggested that in their view there should be a tripartite system rather than having a statutory levy. We said that was inappropriate and that it was symptomatic of a regulator that was accustomed to a great bureaucracy around them, and that instead of spending £500,000 on administration for research, education and treatment, we should have a slimmed-down version. We now do have a slimmed-down version that has only been recently announced by GREaT with, I understand, the support of the Minister, and we believe that we need to look very closely at what we do with this £5 million. What is value for money? What are we trying to achieve in research, education and treatment? Set those parameters and assist both the regulator and the Department to reach those.

Q313 Philip Davies: Is it important that it stays as a voluntary levy and does not become a statutory, or does it not matter to you whether it is voluntary or statutory?

Leslie MacLeod-Miller: I believe it is, because after all, part of being socially responsible is that you make a contribution. If you are then required to make that, so that it becomes a mandatory levy, how does that demonstrate your social responsibility? It is not very “big society”, is it?

Mrs Mensch: You could always pay extra.

Q314 Philip Davies: Yes, I am sure they wouldn’t turn it down.

What about the Gambling Commission? What is your sector’s view of the Gambling Commission? I read in your evidence that you were not particularly complimentary about the Commission in terms of the value for money aspect. Why do you not think they provide value for money?

Elizabeth Speed: I have referred to the figures in our first-year increase, which is an astronomical increase in fees for no noticeable difference in the regulation. We have a very good relationship with the Gambling Commission. They have some very good people. We are a large organisation and the Commission knows that everything is centralised; all our policies and procedures and so on are kept internally. We have an annual meeting, as I dare say Peter has, with our main Commission contact where we go through absolutely everything. It is a two or three-day meeting. Why then do we also need repeated visits to sites on the ground when it would appear, from the evidence I have heard today, that smaller organisations very rarely see compliance officers? We are in contact with them a great deal.

One of the other issues that we do have with the Commission is lack of consistency, nationally among the compliance officers, to a degree, but also in their treatment of particular issues centrally. We have had a discussion with the Commission recently on a particular operational matter, which we have discussed. We had different views on a particular issue. Another operator takes exactly the same view...
as we do, but the Commission does not appear to have engaged with them in the same way they have with us.

Q315 Philip Davies: Just remind me again. What did you used to pay under the Gaming Board and what do you pay now?
Elizabeth Speed: One of our divisions for a year under the old regime was about £11,000 annual cost. When the Act came in— and some of these costs are one-off— the conversion fees we are looking at were about £800,000.

Q316 Philip Davies: What did you used to pay?
Peter Harvey: We have seen a 12-fold increase in terms of cost, but for us again I think the Commission have been on a bit of a journey. The first year I think they were floored a little bit. The second year they were restating the guidelines and principles about the Gambling Act and what they were trying to do, but I think the biggest issue is one of enforcement at the moment, whereby the Gambling Commission does not have the teeth to be able to enforce a lot of the Act. It is down to local authorities who don’t have the experience and knowledge. We deal with 107 local authorities and there is absolutely no consistency across any of them.

Q317 Philip Davies: What sort of fee do you think you should pay to the Gambling Commission? What do you think would be a fair amount for you to pay?
Elizabeth Speed: That is not an exercise that we have conducted, but it must be less than that. We were regulated, in our view, perfectly adequately under the old regime.

Q318 Philip Davies: Is half what you think would be a fair amount, or would you still complain about that?
Peter Harvey: A gain, I sound like a broken record. I am going back to the same point. It should be fair and consistent across all of the sectors and we should all contribute equally.

Leslie MacLeod-Miller: It is interesting to note that the old regulator had 75 staff at a cost of £4.1 million a year. The new regulator has 203 staff at a cost of approximately £14 million a year. It is difficult because people always say the regulator is too expensive, but we were regulated before, so it is not from a blank sheet of paper. There is a real feeling that the regulator has suffered, as has the industry, from not being formed when people understood what the environment would be in Great Britain. The industry would be the gateway to gambling, and it is clearly not. When they formed their policies and procedures and formed their structure, they believed that the gambling industry would be enormous and that they would be looking after remote— that people would be piling into Las Vegas-style casinos. They went around to every country taking the detectable regulatory titbits from the regulatory tables, so we are suffering from a sort of regulatory obesity. Each piece of regulation is wafer-thin and we need to try to get them back to some sort of proportionate risk-based approach. It has resisted countless reports. There was the Hampton review that said, “Yes, you must try harder.” There is no practical implementation of Hampton. The All-Party Betting and Gaming Group called the Commission to answer, “Are you good value for money?” They refused to appear. There is a sense in which they are unaccountable and we no longer enjoy the collaborative approach that could help drive down costs and be truly effective.

Peter Harvey: Could I add to that? Because we are the largest, the Gambling Commission does talk to us and there is now a two-way dialogue between us that works pretty well. Actually, from what I have seen and what I have heard, the smaller operators have less visibility to the Gambling Commission, and perhaps that is where they are feeling it more than we are.

Q319 Philip Davies: My final question is that from your evidence, both written and today, there have obviously been a lot of disputes about your regulation compared to betting shops and all the rest of it. Do you think the gambling industry has suffered by different parts of it squabbling among themselves about what the right regulation is, rather than supporting each other to try to promote gambling across the board? Do you think you have been held back by trying to be like Dick Dastardly and trying to do down another part of the gambling industry, rather than all promoting each other?

Leslie MacLeod-Miller: The industry and Britain has been down by legislation of this nature made in a wash-up. If you have legislation that is basically inconsistent, which does not allow adult premises to provide the same consumer offer, you will inevitably have a situation where people are fighting for their livelihoods and then justifiably complaining about it. The answer is, yes, it is damaging. It is very difficult for Government to bring about changes when you have an industry without a united voice, but if the basic regulatory environment that is visited upon a pre-existing industry is unfair and does not follow the Hampton principles, I think it is an inevitable result.

John Bollom: That used to be the case before 2007, before this Act was implemented. There was a pretty unified voice across gambling. The changes that were brought about by the 2005 Act and the disparities between the different sectors have caused the problem.

Peter Harvey: It is regulatory and taxation, to be clear.

Q320 Chair: Can I just say to Leslie, it is true that the final stages of the Gambling Act were taken in the wash-up, but unlike, for instance, the Digital Economy Act, which was done in the wash-up with no debate in the House of Commons at all, or barely any, the Gambling Bill went through weeks and weeks at the Committee stage? I endured it, so I do not think it is true to say it did not get properly scrutinised. That the policies changed every five minutes is perfectly true, but nonetheless, it was examined.

Leslie MacLeod-Miller: It is true that it was examined, but there was always the hope that at the end, evidence-based regulation would overweight it. While we are grateful for the Scrutiny Committee and their report, there were some fundamental elements of lack of consistency that were never properly addressed.

Chair: They were highlighted; they were not altered.
Leslie MacLeod-Miller: But they were not addressed.

Q321 Chair: They were not addressed, but I don’t think that was lack of time. It was lack of will on the part of the Government.

Leslie MacLeod-Miller: No comment.

Q322 Damian Collins: Do you think you are being ripped off? It sounds to me that you are being asked to pay money to treat problem gambling that you don’t really believe exists, or that you believe you can deal with through your own premises, and for regulation that you don’t need. Is this all just some great big ruse to deal with the media obsession with problem gambling that may not exist?

Leslie MacLeod-Miller: I am sorry, I am going to pass to my colleagues, but we take problem gambling very seriously. We do believe that we should pay. We have always paid. We helped to form GamCare and provide funding for it, so it is certainly not a ruse. Problem gambling is an issue. As Elizabeth said, if we have one problem gambler, it is one problem gambler too many. We have consistently supported GamCare and the Government and the regulator in any initiatives in relation to problem gambling and we will certainly continue to do so.

Q323 Damian Collins: But everyone says that and then everyone says, “Well, problem gambling is very rare. We rarely encounter it. We don’t see very much of it and the official statistics suggest that it is a tiny percentage.” We could question the methodology behind that data, but the question I am really getting at is, do you think what you are being asked to pay is disproportionate to the size of the problem?

Peter Harvey: Let me answer from an operator end. We are the largest UK operator. We are more than happy to contribute to the Foundation. If you look at our revenue as a percentage of the total gambling market, we pay a bigger percentage than we are in terms of the market, we pay a bigger percentage than we are in relation to problem gambling and we will certainly continue to do so.

Q324 Damian Collins: Do you think you should probably be paying a bit less, with other people chipping in?

Peter Harvey: No, I am happy with what we are paying, but I just think more people could pay more across the whole of the gambling sector.

Derek Petrie: I am also happy with what I pay. In fact, I am going to be paying more than we are supposed to. Not much more, £1,500 more depending on what sort of season we have, but I am happy to pay it.

Q325 Damian Collins: Are you happy with how the money is being spent?

Derek Petrie: Yes.

Leslie MacLeod-Miller: I think what you mean is are we happy that it is being spent on research, education and treatment to deal with problem gambling? There have been serious concerns, which we have aired previously, about value for money and what we are trying to achieve, so the concept of £500,000 being taken up in administration, rather than dealing with treatment, was something that we complained to the Minister about, and we are grateful that that seems to have changed, but there are still issues. For example, we have been asked to trial a freephone help number on machines in tandem with the existing GamCare number. There is no evidence that that is going to make any real change to really benefit research, education and treatment, and surely we could be using our money and our resource in a more targeted way.

Q326 Chair: Can I put a final question to you? You have painted a pretty bleak picture of the current state of your industry. We come here to what is a very impressive, state-of-the-art bingo club. They have reinvented it, so now it is not just the old traditional bingo; it is family entertainment with drinks, meals and socialising. To what extent do you think your industry is capable of changing your offering to bring customers back, or is it the case that actually you are dying?

Derek Petrie: First of all, we can’t offer drinks. We can’t offer inducements to gamble. Are we dead? I don’t think so. I hope not.

Q327 Chair: Do you think there is still a bright future, though?

Derek Petrie: I think that the strongest have survived. I just hope we can carry on and get somewhere from it.

John Bollom: I can take you to examples in our sector similar to this, a bright new shiny state-of-the-art premises. There are piers at Weston-super-Mare and all these sort of things that I am sure you have read about, where operators have made the investment there. Again, it is very specific in terms of operators with the capital and wherewithal to do it and the right locations, but I think we will go forward—there is no doubt about that at all—but it is a shame that the basis on which it was built on for so many years, and so successfully, was changed in 2007.

Peter Harvey: The way we have survived over the last four years is we have continued to invest in our properties to make a lighter, brighter, more airy, more social environment. We have continued to invest in machines. We are one of the few operators that have consistently paid millions of pounds’ worth of cash for new machines over the course of the years, and we have continued to invest in our people and we keep redefining the model. I go back to what I said earlier on. We are not able to offer the breadth of gambling products that the other sectors are able to do, and we would like to have the choice of whether to do that or not.

Q328 Chair: But your view is that even though we now have X boxes and PlayStations for children and online gambling for adults, the traditional seaside-type arcade still has a future?

Derek Petrie: Yes.

John Bollom: As long as we are not taxed out of existence.

Chair: Oh, indeed.
Peter Harvey: There is a future, but it has to continually evolve.

Chair: I think that is all we have, and I thank you all.
Tuesday 8 November 2011

Members present:
Mr John Whittingdale (Chair)

Damian Collins
Mr Steve Rotheram
Philip Davies
Mr Adrian Sanders
Paul Farrelly
Jim Sheridan

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Examination of Witnesses

Witnesses: Clive Hawkswood, Chief Executive, Remote Gambling Association, John Coates, Chairman, Remote Gambling Association and Chief Executive, bet365, Peter Reynolds, Director of Communications, bwin.party, Martin Craddock, Chief Legal and Regulatory Officer, Betfair, and Charles Cohen, Chief Executive, Probability, gave evidence.

Q329 Chair: Good morning. This is a further session of the Committee's inquiry into implementation of the Gambling Act. For the first part of this morning we are concentrating on online gambling, so may I welcome Clive Hawkswood, the Chief Executive of the Remote Gambling Association, John Coates, the Chairman of the Remote Gambling Association, Peter Reynolds, Director of Communications for bwin.party marketing (UK), Martin Craddock of Betfair and Charles Cohen, Chief Executive of Probability.

You have seen pretty rapid growth in the last few years in the online gambling sector. Do you think that you can sustain that growth and to what extent do you think it is at the expense of offline?

Clive Hawkswood: I will start on that one. We certainly think there is further growth and the main reason for that is because e-commerce is growing in any case, so online retail is a growing sector. If anything, we lag slightly behind the growth in online. Things like Tesco online would be a huge one. Their growth is probably between 15% and 20% year on year; ours would be a bit below that. In terms of a growing market, yes, obviously we like to think that you can sustain that growth and to what extent do you think it is at the expense of offline?

Charles Cohen: No, none. They just tell us they don't do it.

Q331 Chair: So these are completely new gamblers?

Charles Cohen: Yes. The only other gambling that they do, not that they think of it as gambling, is the lottery.

Martin Craddock: I think it is inevitable, Chairman, that if you look at the next generation—I have a 21-year-old stepson and watch him closely—they are not going to be as interested in offline as perhaps we were when we were that age. I think it is inevitable with the growth of broadband, as Mr Hawkswood said with the growth of e-commerce, that there will be further growth in online and it is possibly at the expense of offline as well.

Q332 Chair: Your suggestion is not that existing gamblers are switching from land-based to online but that the next generation of gamblers will go straight to online?

Martin Craddock: Absolutely.

Chair: Which is equally bad news for the land-based industry.

Martin Craddock: In the long term, arguably, possibly yes.

Peter Reynolds: I think there is nothing to add. I think it has been covered. If you look at the scale of the global gambling markets it is around a $350 billion a year business. On latest estimates, the online or the interactive piece is around 8% of that, 8% or 9%, which has grown from around 5%. Echoing all the points that have been made, broadband penetration, the demographic factor—which is that the younger generations are much more drawn to the interactive channel; that is how they communicate, it is how they play games, it is how they want to play games—I think it is inevitable that that penetration rate will increase. Therefore, the growth rate of the online sector is almost certain to grow at a multiple of the land-based gaming sector.

Q333 Chair: One small point that was raised with us is the rather curious restrictions that exist at the moment that prevent land-based operators advertising their own online business in their clubs. That seems strange when you are free to advertise. Can you see any justification for that?
Clive Hawkswood: No, I don’t think we can. Obviously land-based and online have the same advertising freedoms. That is a question of what they can advertise and promote on their premises so it is slightly different but, as you say, there is no obvious rationale for it.

Q334 Mr Sanders: Can I ask John Coates and Martin Cruddace this question. Do you see yourselves primarily as UK companies or as global companies?

John Coates: We are a UK company in the sense that we are based in Stoke-on-Trent. However, around 30% of our revenues are from the UK so, although it is our biggest single market, 70% of our revenues are from overseas. So I suppose we are a UK-based international company, if that helps.

Martin Cruddace: We see ourselves in our DNA as very British. We started here. We have two Queen’s Awards for Enterprise in International Trade and we employ about 1,500 people here. I joined in 2004; I was employee number 425. We now have 2,500. But a key part of our strategy is geographic expansion in the online world and we have 300 employees in California, because we own the largest advance deposit wagering, legal online company in the United States as well. So, while our DNA is British and we are proud to be British—and our headquarters, I imagine, will always be here—none the less, geographic expansion is absolutely key to us.

Q335 Mr Sanders: But you operate a licence in Gibraltar, don’t you?

Martin Cruddace: Yes. I don’t know, Mr Sanders, if later on we will come on to that but that is very much for commercial reasons that we can talk about.

Q336 Mr Sanders: How dependent are you upon UK customers for your profits?

Martin Cruddace: Very dependent. It is over half our business.

Q337 Mr Sanders: Can I ask the same question of John Coates?

John Coates: Less dependent. Between 25% and 30% of our business is from UK customers, but we are based in the UK — in other words, licensed in the UK.

Q338 Mr Sanders: Mr Reynolds, what about bwin?

Peter Reynolds: A round 10% of our revenue is in the UK, so the UK is a relatively small market for us, and of those revenues the majority come from the marketing business that we have here. It is not gaming, it is marketing.

Q339 Damian Collins: I will address this question primarily to Charles Cohen but if anyone else on the panel has any comments I would be happy to hear them. It is about technological developments from gambling with handheld devices. Where do you see the industry going in the next few years with that?

Charles Cohen: I see it going all the way.

Q340 Damian Collins: Where is that?

Charles Cohen: I think this quarter or last quarter was the first quarter where shipments of smartphones exceeded shipments of desktop PCs worldwide and obviously those two lines are going in opposite directions. Over the next few years the majority of consumers worldwide will be people sitting in meetings using their BlackBerries and their iPhones and their iPads rather than desktop computers. As I think Martin just said, that is where people go to look for their entertainment, and I think the gaming industry in all its varied forms is going to go with it. Who the winners and the losers are is yet to be seen. Obviously I would like to think that we might be one of them, but time will tell.

Q341 Damian Collins: Do you think there are any regulatory issues about gambling with mobile devices? Could there be problems with people betting on live events they are actually at, with all the various platforms and keeping up with the developing events?

Charles Cohen: I have to admit I have complete ignorance of sports betting. I have no idea how it works.

John Coates: If I may take that one. We find with advances in technology we can change odds out enormously quickly. We don’t see a problem. We have a slight delay on in-play bets, so you place your bet, there is an eight-second delay before it is placed just to deal with any timing issues. No, we don’t see a problem. We haven’t come across any problems.

Q342 Damian Collins: I think there were problems with betting on tennis in the past, weren’t there, with people betting on points?

John Coates: Others can answer, but we have not seen issues with it. We are very comfortable that the information we are getting is pretty real time.

Q343 Damian Collins: Mr Cohen, do you think that the betting market will develop further into social networking platforms and that handheld devices will assist that?

Charles Cohen: It already is. Half of Facebook updates now are done from a mobile device and it is pretty straightforward to embed a service like ours into social networks and particularly Facebook. They have some rules around it but they are fairly relaxed. I think they rely on us being responsible. We have a very active community of our customers on Facebook and when they complain they complain very loudly and in public, and when they are happy they do the same thing. It is part of people’s lives and therefore they expect to be able to communicate with you as a provider of a service to them through those mechanisms. If you are not there then you simply cease to exist.

Q344 Damian Collins: In your written evidence you have recommended changes to the licensing regime to operate at the point of use rather than the point of production. Why do you want to see that change being made? What difference do you think it will make?

Charles Cohen: There are a lot of people I know who would love to start developing software for gaming in the UK and they have a choice—they can either do games that people download from the apps store for free, or they could get into the gaming sector. There
are a lot of fantastic ideas out there. The problem is they never see the light of day because in order to set up a company developing this sort of software in the UK you need a licence, even if it is never going to be used here. For a lot of people, particularly for start-up, it is just not feasible, it is not practical. They don’t want to have the Gambling Commission looking over their shoulder the whole time when they feel they are just writing some software that they can license to somebody else to use. Also, I would like to see the UK become a world centre for this kind of technology and I think it could be because we already have critical mass for mobile games development generally. In order to do that, people need to be able to come here freely, set up shop, start developing technology that can be used anywhere in the world, and again I don’t see why they should need to have permission just to do that.

Q345 Damian Collins: Principally that would presumably only largely benefit companies that were developing products that were not going to be used in the UK?
Charles Cohen: Yes, but it is a global market.

Q346 Damian Collins: Is that something we should be welcoming, necessarily, if a company is coming here and designing games that would not be regulated for players in the UK?
Charles Cohen: They can be regulated in the UK too but if you are developing a game, let’s say for the Chinese market, which is very different from anything that you would do in Europe, then if you can get that business into the UK you are going to help to create a centre of expertise.

Q347 Damian Collins: Do you think the current licensing regime is putting companies off?
Charles Cohen: Yes.

Q348 Damian Collins: Do you have any direct experience of that?
Charles Cohen: Yes.

Q349 Damian Collins: You do? Anything you can share with us?
Charles Cohen: Well, just conversations I have had with people over the last couple of years who had some great ideas and wanted to set something up. I have said, “You have to go and ask the Gambling Commission for permission” and they just disappear.

Q350 Damian Collins: Martin Cruddace, I understand in your evidence there is a similar but different theme about where appropriate licensing should take place. Befair recommended that companies should not be able to advertise and market to consumers in the UK unless they hold a licence. Could you say a little bit more about why you think that change would be significant?
Martin Cruddace: The DCMS have announced the Gambling Commission looking over their shoulder the whole time when they feel they are just writing some software that they can license to somebody else to use. Also, I would like to see the UK become a world centre for this kind of technology and I think it could be because we already have critical mass for mobile games development generally. In order to do that, people need to be able to come here freely, set up shop, start developing technology that can be used anywhere in the world, and again I don’t see why they should need to have permission just to do that.

Q351 Damian Collins: I imagine that type of restriction would be quite effective for larger players who want to advertise in the UK market in a big way. There is a very long tail of much smaller operators as well who will market themselves virally or through social networks or through search. If such a system is to be robust, do you think we will have to have site-blocking measures and persuade search engines to restrict access to sites that were unlicensed but trying to target UK customers?
Martin Cruddace: All of that might be great. I think the problem here is proportionality. You go to ISPs or you go to Facebook or wherever it may be and say, “You mustn’t do that” but I think that in the online world they will find a path of least resistance. Those that want to advertise virally or through affiliates that are based in jurisdictions a long way from here but targeting the UK market might do that. It is becoming easier and easier as well to hide the origin of yourself targeting the UK market might do that. It is becoming easier and easier as well to hide the origin of yourself as a customer. There are grave difficulties that we all face with enforcement because, of course, being a plc you tell us what the law is and we abide by that. There are those other companies a long way from here who really won’t be too interested, I am afraid.

Q352. Damian Collins: Do you think in that case we should have a regime that is built around the major players and not tie ourselves up in knots too much worrying about every small operator and trying to chase them?
Martin Cruddace: I think so, and I think then a central tenet is to make the regulation hit a sweet spot so you don’t have such onerous regulation that no one wants to be regulated, but make it so that those that want to be regulated and want to abide by the rules can do so without too much of a commercial risk to those that don’t want to be regulated.

Peter Reynolds: I think that point, I think the best format for regulation is to make it as attractive as possible for the large quoted and regulated industry operators to participate so there is a greater advantage of being in the regulated market than out of it. As soon as that balance shifts, that is when you have a problem. A classic example is in France, where they have created an extremely onerous regulated regime. In fact, we saw some figures, I think today, that have just come out saying that there has been a significant
decline in the regulated sports betting market because commercially it is very difficult for regulated operators to compete with the unregulated operators. So the best thing you can do is to create a framework where there is a much greater attraction to be in the regulated framework than outside it. That is the best protection and the best regulated regime you can have.

**Martin Cruddace:** If I could just completely echo that, but I think as well it is very important that you understand that regulation is a positive selling point for us. We don’t see it as an unnecessary burden. I think commercially it is important and there is a fair wind behind us, given the difficulties that certain illegal operators that have targeted the United States have faced with customer funds and things of that nature, and it shows the difficulties that you may have if you don’t feel confidence as a customer in the regulated entity or the regulated authority.

**Q353 Damian Collins:** One final question I have is addressed to Clive Hawkswood. In the Remote Gambling Association’s evidence you cited match fixing in sports and sports betting, and this is principally an issue for sports and sports regulatory bodies rather than the gambling industry. I have every sympathy with that, but do you think there should be greater obligations in terms of data sharing between the industry and regulatory bodies? I think I have read that in France they have now introduced a statutory obligation on the gambling industry to share data and information. I know a lot of that goes on informally at the moment but do you think there needs to be more done in that area?

**Clive Hawkswood:** Of course, there is that in the UK, so there is an obligation to share information with the Gambling Commission. I think that is good practice.

**Q354 Philip Davies:** I want to go back to a point that Damian made. He was on to something and I think, John, you dismissed it—maybe a bit too quickly: how modern technology and in-running betting is affected by people placing bets already knowing the result. Martin, you will know where I am coming from here because this is predominantly something that has affected football.

**Martin Cruddace:** I thought I had got away with that then.

**Philip Davies:** I wondered if you could give us your take on it. There has been an issue with people betting in running, laying a horse that has just fallen and somebody who is placing a bet does not know the thing has fallen because they are watching a TV screen that is eight seconds or so behind time. What about that issue of people who are, in effect, backing a horse that somebody else knows has fallen?

**Martin Cruddace:** I think there are two points to that. The first point is that the best advertisement for the integrity of the market is the depth of the market and the volume of the market, and our horse racing in-running odds market is voluminous and in-depth.

**Q355 Philip Davies:** It can go horribly wrong but it can go very right as well, can’t it? I hear stories of these punters who hire boxes at racecourses so they can watch the race live and do the in-running betting knowing that they have a massive advantage over the punter sat watching it on a TV screen or a computer screen. So if it is worth it for them to hire a box at a racecourse in order to do it, you would think it is fairly lucrative.

**Martin Cruddace:** You would imagine so, but I think that some of those stories may be slightly apocryphal because the point is that you have to rely on the internet access, 3G access and, given that pictures now are so real time, to me the advantages would be minimal. That said, I am not saying that there is no advantage. What I am saying is that it is very important that before you place your bet you are aware that across any platform—it could be our platform, it could be anyone’s platform—somewhere someone may have access to faster pictures than you and you must bear that in mind when you place your bet. It is a question then of how you want better to regulate that. I can’t think of better regulations than a warning before you want to do it. I happen to love in-play horse racing betting and I am very confident about doing it, but would I do it coming up to a fence? Who knows? But the position is that the warning is there.

**John Coates:** If I could clarify my point. In the fixed odds market it is us seeing the pictures and laying the odds so it is a different situation, hence the answer.

**Q356 Paul Farrelly:** I have a series of questions for each member of the panel centred on those two ugly sisters, regulation and taxation. I have to leave in 40 minutes—I won’t go on that long to get a ticket for a funeral. It seems unfair to single out Betfair yet again, but why did you relocate your licence to Gibraltar in March?

**Martin Cruddace:** Basically for competitive reasons—to maintain a level playing field with all
other operators that were not licensed in the UK, other
than our good friends at bet365. The savings on GPT
were such that if we didn’t, we would be unable to be
as competitive as we would expect to be, and as we
have a duty to our shareholders to be. So it is
predominantly for commercial reasons.

Q357 Paul Farrelly: Is that in terms of the odds you
are able to offer?

Martin Cruddace: Yes, and our profitability—of
course, we don’t offer odds; it is other people offering
odds on the site—but in terms of the commission
structure and such things as well. While we pride
ourselves on having better odds, the fact is the market,
as I think John will confirm, has got so competitive
that it is really important to have a level playing field
so that everyone’s tax liability in relation to gross
profits tax and in relation to gambling legislation is
the same.

Q358 Paul Farrelly: I have a few questions for John
in a moment, but could you just explain this. You have
moved your licence to Gibraltar; what does that mean
physically and operationally?

Martin Cruddace: The most important thing to realise
is that under the Act—section 36 of the current
Gambling Act here—and I am sure John will come on
to this as well—if someone places a bet through your
server located in the United Kingdom then you are
liable for tax and to be regulated on that person’s bet,
no matter where it comes from in the world. If we
didn’t divert our business away from the UK licence you
would have the following position. For a Danish
customer, who is regulated in Denmark, we pay 20%
gross profits tax on that Danish customer’s business,
and then, if your server was based in the UK, you
would go through the UK and you would pay 15% on
that. That is not viable as a business.

Q359 Paul Farrelly: Physically, is it just the paper
and relocation of servers?

Martin Cruddace: All of the servers and all of the
customer-facing staff—it’s basically a broad brush. I
could write an essay on it, and I am happy to, but
basically it is the servers and customer-facing staff.

Q360 Paul Farrelly: Going from zero in Gibraltar,
presumably, to how many staff now in Gibraltar?

Martin Cruddace: You don’t actually have to have the
staff in Gibraltar. We have 30 or 40 staff in Gibraltar
but we have 3001 in Ireland.

Q361 Paul Farrelly: I just wanted to get the people
side of it there. In your evidence you highlight that
there is a clear failure of the Act, in that online
operators have gone offshore and the Treasury has
failed to secure significant online gambling revenues.
You say this is due to the non-complementary
structures of the regulatory and fiscal regimes. What
do you mean by non-complementary?

Martin Cruddace: What I mean is that what the
Gambling Act—I was here then and I went through
it all—was meant to do was to regulate all forms of
gambling, and of course this amazing growth
environment of online gambling as well, but it was
pretty difficult to do that if the UK Government
insisted that for online gambling gross profits tax
would be 15%, whereas in Gibraltar it is effectively
zero, the same as Malta. So it was not sustainable.
The fiscal policy was not in line with the regulatory
policy. The other problem, of course, is that, as a
requirement under section 36, if the servers are based
here then you cannot even capture UK customers, you
can only capture every customer going through that
server, as I have said earlier. So you have the real risk,
which is what John has, of double taxation, which
simply makes the business completely unviable. The
most important thing is that the Government did all of
this work, and I think the Gambling Act is a fine piece
of legislation, but it did not marry up with the fiscal
strategy and fiscal policy of the Treasury at that time.

Q362 Paul Farrelly: One of the other things you
highlight in the Act is that there is a demand if you
got a UK licence that you locate your equipment,
however that is defined, here to be able to hold it. Is
the UK unique in its approach on that?

Martin Cruddace: Among all of the leading countries
in Europe in terms of market size, yes. There are one
or two small Eastern European countries that insist on
it, but basically all of the regulations that we are now
seeing in Europe—in Italy, Denmark, Spain and
Germany—do not insist on servers. They seek to
capture the business of that country; they do not seek
to capture all of the business, so there is not a
requirement to put servers in their jurisdiction.
Clearly, it is not viable to have servers in every
jurisdiction. It simply, again, makes all of our
businesses unviable.

Q363 Paul Farrelly: I want to come to your remedy
for regulation in a moment, but, Peter, reading your
submission, when it comes to regulation you don’t
seem to have much to say. It all seems to be tickety-
boo and don’t change it.

Peter Reynolds: I think we just feel that the UK
regulation is working effectively. Customers have a
great offer. As we have already heard, the UK is
probably the most competitive market in the world, I
would think, because it is a great regime, people are
able to advertise and promote their services. The
customer is getting a great deal here, problem
gambling is relatively low, and for us we just wonder
what the problem is with the regulation?

Q364 Paul Farrelly: Do you think Martin’s concerns
about the way the Act is working are really a
reflection of the percentage of business that Betfair
does in the UK compared with yourselves?

Peter Reynolds: No. The UK is still a material market
for us, it is just less material. I think we all have
different operating structures so I am sure we could
give you a slightly different twist on it. But I agree
with Martin: I think the Gambling Act was a solid
piece of legislation that has created a great
environment for customers and for that reason I am
not sure we see any reason to change it.
Q365 Paul Farrelly: John, could I ask you, why does Bet365 split its licensing approach—sports betting here, casino games, poker in another jurisdiction? Are there particular different characteristics of each side of the business that we should understand?

John Coates: The reasons were historic. Before the Gambling Act, when we started out in 2000 you could only license yourself for sports betting under the Betting, Gaming and Lotteries Act 1963 in the UK. You could not license your casino games and poker. Therefore, we always had that structure and when the Gambling Act came through we kept that structure, so we remained licensed for sports betting in the UK but we didn’t move our gaming business.

Q366 Paul Farrelly: So is it not an economic decision?

John Coates: No. That was how we were set up through necessity.

Q367 Paul Farrelly: The big question that most people would want to ask, particularly with Betfair moving in March, is why do you keep sports betting here, casino games, poker in another jurisdiction? Are there particular different characteristics of each side of the business that we should understand?

John Coates: It doesn’t make economic sense for us to do so, clearly. About 70% of our business is sport, so it is by far and away our biggest product. I think this year we will pay about £65 million in duty and that is not taking into account things like non-recoverable VAT, which was also around £20 million, which we would save from moving to Gibraltar. So it would make economic sense to move. The big issue we have in front of us, which Martin alluded to, is that we have a situation where 70% of our business is non-UK and we are starting to hit a very real problem, which is double taxation. We are already accruing for gross profits tax on our Spanish customers, which is about 6% of our business, so we are accruing for that in Spain. The licensing regime is coming in at the start of next year at 25% and we are also paying 15% in the UK. Denmark is another example where from January we will be paying 20% in Denmark and 15% gross profits tax, and that is just unsustainable. Unless there is a change and we don’t have to pay gross profits tax on non-UK customers, we have an issue facing us.

Q368 Paul Farrelly: I want to come on to that, but the question remains why are you still based in the UK and in Stoke-on-Trent?

John Coates: We employ 1,700 people in Stoke-on-Trent and we are from Stoke-on-Trent. It is not an economic decision. It is a bigger thing for us.

Q369 Paul Farrelly: I can imagine you have shareholders who don’t mind paying tax, but if you were quoted it would be a whole different thing.

John Coates: Well, the shareholders are my family, so we can make that decision. It doesn’t make any economic sense and if we were a public company we wouldn’t be able to make that decision, so I absolutely understand why Betfair made the decision they did. If we were a public company we would have had to do the same thing because shareholders would have demanded it.

Q370 Paul Farrelly: A part from the threat of double taxation in Europe, are there any other things in the offing, that are looming on the horizon, that would make it uneconomic for you to stay?

John Coates: The big issue for us is the rate of duty, which at the moment is high anyway. You have to look at tax in terms of all the other taxes as well—corporation tax, non-recoverable VAT levy—so it is a pretty hefty tax bill and we have always to keep an eye on that to ensure that we can still run a successful, profitable business. But the massive issue for us is a need to change the basis of the tax to one where effectively we are just paying it on UK customers so we can continue to create jobs in Stoke-on-Trent for our international business.

Q371 Paul Farrelly: My colleagues want to come on to what should or should not be done at EU and European level, but I don’t know, John, whether you have read Martin’s submission on Betfair’s remedy about regulation.

John Coates: I haven’t but I am sure it is excellent.

Martin Cruddace: Thank you, John.

Paul Farrelly: When I say a nutshell—correct me if I am wrong, Martin—it is that the UK should prohibit non-licensed operators in the UK but with the proviso that anybody who is granted a licence in the EU should get a UK licence. Is that fair, Martin?

Martin Cruddace: In essence.

Q372 Paul Farrelly: Then there is the question of enforcement. Would you go along with that sort of approach? It seems to me that that is turning the regulatory screw in a way that the likes of the Belgians are now trying to do but is not there at the moment?

John Coates: If I look at all the major companies in this sector, although people talk about thousands of sites, the reality is to my mind in every market it is dominated by a small number of large players, and two of them are alongside me here. They both are licensed in Gibraltar, both are very reputable companies, both meet very high standards of regulation. So I don’t think there is a great ill, if you like, that we need to solve in terms of regulation because I believe the major players are very well regulated as they are.

Q373 Paul Farrelly: Clive, this is my final line of questioning, my colleagues will be glad to hear. If we were to adopt the Betfair approach the EU would be fine. Malta would be okay, but jurisdictions like the Isle of Man, Antigua, Tasmania, would not. Do you think that the failure of Full Tilt Poker means that the White List approach either has to be rethought in its entirety, or that in terms of putting countries on a White List we need to be more satisfied about the nature of regulation in those jurisdictions?

Clive Hawkswood: I think I certainly wouldn’t restrict access to EU countries only. As we said before, it is a truly international market and I think each jurisdiction should be judged on its merits. As we have seen with the Full Tilt case, that is not without its problems but I think the Gambling Commission working with reputable regulators is the best way to address those
sorts of things in the future. We have heard from the companies here—they have parts of their business in different countries already, so we do need the regulators to work together irrespective of what countries they are in.

Q374 Paul Farrelly: When bet365 is paying UK tax and Betfair is calling for a change in the regulatory environment, why should we here be effectively not only subsidising but encouraging companies to go offshore to what are tax havens?

Clive Hawkswood: It depends why you want to bring companies to the UK. If it is for regulation, we understand that; if it is for taxation and the Government were open about that, we would understand that. There are EU legal issues about that. But it comes back to companies not being here because of regulation. It is wrong in this forum, I guess, where you are talking about the Gambling Act to say regulation is not the issue for us but it really is not. All the UK companies in the UK market, that dominate the UK market, are regulated in the same way as if they were by the Gambling Commission. They have no trouble getting their licence; compliance has never been an issue. It is the fiscal regime. We do keep coming back to it and unless there is some way to address that imbalance it just won't work, so we won't get the kind of change Government is looking for. We have had a lot of discussion about the stick of enforcement, but our experience in other jurisdictions that have tried it—there are lots of examples—is that it does not work in isolation. If these guys were honest, and I will be honest on their behalf, we could all work around any of those restrictions were we minded to. These companies wouldn't do that but others would because there is a market there. What you need is a bit more thinking about the carrot so others would because there is a market there. What you need is a bit more thinking about the carrot so that companies that come to the UK and are licensed here can compete, and that is what it boils down to.

Q375 Mr Sanders: Can I ask you a general question. Which country, in your opinion, has the optimal tax rate and levels of regulation?

Clive Hawkswood: I will break the silence. There isn’t one. What you have to remember is that most countries are still at the very early stages of this. The UK passed legislation a few years ago, which was implemented in 2007. The UK was miles ahead of the rest of Europe on this. If we take out the small jurisdictions of Malta and Gibraltar, the rest were really nowhere. We can tell you what works very badly. There is no optimal system in Europe at the moment in any country. We have hopes for Denmark and Spain. Denmark is only just starting; Spain will not go live until next year, so we are still at the start of the upward curve.

Mr Sanders: You don’t have to answer unless you have different views.

Peter Reynolds: Just one comment on Spain and Denmark is, yes, we would agree and you will have seen that they are proposing to have higher tax rates, but of course they are opening the market. There is a difference between Spain, Denmark and the UK as here we have a fully regulated but liberal market that is open, creating a hugely competitive market. Again, I come back to, what is the consumer experience? It is extremely good here. Pricing is extremely tight, as we will all testify, and for that reason there is a significant difference between suddenly making a market open that will only attract a limited number of operators—and indeed, John Coates (Bet365) and I were talking about that before we came in here. The challenges on entering new markets are significant—having to meet a whole raft of new regulatory compliance—and, of course, there is the fiscal burden as well on top of that. So I would predict that in markets like Spain and Denmark there is not going to be anything like the level of competition that you see here in the UK. Again, from the consumers perspective they have the best choice right here in the UK.

Q377 Mr Sanders: Do you see developments at the European Union level having a significant impact on the development of the remote gambling sector and if so in what sort of timeframe?
Peter Reynolds: I am sure we will all have something to say on this. I think we are hopeful there will be. The European Treaty was very clear about what we are trying to create, which is an effective internal market that gives a great deal for consumers. Unfortunately, what we have today is a fragmentation of the European market, particularly in gambling, and of course the great thing about the internet is it transcends borders. The whole point is it drives a great deal for consumers, but at the moment we are starting to see fragmentation and what we would like to see is a coming together so there is a commonality of approach. There are only so many ways you can do a fraud check, an age and ID verification, and collusion checks and so on. Let’s just agree what those are and make them the same across Europe.

Q378 Mr Sanders: So you think there should be a Europe-wide regulatory system?

Peter Reynolds: I think in certain areas. We know that the direction of travel within Europe is that Member States have to have the right to be able to control what goes on in their territory, and we accept that, but at the same time there are so many areas of our business that could be common, that are common, and we need to just cut through all this duplication. One of the comments made earlier was, let’s get the regulators all talking together and agree a common approach, because there are only so many ways you can do this thing.

Q379 Mr Sanders: Can I ask Charles, from a technological point of view what would be the challenges in implementing pan-European technical standards were they to be introduced?

Charles Cohen: Honestly, not many I would have thought, because each time you look at the technical standards that countries set they are 95% all the same, and 5% tricky. For some reason they seem to feel that just because your technology has been approved by another country, that is not good enough—you have to start the whole process again at an exceptional cost for, as far as I can tell, no good reason whatsoever. So I don’t think it would be very difficult to set up common standards because, as Peter says, there is only a finite number of ways to do certain things.

Q380 Jim Sheridan: First impressions would suggest that the industry is dominated by relatively young, male, white people. Is that a fair assessment?

John Coates: I would disagree. At Bet365 I am the second biggest shareholder but my sister is the largest shareholder in the business.

Q381 Jim Sheridan: So why is she not here?

John Coates: Because she operationally runs the business and I do the external stuff. So our business is very much dominated by a woman.

Q382 Jim Sheridan: Is that same for the rest of you?

Martin Cruddace: You are welcome to come and visit us in Hammersmith and you will see that is not the case. I think there is the point, of course, that the demographic of the sports betting customer is a male of a certain age predominantly, and people who want to work in the industry, as with any industry—you would fish from that pond. We have two ladies on our plc board, so we meet all those standards, and we try to reflect that throughout the organisation. If you come to Hammersmith you will see it is not the case that we are young, white and male.

Q383 Jim Sheridan: Is that the sort of market that you are looking for, a relatively young, male-dominated market?

Martin Cruddace: We are all chasing the same customers.

Q384 Jim Sheridan: What is the sort of comparison between female participation in gambling and male?

Peter Reynolds: It varies by product. Bingo is much more attractive to females, as it is in the physical world. Of course, you have great cultural differences by country. If you go to Spain, bingo is almost as popular with males as it is with females, so you do have cultural differences. Picking up on Martin’s point, there is no question that two of our largest products, sports and poker, are a predominantly male hobby.

Clive Hawkswood: I think what you probably find is, compared to the land-based, there is a higher proportion of women—that might have been behind your question—and there are all sorts of reasons for that. But certainly, that would be reflected pretty much across the board with all of the products.

Q385 Jim Sheridan: On the question of problem gambling, is there any evidence that there is a major problem in the industry?

Clive Hawkswood: No, it is broadly comparable with similar land-based products. I wouldn’t want to get into what are soft and hard forms of gambling—it is a minefield—but if you compared, say, a land-based casino with an online casino, a land-based betting shop with an online sports book, the rates would be very similar.

Q386 Jim Sheridan: Previous evidence suggests that with face-to-face gambling at betting shops and so on they can identify quite quickly if somebody has a problem with gambling and they can take the appropriate action. What can you do?

Peter Reynolds: From an operator’s perspective, we have much more information on our customers than our friends in the land-based industry because every click, every transaction, every movement is monitored, tracked and is personal to that account. So we have a perfect audit trail of information, while of course in a land-based world it is impossible to track what everyone is doing. When they leave the Ladbrokes shop and then go into a William Hill shop there is then a complete disconnect, whereas we have a complete, perfect audit trail of everything our customers do, every deposit they make, every withdrawal they make, how often they play, what games they play, and we are able to track that. Our company has been working for the last five years with Harvard Medical School in trying to develop algorithms that can allow us to create a multi-layer protection system, so we can identify those people
who may be displaying the characteristics that could result in them getting into difficulty.

Q387 Jim Sheridan: Give us an example; what do you do?

Peter Reynolds: For example, on the measures that we have in place, when people first come on to our site they are encouraged to set a deposit limit so there is then a block, or a break if you will, on the amount that they spend. If people find themselves getting into difficulty—and there is quite a lot of interaction through our call centres, through email traffic with our customers. One of the things that gets thrown at our industry is that we are remote there is never any interactivity. Actually, that is definitely not the case. We have very good interactivity with our customers and we all run big call centres in various parts of the world that are conducting many millions of interactions with our customers on an annual basis. So, there are deposit limits, session timers so people know how long they are playing, and the opportunity to self-exclude. Again, because it is a system-based business once you have decided that you want to self-exclude there is no way round that. You can’t go to a different betting shop, not your usual one; you are done.

Q388 Jim Sheridan: What I am trying to establish is, what practical steps are in place for you to say, “Mr Smith, I’m sorry, I think you’re an excessive gambler, therefore we are”—what?

Peter Reynolds: I was going to say we can close their account. Having a problem gambler is not good for our business because they become a credit risk, perhaps. It is clearly a bad PR story from our point of view.

Q389 Jim Sheridan: How many have you done that to?

Peter Reynolds: In terms of account closures, voluntary account closures, we will do between 2,000 and 3,000 account closures every year.

Q390 Jim Sheridan: What do you mean “voluntary”? That is people themselves closing them down?

Peter Reynolds: Either we close or they say to us, “Please, can you close it?”

Q391 Jim Sheridan: What I am trying to establish is to how many people have you said, “I’m sorry, we think you are an excessive gambler, therefore we are closing your account”?

Peter Reynolds: Mr Sheridan, I don’t have that data with me. I will have to check that and come back to you.

Martin Cruddace: I think it is important here, there are a couple of points. The first point is that I don’t accept that in a cash-based environment in betting shops there is any more care taken in relation to those who may have a problem than there is online, to echo Peter’s point. I worked every Saturday throughout my time in college in a shop so that is some first-hand evidence. What I would say is that it is about education and tools and, surprising as this may sound, if you work with GamCare and you work with the GREaT Foundation, sometimes forcing a person to close their account, instead of educating them with the tools that are available on the site, is not necessarily the right way to go. That comes from GamCare, not from me, and from the GREaT Foundation. What I would say, though, is tools are absolutely vital and you may think it is useful to focus on those when we think about how we are going to frame regulation.

When we talk about tools, it is things like self-exclusion, perhaps by product, setting deposit limits, as Peter said, setting loss limits. You can say, “Please don’t let me lose any more than this amount in this month”. Finally, what is important as well is session timers, so you know how long you have spent on the site. It’s not like in Vegas where you have artificial light and you are there all the time; you have reality checks. Let us be clear: where you have gambling there will be problem gambling. No one is saying that there is not, but the most effective way of dealing with it is through effective tools and education, not necessarily account closure.

Q392 Jim Sheridan: I can understand all the education stuff and the tools stuff, but it is like an alcoholic who goes into a pub; they see they are drunk and they don’t serve them any more drink. Do any of you have any examples of where you have said to someone, “No, you’re over your limit, you’re excessive, we think you have a problem” and so on? Do you have any social responsibility?

J ohn Coates: We will have those conversations. This year—I will get a correct figure—I believe 12,000 people have self-excluded from our site.

Q393 Jim Sheridan: I can understand the self-exclusion, but what steps are you taking?

J ohn Coates: If I can continue, the self-exclusion isn’t necessarily just a one-way process. It is often a discussion we are having with the customer and in circumstances it will be us recommending that they self-exclude. I think we are painting some of these tools as if they are just a one-way, remote test that somebody is taking. This is an interactive conversation in many cases where the operator may well be encouraging somebody to self-exclude.

Q394 Jim Sheridan: The land-based casinos say that they can see the problem by the person’s behaviour, and therefore they can take appropriate action because it is face-to-face—they can see the behaviour. How do you do it?

Charles Cohen: We do exactly the same thing. We look at the numbers, because the customer is not sitting in front of us, and when we spot somebody who is on the wrong side of the curve they get a phone call. There is no messing about with emails, text messages; they get a phone call from somebody who has been trained by the GamCare people in how to handle this. They have a discussion with them and during that discussion the idea is to try and understand whether or not that customer has a problem, whether they are aware that they have a problem, and then they have complete authority to take whatever action is necessary to either slow them down or just stop them.
and bar them completely. We do it as often as necessary but fortunately for us, we are still quite small; it doesn’t happen that often.

Q395 Jim Sheridan: Do you make any financial contributions to GamCare?

Clive Hawkswood: I will pick up on that. The funding is through the GREaT Foundation rather than to GamCare. For our members, if you exclude the operators who are across sectors—so Ladbrokes, Rank, William Hill and Gala Coral—the rest of our members contribute over 20% of GREaT’s funding. If you include a proportion, whatever proportion, of the other four companies who pay for the whole of their business, then clearly it is well in excess of that. So we certainly donate well above our market share.

On the problem gambling, just one last comment on it perhaps I would be wary about generalising about the behaviour of problem gamblers. It is a very complex issue, and one thing I think we have learnt is there is probably no such thing as an online problem gambler or casino problem gambler or betting shop problem gambler. There is a whole range of issues about not just whether they are problem gamblers but other problems they have—the phrase everyone quotes: comorbidities—but it is hugely complex. One of the problems we have, when you are asking what we do, we only ever see a portion of the person’s behaviour, a portion of their circumstances. For instance, if you see someone gambling large amounts of money, to run up debts of hundreds of thousands of pounds. I wonder how you determine, when somebody has a habit that has turned into a real problem: is it proportional to wealth? You see a huge sum of money, to run up debts of hundreds of thousands of pounds, which means that companies like yourselves have to go to the football clubs to warn them of the individual’s gambling addiction?

Peter Reynolds: I would say there are two things. First, you are absolutely right, that side of the equation we don’t see—and it references Clive’s point—is that there is a part of their lives we don’t know. We don’t know what their financial circumstances are or everything else that is impacting on their lives, so we have only a very small piece of information about them, but again all the points have been made about the opportunity to engage with them and say, “Listen, you do realise that this is happening” and having that conversation with them.

With regard to sports clubs and educating players, we do think that is very important, and in fact the industry has already commenced, voluntarily, an education programme for athletes. Certainly in the context across Europe, European Athletes is a body that educates athletes and we are using it as a conduit to educate players in the locker room. I won’t say in all but in many circumstances the sporting authorities are not doing their jobs, I don’t think, in this area. They need to educate their players on what to do with regards to gambling. You should not be gambling on your own sport, for example, or your own matches or your own team. It sounds perhaps rudimentary but these are things that are not really happening, and certainly not universally. I would welcome that the sporting bodies should be doing more to educate their players, to protect them and to protect their sport.

Clive Hawkswood: The regulatory returns for the companies outside the UK is commercially sensitive. For companies who are in the UK, yes, it is a fairly obvious requirement.

Q396 Jim Sheridan: One final question on the Gambling Commission who require the data to give advice to the UK Government; do you think that you should be in a position to give that data?

Clive Hawkswood: The regulatory returns or the problem gambling?

Jim Sheridan: Regulatory.

Clive Hawkswood: Regulatory returns—for the companies outside the UK it is commercially sensitive and there is no reason why they would share it with another regulator. For companies who are in the UK, yes, it is a fairly obvious requirement.

Q397 Steve Rotheram: Just to carry on from Jim’s questions, my primary concerns are for people on lower incomes, to tell you the truth, getting involved in problem gambling, but I do know that there are footballers—I know this anecdotally but I can’t say why I know it—who have run up huge debts of hundreds of thousands of pounds. I wonder how you determine, when somebody has a habit that has turned into a real problem: is it proportional to wealth? You said that you monitor each of the individual bets that they have, but how do you allow somebody, even on huge sums of money, to run up debts of hundreds of thousands?
billion in relation to sports betting and other illegal poker betting. I think it is extremely damaging to the industry if you have situations like you have with some of those illegal poker sites who are dealing with very serious legal issues now in relation to customer funds, which is why I think that the more sites and companies any regulator can bring under its umbrella, the better, to be frank. That is why there is a real danger that if you make the regulation or the tax uncompetitive or very difficult and you don't hit that sweet spot, then there is more encouragement for those illegal operators to stay illegal.

Q399 Steve Rotheram: If there is this large illegal market, what can you guys do to help the Government to tackle rogue operators?

Martin Cruddace: Going back to the earlier question I spoke to Mr Collins about, about enforcement, I think the best thing that we can do is to work with Government, with regulators in framing regulations that do the job that they are meant to do. Don't make them so punitive, such as having service in every jurisdiction, for example. Then encourage and educate customers that if you want to bet—and you do this with the regulator and with the Government—then do it on a licensed site. If you go to AAMS, which is the Italian regulator, they have a really big advertising campaign saying, "Don't be eaten by a shark, make sure you bet with a licensed operator". I think that is a very interesting way of doing it, where you have a mutually beneficial and symbiotic relationship with the regulator to encourage people to bet on the regulated site.

Peter Reynolds: I think, just to perhaps put some quantification on it, in terms of this regulatory and fiscal wedge that has been driven between the regulated sites and the unregulated sites, what is the size of that incentive for someone to say, "I know, I'm going to get round the rules because there's an incentive for me to do it"? I think it was KPMG that did a survey of the cost of getting a licence in France—€8.7 million. If I am a black market operator I am already up €8.7 million because I am choosing not to comply, and that is just to start with. That is just one concrete example of the size of the incentive. It is quite hard to get this across but what governments need to do, and what we are trying to do in all our conversations with governments, is this. The best form of regulation is to make it as commercially attractive for the regulated licensed operators so all these people here comply with the regulations in every site where they operate. They are not the problem. What you need to do is reduce the incentive to create the black market, reduce that fiscal and regulatory wedge as much as you can. Of course we want strict regulations. That is good for us because it is going to get rid of a lot of these peripheral sites. But at the same time we all have shareholders to answer to, and if the fiscal and regulatory wedge is too large then you are going to come up with the wrong answer.

Q400 Chair: Martin, what you said just now about what has happened in Italy, it seems common sense in some ways and certainly originally in the Gambling Act the intention was that the UK would be the safe place where people could gamble online with confidence. Why has nothing been done to promote the idea that you should not go to unlicensed sites here, and how do consumers know whether or not the site is unlicensed?

Martin Cruddace: I think that is a very good point. I think the Commission has been in existence since 2007 and clearly it is learning and finding its feet. But to the extent that it is the regulator promoting the industry, and I think someone else talked about the Commission being a champion—that is a matter for the Commission—they would be pushing at an open door with Betfair if they needed any assistance to do that. In terms of development of a logo, on our site we have all of the logos where we are licensed to make absolutely sure. We do that because I still believe and we still believe it is of commercial benefit to do so. But as to why it really has not happened, it is not really a question I can answer other than to say that we would be more than willing to assist.

Clive Hawkswood: I think that is the experience. I disagree at all with Clive, so I am going to be careful not to comply, and that is just to start with. That is just one concrete example of the size of the incentive. It is quite hard to get this across but what governments need to do, and what we are trying to do in all our conversations with governments, is this. The best form of regulation is to make it as commercially attractive for the regulated licensed operators so all these people here comply with the regulations in every site where they operate. They are not the problem. What you need to do is reduce the incentive to create the black market, reduce that fiscal and regulatory wedge as much as you can. Of course we want strict regulations. That is good for us because it is going to get rid of a lot of these peripheral sites. But at the same time we all have shareholders to answer to, and if the fiscal and regulatory wedge is too large then you are going to come up with the wrong answer.

Q401 Chair: That is the point. If you go to a black market site presumably there is a risk you might not get any money at all.

Clive Hawkswood: I think that is the experience. I think people's experience is that the problem with the definition of black market is there are companies who are not licensed but do pay out regularly and do offer the sort of things they want. Because of the competition we have been talking about, the first time you get bad service or don't get paid you go somewhere else.

Martin Cruddace: It is not for me, Chairman, to disagree at all with Clive, so I am going to be careful with what I say. I think that Italy, cunningly enough, is a poster child for regulation in Europe and has been ahead of the curve and has grown its market quite incredibly because of the fact that it has been very forward thinking in its regulation and has a very wide range of markets and products it regulates. Of course, there will always be a black market and that is where I agree with Clive, but I would not want anyone to go away from here and think that Italy has not done an exceptional job in regulating as much of the Italian customers' business as possible, which—as far as I am concerned—it has.
Q402 Philip Davies: Can I just have one sentence from all of you for when we do our report. Just so I am clear, what is the one thing that each of you would like to see us do that would help your legitimate licensed remote gambling industry?

Clive Hawkswood: I think the bottom line aspect must be commercial viability.

Q403 Philip Davies: So tax, is that what you are saying?

John Coates: A nuance on that is we would like to be able to remain in the UK, and there needs to be a change in the tax regime to allow us to do that.

Charles Cohen: I agree.

Martin Cruddace: I am a lawyer, I cannot do one sentence. I think fiscal policy is important; and my plea is to work with us—those that you may think are responsible—to help frame the proper licensing conditions and regulations to make sure the UK is attractive.

Peter Reynolds: I think, as I have said earlier, the UK regime is working well from a consumer’s perspective. I think if the Government decides that it is going to go down this change route, on the basis of taxation, then it needs to be perfectly aware that it will increase the scale of the combined fiscal and regulatory wedge between regulated and unregulated, and it is this wedge that you need to make as small as possible.

Q404 Damian Collins: Chair, can I just ask Mr Coates—Paul Farrelly has gone now so you can speak freely—your answer was slightly less clear than some of the answers you gave earlier on. Are you saying that if the regime stays as it is you could leave the UK?

John Coates: As I alluded to earlier, we are getting to a stage where we cannot deal with double taxation now. The situation that we are starting to encounter now where we are taking licences in Denmark and Spain and perhaps Greece— it is unsustainable for us to be subject to double taxation. We would have to do something about that.

Q405 Steve Rotheram: Conversely then, if that is the case then given what Martin said about fiscal changes, would that attract Betfair to come back and relocate into the UK?

Martin Cruddace: Let us put it this way, I think that where we are licensed for the purpose of our business will depend on any number of factors. Clearly, an attractive fiscal regime in the UK will be a significant factor in any decision that we make.

Q406 Steve Rotheram: There might be a spot for you in Liverpool—I have got it all sussed out.

Martin Cruddace: That is great, thank you for that. I appreciate it.

Chair: Good. Thank you very much.
the impact of the 2005 Act? Do you feel this has prevented local authorities' communities deciding they do not want any more betting shops in their centres and high streets?

Mike Holmes: I think it is an issue. It was almost an unintended consequence of the Act. Obviously the issues are of benefit in some high streets, but in many high streets where you get a large number of these betting shops coming, it is not regarded as attractive for the high street. In terms of the unintended consequence, I think there was no debate at the time about what the consequence was. There was a lot of debate about casinos, and the Gambling Act regulatory impact assessment by the DCMS in 2005 contained very little reference to betting shops and what would be the impact of any changes in the Act. There was a lot of attention to casinos and the culmination of that was that the fact that casinos were taken out of the use class order. They were made sui generis, not in a particular use class, and that meant that planning permission would be required each time. Betting shops were not subject to the same treatment and, therefore, it was possible—taking away the demand criteria that the Act did—for betting shops to open up in places where they never envisaged they might go, using ex-banks, building societies, estate agents and that sort of thing, even takeaways. It did seem to be a little odd that there was not that consideration for what should happen at the time. I think there are issues then about when you do get planning permission, which Councillor Parsons might want to speak about. I am not saying it is an issue all over the country, but certainly in certain places where perhaps you would have concern about the social issues that arise from this, it has become an issue.

Q410 Damian Collins: Did you want to add anything, Councillor Parsons?

Cllr David Parsons: Local authorities have said to us that clustering is an issue and I think that the problem at the moment is the ability of local authorities to control that if they want to—I am a localist, so I would want them to—it is limited. There are limited planning powers and they are also pretty tight. If you are trying to control them via licensing there are pretty tight regulations that probably will not enable you to do so. The trouble is that if a locality decides that it does not want these betting shops and they make the decision locally, they would possibly be overturned nationally by the Planning Inspectorate. That I find unacceptable and I think that is somewhere where we need to move.

Q411 Damian Collins: Do you think that in practice, there is nothing that local authorities can do to stop a reasonable application to open a new betting shop?

Cllr David Parsons: It is beginning to look like that, I agree. I think if a locality wants to limit this clustering then it needs new powers.

Mike Holmes: Can I add to that? In terms of the way the Coalition Government is proposing to move with the National Planning Policy framework, it is a very high-level document and does not go into any detail to help local authorities on that side and I would suspect that many local plans of local authorities do not, at the moment, contain policies that relate to that sort of issue. Therefore, one of the concerns is if there is nothing mentioned in the National Policy framework, nothing mentioned in the local plans, local authorities do not have any degree of policy backing for any planning reviews of these issues. We can talk about Article 4 directions, and so on, which is perhaps an expense for local authorities—it is perhaps difficult to introduce potential compensation—but they do not give local authorities real control in this situation.

Q412 Damian Collins: The expansion of the number of betting shops you could say has been driven by the demand to play B2 gaming machines. That seems to be one of the resources that are commercially viable. If that is the case, would you rather have no expansion at all or would you say, rather than having more betting shops, let us just have more machines in the shops that we have and let them expand and have more than four machines?

Cllr David Parsons: I think that is up to local authorities locally. This is what we have been saying. There is an argument—I do not know how strong this is—that you only allow four B2 machines in a particular facility. They are highly profitable and so to get more of these you need to open more betting shops. I think that is a tragedy.

Q413 Damian Collins: As a localist, Councillor Parsons, do you think that councils should be able to allow adult gaming centres to have B2 machines in their arcades as well? It seems strange that you could have a betting shop next door to an adult gaming centre and one is allowed to have one and the other is not.

Cllr David Parsons: The simple answer to that is, I am not being pestered by members of the LGA to do that.

Damian Collins: You have issued the challenge now.

Cllr David Parsons: I am more than happy to take that challenge up but I have no specific instructions from my members on that.

Q414 Damian Collins: But as a point of principle, do you think there should be this distinction between different types of gaming centres? I can think of a high street in my constituency that has an adult gaming centre and two bookmakers. Should there be restrictions on what can go in one type of premises and not another?

Cllr David Parsons: I do not see the logic myself, particularly.

Q415 Damian Collins: Do you have any views?

Mike Holmes: No view. It does not seem right in one way to have that artificial divide.

Q416 Damian Collins: Just one final question. If the betting shops were here, the bookmakers were here, they would probably say that without any change in the regulations all applications will be stopped. Do you think that there is a reluctance from local authorities to give planning consent to new gaming centres because of their interpretation of what the local population wants?
Mike Holmes: I am not sure it would stop completely. It would be a decision based on the merits, but debating what the issues are locally rather than not having any control at all. It may be a good use of an existing building, or something like that—the arguments could be there—or bring some life to an area. But, on the other hand, the other issues that we have heard about—people standing on street corners and perhaps not providing the right atmosphere to attract other businesses—is to the fore.

Q417 Philip Davies: Mr Holmes, you said earlier about the social problems that clustering of betting shops brought. What social problems?

Mike Holmes: I think they create an atmosphere in an area that is not conducive to attracting businesses or customers to their businesses. It is partly to do with issues around smoking and so on, but people standing around and perhaps appearing slightly threatening in certain circumstances would not be attractive if you want to get people investing in high streets and similar areas.

Q418 Philip Davies: Where have people been standing around threatening outside their betting shops?

Mike Holmes: I have read the evidence from a number of local authorities that that is the case.

Q419 Philip Davies: Have you ever been into a betting shop?

Mike Holmes: Yes.

Q420 Philip Davies: Did you find it a threatening environment?

Mike Holmes: Not the ones I have been into.

Q421 Philip Davies: So where were these threatening environments that you are talking about?

Mike Holmes: As I understand it, there are certain areas where there are eight of these establishments in a cluster and that is the atmosphere that is created when people—perhaps down to the smoking regulations, and so on—are standing outside. It is not perhaps the family type of atmosphere that you would want.

Q422 Philip Davies: You talk about the demand test for the local authority. There is an ultimate demand test. It is a far better demand test than any local authority has about whether or not a local councillor fancies having a fish and chip shop somewhere or a betting shop somewhere—it is called customer demand. Betting shops, presumably, only open because there is a customer demand. Surely that is a more ultimate demand test than whether or not some worthy people on the local council feel that there should be a shop down a particular street or not, is it not?

Mike Holmes: It does not give any opportunity for local people to determine that.

Q423 Philip Davies: It is a demand test, though, is it not?

Q424 Philip Davies: But if it is from outside the area—surely local authorities are for ever saying that they want people to come from outside into the town centres? If you are saying that this is providing a demand from people coming outside into an area, surely the local authority would be all over that like a rash; surely they would be welcoming this infiltration of people from outside?

Cllr David Parsons: There is a natural logic to your argument; maybe a town should consist all of betting shops, and then we would perhaps—

Q425 Philip Davies: That is a ludicrous argument, is it not? I am talking about the demand.

Cllr David Parsons: I am talking about the direction you are—

Q426 Philip Davies: There would not be the demand for that, would there? We are talking about a local authority. Betting shops open where there is a demand for their product. If there was not the demand amongst your local residents for that product they would not be opening up, would they, because there would be nobody in there?

Cllr David Parsons: I think that is what we are here to discuss. If you want a personal opinion, I would not like to live in a town that consisted of a large number of betting shops.

Q427 Philip Davies: Why not?

Cllr David Parsons: Because I want a nice, prosperous, vibrant town that has a lot of variety around it.

Q428 Philip Davies: I find this slightly nauseating, because here we have—

Cllr David Parsons: It is only a personal opinion.

Philip Davies: Local authorities have probably single-handedly done the most to run down town centres through things like high car parking charges, a restricted amount of time that people can park somewhere. We were wondering about why nobody goes to the town centres any more. I am a former retailer who used to open out-of-town shops. Why do people go to those places? Why is it that town centres have gone downhill? It is because local authorities say, "You can park here for half an hour. By the way, it will be £2 for half an hour's parking. If you are a minute late the old warden will have put a sticker on your car, so don't bother coming back here—there will be a £60 fine." Then local authorities are wondering why nobody wants to open up in the high street apart from local betting shops. Perhaps if you were a bit more sympathetic to the high street there might be all these people wanting to open up in the high street apart from betting shops. Cllr David Parsons: I think there is something in that; I have to agree with Mr Davies. If he wants to come to Leicestershire he will see that we follow, broadly, the line that he is pursuing, with great benefit to our town centres.
Mike Holmes: I was just going to say many of our authorities are doing their best to recruit people into high streets. There is an argument about all these car parking charges and congestion, and so on, which we could have another debate about. But I do not want to go there. The point I make is I can take my children into Bournemouth, Christchurch Road, for example, and they can go into all the premises in there apart from one or two betting shops. We do not have big clusters there. In other places where there is cluster, they are creating premises that are not family based. You cannot take your children into them and that creates a different atmosphere than would otherwise be the case.

Q429 Philip Davies: You just walk past that shop and into the next one that you can go into.

Mike Holmes: But if there are fewer of those other shops—

Q430 Philip Davies: The point is, though, about these betting shops—you were saying earlier that they were in ex-banks, ex-building societies. That is the whole point, is it not? The reason why betting shops are moving into premises is for one reason only—because they are vacant. Is it really the local authorities’ stance that they do not like betting shops because somebody here thinks that they are slightly threatening places, because somebody there thinks, “I don’t want a shop there that I cannot take my child into”—that because of that kind of prejudice and bias, they much prefer to have a boarded-up shop than an extra betting shop in the high street? Because ultimately, it is not a question of whether you have a bank or a betting shop, a building society or a betting shop, or a takeaway or a betting shop; it is a question of, do you have a boarded-up shop or a betting shop, is it not?

Mike Holmes: I think the situation with betting shops is they have been able to outbid a lot of other users that might have gone into those premises, and prime premises as well. That has been a consideration.

Q431 Philip Davies: Why is it so unattractive for other retailers and other people to want to open up in your wonderful high streets?

Cllr David Parsons: It is not.

Q432 Philip Davies: Why are they not doing it then?

Cllr David Parsons: I have invited you to Leicestershire and we will have a look round.

Q433 Philip Davies: Why are they not doing it? If there is all this clustering of betting shops, why are all these people not wanting to open up?

Cllr David Parsons: We are responding to our members of the LGA who say that this is a problem and we can provide you with areas where this is becoming a big problem.

Q434 Philip Davies: Isn’t it a fact that there are no more betting offices now than when the Gambling Act was first introduced?

Mike Holmes: That is true, but obviously the locations of those betting shops have changed over time as well. A lot of the older premises were not suitable for modern use.

Q435 Chair: I think it was Budd who suggested that in the spirit of localism, local authorities could or should be able to say that they do not think gambling is an appropriate activity to take place in their area and they do not want any such shops at all. Would you support that?

Cllr David Parsons: I would support that. Did you say Barnett?

Q436 Chair: Budd. The Budd Report, originally on the Gambling Act.

Cllr David Parsons: My line is that I would support local councils saying that, if they so desired, because I am a localist—as is this Government, I understand.

Chair: Let us not go down that road.

Q437 Steve Rotheram: I was interested in that because it depends on how local “local” is. Just 100 yards from where I live there are now three betting shops, with the potential of a fourth, clustering their way along what used to be quite a vibrant little shopping area. It had charity shops and other stuff and as Mike just mentioned, they have outbid the likes of the charity shops to enable them to take over these premises. But conversely, I walked down the Kings Road—having now been in London for some time—and I did not see one betting shop. It seems that they are very much located in more working-class areas and that because of that kind of prejudice and bias, they much prefer to have a boarded-up shop than an extra betting shop in the high street? Because ultimately, it is not a question of whether you have a bank or a betting shop, a building society or a betting shop, or a takeaway or a betting shop; it is a question of, do you have a boarded-up shop or a betting shop, is it not?

Mike Holmes: I think the situation with betting shops is they have been able to outbid a lot of other users that might have gone into those premises, and prime premises as well. That has been a consideration.

Cllr David Parsons: I have recently met this B2 machines argument. I must admit I have never played them. It seems to me to be bizarre that more betting shops will be opened because they want more B2 machines, but this seems to be what is happening. I have already said I do not particularly see the logic of limiting that.

Q438 Chair: Can we turn now to casinos, probably to the Casino Network to begin with. You represent the 16 authorities that were successful in applying for the ability to award licences to new casinos. You know as well I do that since that process took place not a single casino has opened, although there are some in the pipeline. How confident are you that in due course new casinos will be opening in all your 16 areas?

Richard Dowson: We are very confident. You mentioned the one that is about to open next month, which will be open for Christmas. There are a number of the 16 now that are well on with their competition process and probably in the position to issue licences within the next three to six months. There are a
number of others who are closely following behind in terms of launching, or are just at the outset of their competition process. The issue there is—maybe we will come back to the actual process for issuing the licences—obviously, it is one thing to issue a licence, but a lot of the proposals that have come in are for new build developments as well. The one that is just about to open next month is part of an existing development, but a number of others are coming forward with new build or major refurbishment projects. You have to build in there the time for the development of the casinos as well. As I say, in terms of the process itself, a lot of the authorities are moving forward and we are confident that the 16 will be developed.

Q439 Chair: You will be aware of the controversy over the whole casino history. What did you think of the process under which the licences were awarded?
Richard Dowson: Obviously there was a bidding process and I think it is fair to say at the time of that bidding process we were in a completely different economic climate than we currently are. Having said that, we bid and the process itself transpired and obviously, as it was, 17 authorities were issued with the proposals to grant licences. I think in our view, what we were left with was an outline framework to run these competitions and issue the licences and, therefore, a lot of time and effort has had to go into developing the processes, more around stage 2 of the competition. Stage 1 is a fairly standard regulatory process but regarding stage 2, where the greatest benefit test came into play, the legislation gave no real detail as to how local authorities might undertake that process. As I said in answer to your first question, Chair, the 17 came together in order to develop a consistent approach so that we did not find Middlesbrough coming up with a completely different scheme to Newham. It has taken a bit of time, due to other factors as well, but we think we have a fairly robust system to issue these licences now.
Stuart Baillie: If I could just add to that, Chair. In the way the Act was prescribed the authorities have been left a lot of responsibility to get their processes in place and the Network Group has been an effective group in doing that. Each of the authorities is acutely aware of the likelihood of legal challenge in the decision making, so we have proceeded with a lot of caution in the process to get to the stage that we are at today.

Q440 Chair: I think it is fair to say that when we had representatives of the casino industry in front of us they were not quite as optimistic as you about the likelihood of all these licences being taken up and new developments occurring.
Richard Dowson: In terms of the authorities that have undertaken or are in the process of their competitions, I think it is fair to say that there has been interest. Going back to 2006, you might have envisaged a higher level of interest than has transpired, but each authority that has gone through the competition to date has developed a relatively good interest in their individual competitions. I think there is one authority that obviously did not get to the competition stage but the rest are all proceeding to stage 2.

Q441 Chair: We have this slightly strange position where you have the lucky 16 who were selected in what is a fairly strange process. You then have another set of authorities who are permitted under the original 1968 Act on permitted areas, and then you have ones that are not permitted at all because they are not covered by either Act. Would you agree that that does seem a pretty unsatisfactory position?
Richard Dowson: It is the position we found ourselves in. Obviously it is not down to the 16. We had some areas that are permitted areas and others that are not. I think, from the 16 authorities that have the permission to grant licences, where we find ourselves is that when Parliament passed the Act it was very much about pushing these 16 forward as a test, an experiment if you will, in terms of liberalising some of the rules and regulations around machines and the size of the floor space, and so on. The issue of putting forward the 16 was almost a controlled measure to help see the impact of that. Obviously we are now hopefully into the process where these casinos will start to open their doors and we can start to measure that impact, and that may well come back into the argument at a later stage about whether more licences are passed, whether there is more liberalisation, and so on. As I say, the 16, our task at the moment is very much to get these casinos up and running and see the impact of that, and it is obviously for Parliament to govern whether that leads to further changes in the regulations or not.
Stuart Baillie: Just to elaborate a little bit on that, the 16—and other authorities, indeed—went into the casino advisory panel pitching process, if you like, and had their eyes opened to that process and understanding it. They went into that process on the basis that at the time there would be 17 casino licences granted, with the new regs and requirements satisfied. I think where certain elements of the industry are coming into this—to maybe allow some of the existing 140 casinos under the 1968 Act to report into other authority areas—was not on the table when the 16 authorities pitched in for this process. It would be quite a dramatic change in the circumstances. There is also a significant implication for the 16 authorities who are looking to attract regeneration benefits—that if another casino is allowed to move into a neighbouring area, for example, then that could be detrimental to the impacts and the benefits that could be achieved.

Q442 Chair: Perhaps I should put the question to the LGA as well, because there were local authorities that were very keen to have casinos but are not in permitted areas and are not among the 16 that were chosen. So, in the spirit of localism, would the LGA say that they should be allowed to have casinos?
Cllr David Parsons: I did check before I came and we have had no feedback from local authorities whatsoever on this issue. For us, it is a pretty niche, 16 local authority enterprise. We have had no feedback, and as for extra to the 16, it is probably a different economic climate from when these 16 were
announced. We do not anticipate there will be huge interest from local authorities.

Q443 Chair: As I recall, I think 40 or so local authorities originally applied, so there were 24 or 23, I suppose, who were wholly unsuccessful. Your view is that they have just completely lost interest now and gone off and thought of something different to do.

Cllr David Parsons: The fact is that we have had no feedback from those and that is the state at the moment.

Mike Holmes: Some of those authorities do have casinos within their areas anyway.

Q444 Chair: But they will not be allowed the new ones?

Mike Holmes: That is right, but they have existing ones in their area so it might not be so much of an issue. The other issue is, if there is a new casino it will require planning permission, so it gives a degree of local input into the decision-making process.

Q445 Mr Sanders: On the casino point, how significant a blow was it to local authority regeneration plans when the regional casino concept was shelved?

Richard Dowson: I think there were a number of authorities that bid for both regional and large, or large and small, and so on. As I said before on an earlier point, 2006 was a different economic climate and I think, yes, there was a lot of potential thought around the fact that the regional casino might develop greater regeneration benefits. If we put that into play today—i.e. granted a new regional casino—there could well be authorities that wished to pursue that. As a local authority that has a large casino, or permission to grant a large casino, where we are left at the moment is that the benefits that have been proposed in my particular authority area are reasonable. To an area like mine there are some good potential benefits that could accrue out of the competition process.

I think the regional casino would rely on international operators. Forgive me—I did read some transcripts from previous sessions, and I believe the operators themselves have made the point that international operators might take up the regional casino mantle. Again, in terms of whether there is the interest from industry to do that, I am not entirely sure. It is certainly not something that has been pushed to us by operators that we have been in discussions with or through organisations such as the National Casino Industry Forum. I think originally, yes, there were some fairly grand regeneration plans that were put on the back of potential regional casino bids.

Mike Holmes: I think, as Richard has already said, the world has moved on a little bit. Things have changed since then and, speaking as one of the authorities that were unsuccessful, we have moved on and something different that is coming forward is our regeneration element. I think if it is to change, there needs to be a re-evaluation of all those benefits that potentially come forward. Of course, there was a document in 2008 produced by CLG, I think, that tried to evaluate the potential for regeneration. In my view, it was slightly inconclusive regarding the regeneration benefits. There is still a lot more understanding to be had about the subject.

Q446 Chair: The one authority, obviously, that I think still is extremely keen is Blackpool. You do not detect any others who would still view a regional casino as something that might provide major benefits?

Cllr David Parsons: Correct.

Q447 Mr Sanders: What assessment do local authorities make about the social impact of problem gambling in their localities?

Cllr David Parsons: The LGA has not made an assessment itself. As we have said, we would need powers on the issue of clustering and we have said that to stop clustering we need those planning powers. But we have not made an assessment.

Q448 Mr Sanders: You have not got a composite view of the extent of problem gambling, just a problem of clusters?

Cllr David Parsons: Yes.

Q449 Mr Sanders: Would the answer be to change their designation within the planning regime—betting shops?

Mike Holmes: I think they should be made sui generis in the way casinos were made sui generis. It would have enabled local authorities to have an input into the decision-making process, which they do not have in many cases at the moment.

Q450 Mr Sanders: Am I right in thinking that if a bank closed, you do not need a planning change? A betting shop is not a bank.

Mike Holmes: Or if a takeaway closes, or something like that.

Q451 Chair: Finally, obviously the enforcement role is now primarily one undertaken by the Gambling Commission, but local authorities do have an involvement as well. How is that working and what sort of relationship is there between local authorities and the Gambling Commission?

Cllr David Parsons: I am told that that is good. I do not have personal experience of that but I am told that the two bodies used to meet bi-monthly.

Q452 Chair: When you say two bodies, the Gambling Commission is one?

Cllr David Parsons: The LGA and the Gambling Commission. I am told they get on well and that there is a degree of understanding between the two bodies.

Q453 Chair: Your members essentially have confidence in the Gambling Commission—in what they are doing?

Cllr David Parsons: Yes.

Chair: All right, I think that is all we have. Thank you very much.
Tuesday 22 November 2011

Members present:
Mr John Whittingdale (Chair)
Dr Thérèse Coffey
Damian Collins
Philip Davies
Paul Farrelly
Mrs Louise Mensch
Steve Rotheram
Mr Adrian Sanders
Jim Sheridan
Mr Tom Watson

Examination of Witnesses

Witnesses: Dr Helena Chambers, Director, Quaker Action on Alcohol and Drugs, Daniel Webster, Parliamentary Officer, Evangelical Alliance, James North, Policy Officer, Methodist Church in Great Britain, Gareth Wallace, Public Affairs Officer, Salvation Army, and Lauri Moyle, Gambling Policy Officer, CARE, gave evidence.

Chair: Good morning, I apologise for the delay in starting, but the Committee has rather a lot of other business. However, we now return to our inquiry into the implementation of the Gambling Act and I would like to welcome representatives of the faith groups: Dr Helena Chambers from Quaker Action on Alcohol and Drugs, Daniel Webster of the Evangelical Alliance, James North from the Methodist Church, Gareth Wallace of the Salvation Army, and Lauri Moyle of CARE. Damian Collins is going to start.

Q454 Damian Collins: I would like to address my first question to Daniel Webster. In the written evidence submission from the Evangelical Alliance, your first point, you said, “The ethical dimension must be considered in gambling legislation. It is an industry based on one person winning at the expense of another. This should not be ignored.” Does that mean that you are against all gambling?

Daniel Webster: No, we are not against all gambling. We are not prohibitionist but we are conscious that gambling isn’t an industry that comes without a cost. There is a cost to gambling that when people play; when some people win many other people lose. When gambling policy is being structured, when regulation is arranged, that has to be done very conscious of the fact that some people lose out. That is why we look for a regulatory structure around gambling that takes care of the poor and the vulnerable that is not focused just around economic interests, but considers those who perhaps might be the least well off.

Q455 Damian Collins: What is an acceptable level of cost?
Daniel Webster: Financial cost or social cost?
Damian Collins: You used that term, “cost”.
Daniel Webster: There is a social cost in terms of the harm of breakdown in people’s lives, there is the financial cost that people lose money. But we are also interested in the fact that people lose out when their families break down and marriages break up, when people are spending more than they can afford on gambling, which is regulated by the Government. There is a responsibility on the Government and on the Gambling Commission to take heed of that cost as well as the financial side.

Q456 Damian Collins: So my question was what is an acceptable level of that cost then? You said that cost is inherent in gambling and you are not anti-gambling, so what is an acceptable level of the cost of gambling? If I could just ask you to answer the question.

Daniel Webster: I am not sure it is that easy to measure that type of cost. If we are talking about a family breakdown there are ways of considering that—that is not something that is easy to put a figure on, but it is something we would be interested in knowing more about. I think one of the things that is very evident is that there is a lack of research—a lack of understanding about the impact of gambling problems. I would like to know more about what is the social cost.

Q457 Damian Collins: Let me ask the question a different way, what is acceptable gambling to you? What gambling are you happy to see people taking part in?
Daniel Webster: I am happy for people to gamble. I am conscious that people are free to use their money as they wish. I think there are a few areas where I would like to see significant changes. I think the fact that children under the age of 18 can gamble is something the Government should look at changing.

Q458 Damian Collins: Yes, so what is acceptable? Having a flutter on the Grand National, is that allowed?
Daniel Webster: I have gambled in the past. I am not against that. I think it is when people are in a habit of gambling that is sustained, that is regular, that is having an impact on their lives and those around them, that is when it is unacceptable.

Q459 Damian Collins: I understand what you think is unacceptable. I am interested in what you think is acceptable. You are saying you are not a prohibitionist, so what type of gambling do you think is perfectly acceptable and not causing any problems, not harming anyone?
Daniel Webster: I think in many of the different types of gambling there are ways that people would gamble in a sensible and responsible manner.
Q460 Damian Collins: Can you name two?
Daniel Webster: That could be when people are engaging in bingo in the National Lottery; those are areas that are shown to have fewer problems with problem gambling just by the way that they are structured. So, for example, with the National Lottery, people play week on week, there is not, “Oh, I lost on the lottery today, I can go and play immediately again”. There is a delay in the play. That is a responsible way of gambling. Likewise in bingo halls, people can go to play, they are making a choice to gamble and then when they go away that is the end of their gambling experience.

Q461 Damian Collins: Is that not the same as horse racing as well?
Daniel Webster: You can gamble on horse racing whenever you like. Betting shops now have virtual horse races to cater for the fact that there might not be horse races on. While I do not have a clear linear line of more and less dangerous forms of gambling, I think there are those that are more dangerous and those that are less dangerous. I do not have a hierarchy to give you.

Q462 Damian Collins: With horse racing, is the frequency rather than the process of betting money on horses itself? Is there an inherent problem in that type of gambling, something millions of people enjoy, or is it the amount of times they do it?
Daniel Webster: I think the frequency of play is a question to be considered, I think the level of stakes that can be placed—certainly if you are talking about virtual and gaming machines—is something to consider, as are the speed of play, how frequently you can play again, and the availability. There is a range of different things that contribute to make up the inherent risk in different forms of gambling.

Q463 Damian Collins: So lottery essentially okay, bingo okay, horse racing maybe, slot machines no? Would that be a fair summary?
Daniel Webster: I think that if you look at some of the figures, particularly those relating to referrals to GamCare, you see that B2 machines, FOBTs, are cited in 22% of callers, whereas only 6% of par sheet gamblers use them. I think there would seem to be a much higher level of risk in those particular types of machines.

Q464 Damian Collins: If I could ask the panel, so anyone who wants to respond, do you think what has been recorded as the incidence of the increase in problem gambling since the 2005 Act has been overstated?
James North: Absolutely not, I think it has been understated. There were two separate screens, two different ways of measuring the level in problem gambling, technically the DSM-IV and PGS1, both of which showed a rise in problem gambling. One of them showed a statistically significant rise in problem gambling, which is a very stringent test of certainty. Essentially there is only a 1 in 20 chance that one of the screens, the DSM-IV, did not show a real rise in gambling. The interval was technically between 0.7 and 1.2 as a rise from 0.6. So there is a 19:20 chance that there was a real rise in problem gambling—only 1:20 that there was not.

Q465 Damian Collins: But we are talking about a very, very small increase, and right on the margin of statistical significance. When this is reported as a 50% increase in problem gambling, that is a massive exaggeration on the data, is it not?
James North: That is an inaccurate way of putting the finding. It is not a massive exaggeration. The 0.9 figure would be the top of the bell curve statistically. As we have just said, there is a 95% chance that the rise has been from 0.6 to 0.7 all the way up to 1.2. So it is far from being a massive exaggeration.

Q466 Damian Collins: Is it if you take the data at face value. What the research is saying is there is a debate because the increase is so small, from 0.6 to 0.9 of a percentage point. It is an educated guess based on the sample, because you are not serving every person in the country, so you do not know exactly, even if you believe the answers that they give. We are looking at an increase from 0.6 to 0.9, right on the margin of significance and I think to extrapolate that as being a 50% increase or that this means there are now 100,000 new problem gamblers since 2005, I am not certain you can say that with any confidence.

James North: That is a fair point, however, it should be said that the Royal Society and medical research frequently take less robust evidence than that as scientifically credible and as grounds for evidence-based policy. There could not really be a more robust finding than this statistically—in the 2010 study, I think, the total number surveyed was around 8,000, and it was done in a very rigorous manner. When you are looking at say a figure of between 0.5% and 1% of that, it is inevitably a small number but having consulted statisticians about this, I have been told there could not conceivably, in the parameters of this survey, have been a more robust demonstration of a statistically significant rise.

Dr Chambers: I would remind you, having been around at the time when the Gambling Act was passed, that it was recognised that the liberalisation that the Act allowed might result in an increase in problem gambling, and it was said then that if there was evidence of that it would be swiftly acted upon. There is evidence of it. We can argue about the significance of it, but since there was a potential for an increase in this that has been shown in other jurisdictions when you get similar liberalisations, it is beginning to happen. I would perhaps turn your own question back on you: if this is not significant evidence what would be?

Q467 Damian Collins: Is it not the case that this evidence is based on a potential increase in the

Note by witness: The actual figure is 7,756 (total participants)
number of problem gamblers in a sample of fewer than 20 people? So if there is that number within the sample, I think it is reasonable to question how significant this movement within the sample is.

**Dr Chambers:** Perhaps you will be able to question the—

**Gareth Wallace:** I think any undermining of what is Government sponsored and supported research I would resist. This was evidence commissioned by NatCen on behalf of the Government. It is a professional organisation that conducts research across a whole range of issues. It is neutral, it is professional and it is effective. We see a clear correlation between the increase and availability of gambling since the Act was passed and the number of problem gamblers so, as my colleagues have said, that is a perfectly reasonable extrapolation of the figures. In fact, the most recent survey outlines the figure on at-risk gamblers, which is 7.3% over and above the 0.9% of problem gamblers. There is this huge additional number of people who are at risk of problem gambling. We are calling for more and greater funding for research rather than the proposed cut in future funding of the prevalence surveys.

Q468 Damian Collins: Later in this morning’s session we are going to look at the detail of the way the research has been conducted, and we certainly have questions about that. The point I was making is that the people in the panel this morning are hanging their hat on the statistical significance of a survey that is right on the margin and is based on the movement of opinion of potentially fewer than 20 people, so I think it is reasonable for us to question how significant that evidence is.

I would like to move on to a slightly different topic now. I do not want to pick on Mr Webster, but I know it is something that was highlighted in the Evangelical Alliance’s written submission to us—this is for the other groups too—and it is on advertising and the prevalence of advertising. There were calls for advertising to be removed from locations where children might be present, where children might be targeted, that is already expressly forbidden in the advertising code. Where do you feel the advertising code is falling down because that is already forbidden?

**Daniel Webster:** I am aware that the code is falling down because what the submissions are not saying is that there should be a prohibition on it myself. Just be clear on this, because what the submissions are not saying is that there should be a prohibition on advertising to be put within reach of children, if you like. It is already forbidden by the code, so advertisers are not allowed to do that, and given you are calling for it, I am asking: Are there specific examples you have seen? Have you put in complaints to the Advertising Standards Authority about the timing of adverts or the location of billboards?

**Daniel Webster:** I think what I am conscious of is physical adverts in situations that might not be explicitly near children, for example close to schools, but are on buses or are on street corners that are frequently and easily seen. It is easier to do in terms of television adverts to say gambling advertising should not be allowed pre the watershed, but I think it is also worth considering—and I do not have any concrete proposals—how such a thing could be done with physical advertising as well.

Q470 Damian Collins: Have any of the organisations on the panel ever put in a complaint to the Advertising Standards Authority about a specific advert, its location or its timing?

**Gareth Wallace:** I think at the time of the suggestion we were amazed that whenever advertising for cigarettes was moving towards a ban, advertising for gambling was going to be permitted. So I think the idea of us objecting to individual adverts misses the point somewhat.

Q471 Damian Collins: The point is you want an absolute ban?

**Gareth Wallace:** The issue was that at a time when smoking, because of its health-related concerns, was receiving an advertising ban, we were liberalising the gambling industry and we were permitting advertising. That is the submission that we made at the time. That is the position that we still hold to.

Q472 Damian Collins: I appreciate other colleagues have questions as well, so I would be right in saying that none of your organisations have ever put in a specific complaint to the Advertising Standards Authority about the siting or timing of adverts. You cannot give any specific examples of where you think there may have been a problem. What you are saying is that because children might see any gambling adverts there should not be any at all?

**Gareth Wallace:** Because a small minority of people have a problem with gambling in the same way that some people have a problem with smoking, it seems unusual that smoking advertising would be banned and gambling advertising would be permitted with the tiniest health warning possible in the corner.

Q473 Chair: But smoking damages everybody.

**Gareth Wallace:** Sorry?

**Chair:** Smoking damages everybody.

**Gareth Wallace:** It does, and perhaps that is why smoking is treated even more seriously, but we think that gambling is not being treated seriously enough.

Q474 Damian Collins: But you cannot have passive gambling, can you? I do not have a gambling problem if I am standing next to someone who is playing on a fruit machine and I am not engaged in it myself. Just be clear on this, because what the submissions are not saying is that there should be a prohibition on
Gareth Wallace: On a specific example, one logic of what you are saying, is it not? Advertising of gambling at all? Mr Wallace, that is the logic of what you are saying, is it not?

Gareth Wallace: On a specific example, one intriguing issue would be around the sponsorship of football teams. What if a football teams wants to sponsor a strip, and on the adult strip, you are allowed to have a gambling firm, but on the children's strip you are not allowed to have it, what would the child ask their father whenever his football strip is bought? That is the kind of thing where an advert could be public—an advert on a tube train, an advert as you are passing on a billboard, as my colleague says—and a child sees that. Those adverts are obviously selling a product, they are selling a lifestyle.

Damian Collins: But that is the same for alcoholic drinks.

Gareth Wallace: This is part of the normalisation of gambling. We know from the statistics that a small percentage of people have problems with gambling and this affects their life adversely. Gambling advertising could be a way of reminding people. There is a "Gamble Aware" note on the bottom of gambling adverts, maybe that could be bigger.

Q475 Damian Collins: You would probably describe the same for alcohol. Alcohol companies can advertise on football shirts and advertising is not targeted to the children. There is no difference, but what you are saying, and I do not understand why you are shying away from this now, is that you want a prohibition on gambling advertising.

Gareth Wallace: Sorry, we do want a prohibition?

Damian Collins: Yes, a total prohibition.

Gareth Wallace: Yes, personally as the Salvation Army, I would like gambling advertising to be restricted in the same way that smoking is.

Q476 Damian Collins: But you have never put in any complaints about it.

Gareth Wallace: I have a lot of things on my plate, mainly around our 70-plus homeless hostels, around our programmes to get people into work.

Damian Collins: We all know the Salvation Army does a fantastic job.

Gareth Wallace: This is a minor part of my work, but it is very important for the people who are addicted to problem gambling.

Damian Collins: I understand.

Q477 Mr Sanders: What evidence do you have that advertising causes a problem?

Dr Chambers: I don't think we would want to get harnessed too far down this route, what we are talking about is the subliminal effects of large-scale advertising, and it is very difficult to research and very difficult to prove. As I understand it, there is some research in train that the Responsible Gambling Fund might have funded. I think one of the next witnesses might be able to speak to that. We felt it was a great mistake—given that there were so many liberalisations that happened at once—for advertising to happen at the same time. It then becomes very difficult to unpick what the influences of different elements are.

In general terms, I think what we would be looking for is a precautionary approach, and one of the things that we called for is for inducements—so many free gambles—not to be a feature of advertising. That is quite commonplace, and it happens on television advertising as well as in other forms. That seems to be an obvious area of concern. In the alcohol field, for example, there is some evidence that particular groups are particularly adversely affected by advertising. There is one study that I think we have cited in our submission to you that youth who are already showing signs of problem gambling are particularly influenced by advertising, more so than people who are not. There is a small evidence base there, but it is very difficult to unpick.

Q478 Mr Sanders: You do see the difficulty that we are having; you have raised the issue of advertising, but you cannot come up with a single example of an advert that has caused a problem, you cannot cite any evidence at all that states that it causes a problem, and we have to deal with evidence in order to reach conclusions.

James North: There are two things that we could suggest that would be very helpful for the Committee to do. The first thing is that the reason for this lack of evidence and credible understanding of youth problem gambling and advertising is that the work has not really been done. Firstly, because the liberalisation only occurred post-2005 and the roll out of legislation, and, secondly, because of the lack of funding for a bespoke youth gambling and youth problem gambling study, that has not been done. We have called for it to be done and we hope that the Commission will take this in hand to enable such a study to happen.

What can be done is to look comparatively at other jurisdictions that have had similar liberalisation and have studied the effects of advertising. We think that Canada and Australia have both done similar studies and they found particular markers of kinds of advertising that are particularly effective at promoting gambling among youths—for example quasi-adolescent characters, ironic humour and so on. The link is well established in those jurisdictions. We have no reason to think that the precautionary approach shows anything but that it would be the same here, but the study should be done and we are calling for it.

Q479 Mr Sanders: James, you said, "We think something has been happening in Canada and Australia". We know that in Australia, the liberalisation of gambling went far further than in this country, so it would not be a comparator. I do not know about Canada. What we need is for you to say, "Yes, there was a study and this is it, and this is what it found". That is our difficulty.

James North: We would be delighted to return to the Committee with further evidence. Some of the studies are quite technical, but our first task is to make sure that the data and the findings reflect the UK situation where research has not been done.
Daniel Webster: If I may add, I think that emphasises the significant need for better research into what has happened since 2005. We are particularly concerned at a time when we are trying to assess what has happened and you are conducting this inquiry, that the funding for research, education and treatment into the effects of gambling is in a little bit of a chaotic situation, that the structures that were put in place have effectively fallen apart. We think it is high time that the Government introduced a levy on the gambling industry to ensure that sufficient resources are given to the funding of research, education and treatment that would then be able to provide the evidence that you are looking for.

Q480 Damian Collins: Just very briefly, Mr North, you noted that in other jurisdictions, people of a quasi-teenage appearance were used in gambling adverts and that may have attracted people in. But is it not the case that in the UK you cannot depict anyone who appears to look under 25 in advertising, so that would not apply here?

James North: There are ways and means of tweaking advertising to be more or less appealing to youths.

Q481 Damian Collins: That is why they have a regulator to make sure the agencies do not get away with it.

Mr Sanders: You can complain to them if you see such an advert.

James North: Indeed. On the subject that was raised earlier about have we as denominations made specific complaints? The answer certainly from the Methodist Church, with respect, is that it is not our responsibility corporately to make complaints, because we do not have a corporate anti-gambling stance. We do advocate that those of our members who choose to gamble do so responsibly, and we would take a keen interest in any complaints raised by a member of our Church to the Advertising Standards Authority and would factor that in. It is not our job to roll that out corporately.

Q482 Damian Collins: I appreciate that. The point I was making is the reason you would not have complained about people of teenage or juvenile appearance appearing in advertising adverts is it is strictly prohibited by the code.

James North: Yes, that was a one of a number of factors, including the use of ironic humour, zaniness, and so on and so forth. Any indicators for advertising that is liable to lead to an increase in youth problem gambling may have nation-specific factors and, of course, will have to bear in mind the regulatory processes in each jurisdiction, but that just underlines the need for the study.

Dr Chambers: I think the general point is the same one that applies to alcohol. If you have a large amount of television advertising promoting gambling in different forms, then education messages have a fraction of the budgets to promote responsible behaviour in comparison, so it always becomes a retroactive action. That is the same with alcohol.

James North: There is another form of advertising that we would like to express concerns about, which is the online situation. Clearly, one of the main changes in the gambling landscape since the Act is the great spread not only of broadband internet access, but of online gambling and online advertising. We are all familiar with pop-ups encouraging us to gamble through certain sites that come to us, even unsolicited. So besides TV advertising and billboards and so forth, we would particularly like to raise the risk of online advertising targeting youths.

Damian Collins: That is now covered by the regulator as well though.

Chair: I think we need to move on to the next area.

Q483 Dr Coffey: Talking about young people and underage gambling in terms of what is legal as opposed to what view you would like it to be, some small stake prizes, classic coastal town resorts, say Felixstowe, where I am from, or Torquay, which Adrian represents, have that kind of small value, if not any value, recompenses. Is there any evidence to show that children who indulge in that then go on to become serious gamblers? I do not mind who answers.

Dr Chambers: The strongest evidence, as I understand it, relates to fruit machines, and again that goes back perhaps to the first question about risks of a particular form of gambling, and that is because of the reinforcement schedule of—

Dr Coffey: The fruit machine

Dr Chambers: It works in the same way, although the stakes are lower and the prizes are lower; in terms of a reinforcement schedule, it works in the same way. We would be particularly concerned about those forms of gambling.

Q484 Dr Coffey: So the sort of things you get in a motorway service station, for example, do not worry you too much; it is the fruit machine orientation.

Dr Chambers: Well, it depends what is in the service station. We have concerns about all children’s gambling, but the evidence is strongest about fruit machine gambling and there are studies that we can send you the details of that show higher rates among adolescents, higher rates of problems than you get among adults. I am sure your other witnesses will be able to give you chapter and verse on that, as I Daniel Webster: The 2010 prevalence study did show that among those who gambled earlier in life, the incidence of problem gambling was higher. I think it was 1.6% for those who gambled between 11 and 15, as opposed to 0.6% for those who did not gamble until they were 22 or over.

Q485 Dr Coffey: You will be aware of the failure rate of the test purchasing scheme—there has been another one subsequently. In your opinion have the industry operators been able to demonstrate sufficient measures to prevent underage gambling? Have you seen any changes yourself?

Dr Chambers: I do not know if we are closely enough involved to be aware of exactly that. We take part in police liaison meetings, at which the Gambling Commission reports on these things, and we understand that there has been some improvement. Our concern is that this should be a monitoring of underage gambling, of what it is—which we do not
know because we do not have a prevalent study for young people—and what the problem rates are. We have no baseline data to work from, but we have given that submission.

**Gareth Wallace:** Just to say what is on record, the National Lottery Commission conducted a survey in 2008-09 among adolescents aged 12 to 15, and they reported 4.9% have some form of problem with gambling and the overwhelming majority of that, 3.2%, had a problem with fruit machines. So we would think that the D category machines that resemble the much more high stakes, high prices, adult machines are a potential way into problem gambling, but, as we have said, more research is required. An excellent survey was done by the National Lottery Commission, which is presumably now going to be merged into the Gambling Commission after a guano cut. Coupled with our concerns about inadequate funding for future research, we think that more research on child gambling could be incorporated and strengthened in future research as a whole.

**Q486 Dr Coffey:** I do not want to stray into a colleague's question because I know we are getting on to online. The industry would argue that in online gambling, there is much tighter control on age, because they try and get you to do it by credit card, and there are other checks on how you get a credit card. One of the other things that has been mentioned to me—and I am just wondering if you have any evidence from your organisation—is telephone quizzes, which are not strictly gambling, but are seen as high value, low entry, if you like, and appeal more to younger people. Is there any suggestion that people are using their telephone to do those late-night quizzes, as opposed to adults?

**Dr Chambers:** I do not think we have any evidence, but it is something that we would be concerned about.

On the other point, we do notice in GamCare figures, which perhaps the next witness will be able to speak about, among the calls from under 18s there is a fairly high proportion who have problems with B2 machines, which they are not legally entitled to play, so there is still some enforcement issue there.

**Q487 Chair:** That brings us neatly on to B2s. We have received evidence that some people have called them crack cocaine; we have also been told by the betting industry that there is no evidence that they pose any additional harm at all and it would help if they had more of them. I take it you are probably closer to the first view than the second, but perhaps you would like to tell us why?

**Daniel Webster:** I have already mentioned the statistics that refer to the GamCare cause. B2 machines, or fixed odds betting terminals as they are perhaps more commonly known, are fast playing machines. They are high stake machines, you can play in multiples of £10 and you can lose a lot of money very quickly. I think what we see from the revenue statistics from the betting industry is that an increasing proportion of their revenue comes from these machines. I think it stands around 46% at the moment.

**Q488 Chair:** The industry will point out to you the prevalence studies, one in 2007 and one in 2009, which showed no increase in the level of problem gambling, yet it was during that particular period that B2s arrived at betting shops in their thousands. Why, therefore, does it not appear to have had an effect during that time?

**Dr Chambers:** During that time there were indications of problems with the B2 machines. They had to have their own column in GamCare figures, they could not be incorporated in the slot machine column. In a way, this is a very good example of what should not have happened really. It was apparent that these machines had high risk features. They are very fast play, they have very high stakes—which is the key point—so you can lose an awful lot very quickly and they could be widely dispersed in casually accessed locations. All of these are risk factors. It is hardly surprising that what follows through into disproportionately high rates of reported problems by treatment agencies.

When you have that triangulation of evidence, we would say that is enough to act on. There should certainly be a drop in the stake—we suggested £2 to bring it in line with other slot machines of comparable access—or for them to be removed from betting shops. Because they are so lucrative it has enabled this proliferation of premises in certain areas. By themselves they can make premises viable, and in vulnerable communities this is a real concern. So, again, one wonders, if the evidence is not there for B2 machines, what level of evidence is needed?

**Q489 Chair:** Is it your view that the ease of access to B2s on a high street is creating new problem gamblers, or is it just making it easy for somebody with a problem to go and lose money even faster?

**Gareth Wallace:** One of our friends who talked to us and has a problem with their gambling explained how they had lost an awful lot of money in casinos and thought they had finally overcome that habit, with a new home, new job, new friends and slowly rebuilding their family. “I still enjoyed a bet sensibly and responsibly on the horses or dogs and then the FOBTs came along into the betting shops and changed...”
everything, much worse than anything that had gone before. I won’t be the first or last to tell you that the atmosphere changed in our betting shops when FOBTs came along and they were turned into mini soulless casinos.” What we hear is that people who have addictive problems with their gambling are often affected by fixed odds betting terminals. Dr Henrietta Bowden-Jones, who runs the only treatment centre in the country for problem gamblers, says that 67% of her patients—she has over 1,000 people on her books—reported using FOBTs and 47% of her patients reported them as a particular problem in their own addiction.

Q490 Chair: The Committee visited a betting shop last night and discussed with staff, for instance, the provisions that they take to allow people to self-exclude. The lady you just quoted, did she try to do that?

Gareth Wallace: Sorry, with regard to?

Chair: The lady you have quoted whose life became infinitely worse when FOBTs arrived.

Gareth Wallace: I am not going to look them up now, there are separate figures on exclusions. One difficulty often is you can exclude from one betting shop chain and then you can move to another. Someone’s addictive behaviour is almost outside of their own control. That is why it is addictive. The human mind will find a way of getting round it. While we welcome self-banning, we think that there has been an increase in self-banning, which is born out of an increase in people wanting to gamble on these machines. We feel that the measures that are in place are perhaps not strict enough and again, friends we know who have gambling problems may have self-banned and then taken themselves off that self-banning.

Q491 Chair: Do you want them banned, or do you want them restricted to off-high street venues, or just have lower limits on the stakes?

Gareth Wallace: I think there are a range of measures with any gambling machine that can be taken. One interesting thing is you can take your debit card to the member of staff, load it up with money and then that “virtual” money is played on the machine. At the end, if you want to collect your winnings you have to take your chit and go back and collect it. Maybe there is a temptation just to keep playing on the winnings that you may have won until you have lost your money. I think there are things that can be done in terms of breaks in play, in terms of whether it is cards or cash, in terms of making it more obvious how much money you are spending, making the Gamble Aware number more prominent; things like that could certainly be helpful.

Q492 Chair: I have to say that we were given evidence last night that the ease of provision of information about, for instance, help lines for people who do have problems was considerable. There were leaflets dotted all the way around the betting shop.

Dr Chambers: Is that not an example, though, that attempts at trying interventions after people have already developed problems is not the best approach? Availability and access are risk factors. Regulation can tackle availability.

Q493 Chair: So do you want them banned?

Dr Chambers: I think ideally what we would like is—we suggested, as I say—a reduction of the stakes to £2, or for them to be removed. In more general terms, what we would like to see is a strategy that would look at the evidence base that is needed to inform regulation and have a kind of risk-based approach to licensing, so where there is evidence either of risk or of harm a more stringent approach is taken than where there is not. What we are suggesting practically in terms of another approach that would go across the piece is for local authorities to have the ability to decide on gambling premises on any grounds that they choose, so that there is not a central limit which is not limited by any standard. We are concerned that there does appear to be this trend towards continual catch-up emphasis. So the category C machines increase their stakes and then almost in response to that there was a pressure on venues, bingo halls and arcades that had B3 machines and felt that their machines were being pushed out of the market, so they wanted an increase. One of the things that was most surprising about the most recent review of B3 machines is that there was a lot of evidence put forward by sectors of the gambling industry to suggest that this was a necessary measure to ensure their economic survival. Even in the earlier consultation for the category C machines, the industry had made similar claims and those claims had not yet come to fruition. I would urge the Government to be hesitant in accepting and acknowledging the economic case that is put forward. I also note that the Government have announced a new triennial review of all gaming categories. That is something that we will be taking part in, and we will be feeding into the consultation. I only received it yesterday. Our position would be that this is not an opportunity for change, so as to make the industry to make more money. It is also an opportunity for restrictions, whether it is on B2 machines or other categories, that are shown to be particularly damaging.

James North: I would just like to add the general points that should be borne in mind. Both the Gambling Act 2005 and the Gambling Commission are established on the precautionary principle. The Act was trying to do two things that are very hard to reconcile, which is on the one hand to enable legitimate industry expansion, but on the other hand not to lead to an increase in problem gambling. Now, it is the job of the Government and the regulator to try and reconcile those two things, but we are seeing...
that the direction of travel is towards liberalisation and the precautionary principle is not being given due weight. One very good example of that is that presumption to permit in local planning that we have been hearing about, if the precautionary principle is really the legal backdrop to our thinking about localism—which is very much a coalition theme—then that gives strong grounds for removing the presumption to permit.

**Q495 Steve Rotheram:** Just perhaps to expand on what Helena touched on. Harriet Harman has spoken about the proliferation of bookmakers being damaging, changing the look and feel of high streets and making them less safe. Should local authorities be doing more to tackle the clustering of betting shops in some high streets or do they need more powers to help them do so?

**Daniel Webster:** I think they do need more powers. I think that it could come through a variety of different forms, the most obvious one to us is that local authorities have the same powers that they have in regard to alcohol licensing to adopt cumulative impact policies. Let’s say in this zone it can be a smaller area—it can be a larger area—we do not want any more betting establishments, and that gives them a great deal of discretion to decide for themselves, and for their communities, what gambling opportunities they want. It does not necessarily need to impact on the ability of companies to open premises in other areas of that local authority’s jurisdictions, but it does give the control to the local authority. Because what we see at the moment is that local authorities are often afraid of refusing, because then they are faced with hefty legal bills which are brought when they reject applications and they end up shying away from refusing applications, even when they might be minded to do otherwise.

I think we need more powers for local authorities, but we also need local authorities to know what powers they have. It is not an area of particular expertise, but I am aware that under the new Localism Act, there will be greater powers involved to deal with neighbourhood development plans. I think local authorities need to know how they can use those powers to regulate the gambling opportunities in their community.

**Dr Chambers:** I think that would be one of our very loud and clear messages to you. Yes, local authorities do need more powers, because the recent research by the RGF—and you have one of the authors here—I think—shows clustering or density related to some areas of lower economic privilege as regards machines. Certainly in some cases there is a trend that way. That needs unpicking locally, and the best people placed to do that are local authorities. So, yes, for them to have powers locally—a general trend that seems to be going with the Government’s thinking, to make those discretionary decisions—it would address the concerns about betting shops and B2s, or it would go some way to doing that. It would also be helpful across the whole gambling opportunities in a given area, that those decisions are better made locally.

**Q496 Steve Rotheram:** There is the potential that the Government might liberalise machine stakes and prizes, and they have recently announced a review of limits for gaming machines. What issues do you believe that should focus on?

**Dr Chambers:** I think it should focus on all machines actually. The Gambling Commission has initiated quite a lot of useful research during this period, particularly on high stake, high price machines which are the most obvious area of concern. One of the consistent risk features that was accepted by most of the independent experts that they consulted was that stake size was an important risk factor. So whenever there is a raising of the stake, that has to be particularly carefully considered. The tendency has been for the whole debate to be economically led by different parts of the industry feeling more of this or that kind of machine or a raising of the stake here or there would have this or that impact on their profits. What needs to be put into that is what the risk elements of those are and whether a matrix needs to be developed.

Again, I may be corrected by more expert witnesses, but I do not think there is necessarily the evidence base to be sure what different elements of machines are, how they combine to make a particular level of risk. That needs to be teased out further in a local context. Given that there is a considerable evidence base that machines have higher rates of problem gambling than other areas, or there is an association between problem gambling and machines, all decisions need to be made on that precautionary principle. We are concerned that it just seems to be a continual leapfrog of one area over another without a systemic evidence base being gathered or criteria being established as to what evidence might be sufficient to limit those kinds of increases, or to monitor them after they have happened. None of this has happened.

**James North:** A good example of where we do have sufficient evidence to operate is around the profile of problem gamblers. Noting the comments about disagreement about the general rise or not of problem gambling, the groups that are problem gambling have fairly well understood markers. They tend to be younger, they tend to be poor, they tend to live in the areas where there is clustering or a densification of betting shops with B2 machines. Following the principle that whatever regulation is done, it should protect children and the vulnerable—which is the third objective of the Gambling Act 2005—any direction of travel towards putting potentially addictive machines in places where those vulnerable to them are must be reversed.

**Q497 Mrs Mensch:** I am going to ask a few questions and time is really pressing, so I would be grateful if you could keep the answers short. I am going abandon, Chairman, the questions that are on the sheet and ask other questions because time is so pressing. Mr Wallace, in preparation for today’s session, last night I went online and read posts from the GRASP—Gambling Reform and Society Perception—forum. I think you asked your members...
to submit their stories to that thread so that the Select Committee might be made aware of them. These are stories of problem gamblers giving their personal stories and their testimonies of addiction. I had it printed off for today’s session, it runs to 31 pages. I think contrary to what my colleague, Damian Collins, says, there clearly is passive gambling, because the families and children of those affected by problem gambling very much suffer from it.

Can I ask you a series of questions, and I would be obliged if you keep the answers fairly succinct? First of all and generally to the panel, it is your contention that problem gambling is not correctly identified, or not sufficiently identified, and that the official figures underestimate the number of problem gamblers and extent of problem gambling that we have in this country? Can I ask you, broadly speaking, how many come to you and ask for help? Is it the numbers that approach you and ask for help that lead you to believe that problem gambling is underidentified?

James North: Perhaps two points. First, we do not think the official figures are an underrepresentation; we accept the official judgement in the prevalence surveys of the gambling symptoms. Secondly, speaking from the perspective of the Methodist Church—my colleagues can join in on this—we do not centrally collect data on gambling. Many of our local churches have been involved in treatment and counselling for gambling, but it is not our job to collate that. Because we follow the evidence-base principle, we interact more with the Commission and use the surveys as our reputable source of data.

Gareth Wallace: Anecdotally from, as you say, the GRASP group, gambling and the stigma attached to problem gambling means that people who have been afflicted with this find it difficult to share and express it. While we support and endorse the very professional prevalence surveys, we feel that there is an argument to say that some people may feel unable or unwilling to talk about their problem or admit to it—perhaps that is the nature of addictive behaviour.

Q498 Mrs Mensch: If I could move on, having read this thoroughly, a couple of common threads jumped out at me from the evidence given by problem gamblers of how gambling had destroyed their lives and, clearly, one thing that comes up again and again is people saying that they got into gambling through fruit machines. There are many, many stories of young people saying that fruit machines were their first addictive leap into gambling. The second major complaint appears to be a common thread throughout all of this, and perhaps you could comment on it. Firstly, online gambling does not have sufficient controls on the amount betted. There appears to be a concern that you can bet on a credit card, whereas you would not be able to go to your bank and say, “I want to borrow in order to gamble”. They would not give you the money, but you can put it on a credit card and gamble on credit. That is one repeated concern.

A further repeated concern is how difficult it is to leave an online betting site—there are withdrawal penalties, and you cannot withdraw your money all at once if you want to close it down. Then problem gamblers are chased with emails saying, “It is very easy to log back in. It is very easy to start your account up again”. Do these fit with your experiences of how some problem gamblers have come to you?

Lauri Moyle: My name is Lauri Moyle, I focus on remote gambling and that is part of my role here. My experience with stories that people tell us—they are not extensive as we are not a membership organisation that necessarily has wide representation—but one of the stories that I have been told recently was of a woman who started gambling when she was nine and she attempted suicide when she was 19. Now she is in her later years and she had a severe addiction. I went through the process of helping her, and she came out the other side. A couple of years later, a family member died and she had learned how to deal with coping with where she needs not to go, so she would not be tempted to go and gamble. One of the areas that she came across was online and that was something that was in her house, and so it is there 24 hours a day. She essentially told me that she had tried to self-exclude from a number of different sites. Some of them were easy, some of them were not as easy and I think that highlights the problem that we have in the UK at the moment where there is a disparity of regulation between different sorts of sites and where they are based.

Again, one of the highlights in terms of credit cards, the credit card that I happen to have charges interest on cash, which is at a higher rate than if you were purchasing something. It stipulates specifically that if you are going to gamb it is not going to charge it as a cash payment, but it is going to be seen as a good and service bought, which is a slight contradiction. What I would like to see would be a harmonisation of regulation or an accountability structure that all gambling websites that participate in the UK market would sign up to. I would like to see included in that a mechanism whereby it is ultra easy for somebody who has a problem to be able to self-exclude from all the websites that are available in the UK.

Q499 Mrs Mensch: Can I just stop you there because I want to jump into self-exclusion? I asked the guy who ran the forum to put it to his members why they did not self-exclude and take advantage of that opportunity, and the answer came back from one guy that in order to self-exclude he would need to visit 32 separate establishments within an 8-mile radius. He could not simply just log into a national register and self-exclude from everywhere as he wished to do. I take it that the members of the panel would like to see some kind of national registry so that one could self-exclude once and for all. Would that help with problem gambling in your experience?

Dr Chambers: Yes.

Mrs Mensch: That is a general yes to that one.

Dr Chambers: Also your general concern about credit cards, absolutely because, in a way, working on the precautionary principle, is it sensible for people to gamble on credit? No. Do we need to wait for lots and lots of case law to show that that is not a good idea?

Q500 Mrs Mensch: Certainly one of the witnesses here said that borrowing to fund an addiction was a
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key sign of addiction, and the use of credit as opposed to debit cards was a problem he flagged up. Can I just ask you all in general? Okay, you say that you do not in fact dispute the official statistics and you have all acknowledged that the official numbers of problem gamblers is, in fact, very small, yet the remedies you are suggesting to the Committee would penalise all gamblers, even those using fixed odds betting terminals—and I do admit that FOBTs feature very heavily in the stories of addiction in this forum. Surely the answer is not as you suggest to restrict the machines, which, as you have said, betting shops place their livelihood on, because the vast majority of gamblers, you admit, do not in fact have a problem. The answer is not to restrict types of gambling or stakes, but to have better policing of problem gamblers, rather than subjecting the entire industry to regulation for the sake of a tiny handful of problem gamblers. Is it not the fact that we should be looking at better methods of self-exclusion, better methods of detection, perhaps credit card borrowing rather than penalising the whole industry? Why are you, in essence, using a sledgehammer to crack a nut?

Lauri Moyle: I think what we would like to see certainly is education around what it means to gamble safely. I think one of the mechanisms by which you can do that is making it very clear to people who gamble that there is a risk of problem gambling. It is not just that you identify a specific subset of people who might develop a problem; it is a bit more complex than that in terms of addiction. We all might be more or less susceptible, but I would not say there is a specific group of people who are specifically at risk. In that sense, the education element of the strategy is an important thing—incorporating mechanisms for self-exclusion or setting personal limits about how much I want to gamble in a specific session and helping to enforce that kind of responsible gambling in a way that allows people who may or may not have a problem to be able to leave at an appropriate time.

Dr Chambers: Could I just tackle your question head on? I do not think it is a sledgehammer to crack a nut. There are many questions here but, for example, to take B2s, they are not played by a very large portion of the population; I think the figures for participation among gamblers is at about 6%, so when you talk about something that impacts on people’s freedom of choice, it is a fairly small proportion of people who play them, but among those there is a large proportion of people who have problems. That is the key thing. When you are talking about proportion I think that is the relationship to bear in mind, coupled with the fact that, as you say, that then goes on to have a ripple effect on their families and their communities, and in particular in terms of problem gambling their children who are then more disposed to develop a problem.

Q501 Mrs Mensch: Your remedy is to restrict an entire category of betting rather than to focus on those people who are addicted or even on addiction prevention. We had a long discussion earlier about advertising and what I did not hear, and was surprised not to hear, was a desire for some sort of health warning just as there used to be on cigarettes advertising.

Gareth Wallace: I am sorry if I did not make that clear: that is what I would personally like—a much large health warning on adverts—and similarly with things like machines, again building on the excellent work of GamCare and making things even more available. Perhaps GamCare cannot say this because they are on next, but I will say it for them: I would love them to have even more money, I would like them to have more resource to help fund education and to help provide treatment for problem gamblers. I think prevention is much better than cure and I would like to see a lot more education about the fact that if you want to gamble—and this comes back to the initial comments and the initial question—you have to ask what is an acceptable level of gambling. Perhaps an acceptable level of gambling is one that is within someone’s budget, within someone’s limits and one where someone sees it as entertainment, as money lost, and it is not something where they think they are going to win or where they think that they are going to become rich—it is something that is reasonable and moderate and sensible.

Q502 Mrs Mensch: So along with, “You can win X“ in your flashy betting advert, you would like to see, “You could lose substantial amounts of money. Problem gambling can lead to loss of a house”, that sort of thing, whatever it might be, the same way that you have drinks labelled in the United States with, “Don’t drink this if you are pregnant” and the same way we used to have those labels on cigarette advertising back when we had it. You would like to see some acknowledgment in advertising of the negative consequences of gambling and not just a focus on winning?

Gareth Wallace: Yes.

Dr Chambers: Absolutely. The other thing to say is I do not think giving local authorities greater powers to address patterns of gambling or problem gambling in their areas is disproportionate. I think that is entirely proportionate.

Q503 Mrs Mensch: There are political considerations, if you want to make evidence-based policy. It strikes me that there are many things, having read this, that could be done to help exclusions, make them easier, allow people to take their money out of online shops, which at the moment is difficult, but all those focus on the small number of problem gamblers and do not penalise an entire industry, which is where I perceive the tenor of your remedies to be coming from. That is my last question.

James North: That is interesting and I would like to just query the question of who is being penalised, because with your question it sounded like there were two kinds of penalising—the public and the industry. I would very much like to challenge the idea that the public are in any way having their freedom limited or being penalised. There was an NOP poll in 2004 that showed that 93% of the British public already thought this is important and, as you have seen from the stories of addiction in this forum, people who gamble that there is a risk of problem gambling. It is not just, I would say, that you identify a specific subset of people who might develop a problem; it is a bit more complex than that in terms of addiction. We all might be more or less susceptible, but I would not say there is a specific group of people who are specifically at risk. In that sense, the education element of the strategy is an important thing—incorporating mechanisms for self-exclusion or setting personal limits about how much I want to gamble in a specific session and helping to enforce that kind of responsible gambling in a way that allows people who may or may not have a problem to be able to leave at an appropriate time.

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To use the concept of demand for the general public around these machines is hardly credible. Now, in terms of whether it is penalising the industry, we have grave concerns if the industry is choosing business models that lead to an increasing percentage of its profits coming from problem gamblers rather than from non-problem gamblers.

Q504 Mrs Mensch: It was, as you yourself have admitted, a tiny increase. A minuscule increase. A barely statistically significant—

James North: From the sample, but one that is potentially an increase from 300,000 to 500,000 people and 4 million in the at-risk category.

Mrs Mensch: Thank you.

Chair: We need to get on to the next panel. I am going to take two last quick questions.

Q505 Philip Davies: Can I just clarify whether you accept the results of the prevalence survey or not, because I am getting mixed messages. Generally you are happy, you accept that their figures are accurate and you do not quibble with them?

Dr Chambers: Yes.

Gareth Wallace: Yes. We would like even more research into problem gambling.

Philip Davies: No, no, absolutely.

James North: We think it is very professional and cautious. If anything, NatCen probably did too good a job of burying the seriousness of the figures with their statistical professionalism, but we have absolutely no quibbles with the way it is expressed.

Q506 Philip Davies: Mr Wallace, you said you thought GamCare should have more money. Who from?

Gareth Wallace: Well, from the industry.

Q507 Philip Davies: This is the industry that you are wanting cripple with all the changes that you would like to make, there would be no money, all the shops would close, everything would be closed, so where do you want them to get the money from?

Gareth Wallace: An industry that has a gross gambling yield of £5 billion and that gives a voluntary contribution of £5 million, of which £2.5 million is spent by GamCare on problem gamblers. I do not think that is a serious level.

Q508 Philip Davies: So how much do you think they should give? You just said £5 million.

Gareth Wallace: Based on the figures, if they are at the lower end of the estimate, if that is where the Committee are going, if at the lower end of the estimate there are 250,000 problem gamblers in the country, GamCare’s figure is £8,000 social cost to society for each of those problem gamblers, and yet GamCare’s programme only cost £650 per problem gambler—someone else can do the maths—that sounds a good figure from me for a budget to start tackling this problem seriously.

Q509 Philip Davies: GamCare, Gordon Moody and the Soho Clinic, they are the three main problem gambling charities, and they deal with fewer than 50,000 people. So where are all these problem gamblers?

Gareth Wallace: As I say, I would like more resource so those people can be identified and helped.

Lauri Moyle: Yes, the nature of addiction, particularly around gambling, is quite shameful and I do not think we have moved in society to a place where it is easy for someone who may have an addiction to go to a doctor and tell them. I think some of the research that Dr Enrietta Bowden-Jones brought forward in her work at the clinic in Soho was precisely around educating medical professionals about the fact that this thing exists, it is there, and what are the signs to look for when somebody presents.

Q510 Philip Davies: But that could be it, couldn’t it? It could be actually that there has always been the same levels of problem gambling, but it is simply the fact that as the stigma of admitting it reduces, the number of people admitting to it increases. Therefore, there is not an increase in the numbers; there is merely an increase in the number of people who are happier now to say that they do have a problem.

Dr Chambers: One would hope that that was the case, but the prevalence study does not indicate that. The prevalence study indicates that there are 150,000 more problem gamblers now than there were two or three years ago. Could we talk in some more detail about the arrangements for funding research, education and treatment? I am aware that your time is limited and we started late, because we do have some observations on that.

Q511 Philip Davies: Go on, fire away. What are they?

Dr Chambers: We are very concerned to have heard in recent months that the tripartite structure for funding research, education and treatment from the budget raised by the industry has broken down. The arrangements were put in place in about 2008 by the Gambling Commission, or after consultation, and with Government approval, in order to ensure a separation between the industry that raises the funds and the body that spends it. The reason for that is that there is an inherent conflict of interest in some areas between the two.

Q512 Philip Davies: There was half a million pounds being eaten up just in costs. Surely these people who are worried about problem gamblers would much prefer that money went to the front line rather than it was eaten up by unnecessary bureaucrats swallowing up 10% of all the donations.

Gareth Wallace: Absolutely. A compulsory levy would simplify the system enormously.

Dr Chambers: I think that is the line that has been given, but what actually needs to be looked at is the conflict of interest in some areas. The most obvious example is machine gambling. Where the industry is constantly looking for liberalisations in terms of stake prizes and reach—because these machines are profitable—that is also the area where there is evidence of risk and harm. That evidence, as you pointed out, needs to be further unpicked in a British
context because, as you say, we can only extrapolate so far from international studies.

Q513 Philip Davies: I understand that point. Can I just come to Mr Webster? You were at the start putting up the National Lottery as a virtuous form of gambling. I was a bit surprised by that because, of course, you can gamble on the National Lottery at 16, whereas you cannot do other forms of gambling until you are 18. Why are you holding up the National Lottery as a virtuous form of gambling, whereas you cannot do other forms of gambling until you are 18? Why are you holding up the National Lottery as a virtuous form of gambling, but they do not actually have any bearing on the evidence in the prevalence study that you are holding up as being perfectly accurate. You are going on about slot machines; the number of people on slot machines has gone down at the same time as you are claiming the number of problem gamblers has gone up. There is not really a correlation there, is there?

Gareth Wallace: Well, for example, on the figures, there are 1% problem gamblers with National Lottery and 4% on slot machines, so there is a three times more problematic than the National Lottery. I think what Danny said about the breaks of play is right: if you are playing a game once a week, that offers a break in play that is considerably greater than every few seconds of putting money in a slot machine. We are not prohibitionist. We feel that if types of gambling offer more problems, as our grass root members have said, then those things should be given greater scrutiny.

Dr Chambers: I think what you are talking about—and you are right to do so—points to these patterning and inconsistencies. What we then need to know is what the increase in problem gambling is to do with, what forms of gambling it is to do with, what patterning it is to do with, what communities it is to do with. We do need more information on that. We are basing our concerns about slot machines on the international evidence that they are associated with higher rates of play, higher rates of problems, and also on the fact that fast, continuous forms of gambling, of which the internet is an obvious example, tend to have more problem features. That, if it is related to high availability, sets the scenario of risk. That is what we are drawing your attention to. If I could just go back to the—

Q514 Philip Davies: It is interesting, because you all support the prevalence study, but in the prevalence study, the most popular form of gambling of all is the National Lottery—59% of adults take part in the lottery. Then, after that, the next most popular activities were other lotteries at 25%, so lotteries are a massive part of gambling, yet you are all for those. Scratch cards is 24%, largely on the back of the National Lottery—59% of adults take part in the National Lottery where much of the scratch cards sales come from. You are all for that.

Daniel Webster: I think I would draw a distinction between the National Lottery and scratch cards.

Q515 Philip Davies: It is only much lower down in terms of what people gamble on horse racing, slot machines and other forms of gambling—much lower than all of that kind of thing. According to the prevalence study, back in 1999, 72% of the public took part in gambling. After all of this liberalisation, you think the whole sky has fallen in and in the last survey 73% of the population took part in gambling. With all of this liberalisation in gambling, it has not really led to a huge increase in people gambling, has it, really? In fact, quite the opposite, really. It has made very little difference to the number of people gambling.

Dr Chambers: But there is an increase in problem gambling. Now, you can argue about the margins of statistical significance, but there are a lot more people who are problem gamblers now than there were.

Q516 Philip Davies: Just one final thing—

Dr Chambers: Could I just move back to the funding structures for a minute?

Philip Davies: Could I just ask you one thing first?

Dr Chambers: Yes.

Philip Davies: You have talked a lot about things like slot machines. Now, actually, in the prevalence study, the number of people playing slot machines has gone down.

Dr Chambers: Yes.

Philip Davies: What do I not understand is it seems that you have some kind of bias against certain forms of gambling, but they do not actually have any bearing on the evidence in the prevalence study that you are holding up as being perfectly accurate. You are going on about slot machines; the number of people on slot machines has gone down at the same time as you are claiming the number of problem gamblers has gone up. There is not really a correlation there, is there?

Gareth Wallace: Well, for example, on the figures, there are 1% problem gamblers with National Lottery and 4% on slot machines, so there is a three times more problematic than the National Lottery. I think what Danny said about the breaks of play is right: if you are playing a game once a week, that offers a break in play that is considerably greater than every few seconds of putting money in a slot machine. We are not prohibitionist. We feel that if types of gambling offer more problems, as our grass root members have said, then those things should be given greater scrutiny.
are actually back to a situation that looks worse than the one in 2008. At the time that the tripartite arrangements were made, the Gambling Commission said, "Without improved arrangements, whether voluntary or statutory, for funding and commissioning research, education and treatment, the Commission will not be in a position to provide effective advice to the Government on all matters related to gambling and, in particular, to its third licensing objective in relation to harm reduction." That is the case now. That really needs to be seriously addressed. **Chair:** All right. Thank you.

### Examination of Witnesses

**Witnesses:** Andy McLellan, Chief Executive, GamCare. Anthony Jennens, Chairman, GamCare. Heather Wardle, Research Director, National Centre for Social Research, and Professor Jim Orford, Gambling Specialist, University of Birmingham, gave evidence.

**Q517 Chair:** Can I welcome our second panel this morning and apologise for keeping you waiting? In particular, I welcome Andy McLellan, the Chief Executive of GamCare, Anthony Jennens, the Chairman of GamCare, Heather Wardle of the National Centre for Social Research, and Professor Jim Orford of the University of Birmingham. I will invite Adrian Sanders to begin.

**Heather Wardle:** Andy might be able to say more about that.

### Andy McLellan:

There is a piece of work being conducted by Corinne May-Chahal at Lancaster University being funded by the RGF, I think. They are looking at prevalence rates in prisons. I think they are roughly estimating the prevalence rate in prison of problem gambling as nearer to 10%.

**Q518 Mr Sanders:** Heather, as Project Director of the 2010 British Gambling Prevalence Survey, what can you tell us about the number of problem gamblers in the UK?

**Heather Wardle:** There are two things to consider, I think. Firstly, we have talked a lot about the estimates that we observed within the survey. You will have heard quoted a figure of 0.9% according to one of the instruments that we used. Now, that is the actual estimate that was observed among the people we interviewed. The actual range, which represents the margin of error around that estimate—as you know, with all surveys we take a sample of population, and there is a margin of error—is in the range of 0.8% to 1.2%. It is quite a broad margin of error. That translates to anywhere in the region of 340,000 to— at the upper level—593,000 problem gamblers.

The other thing I would also say, because you touched on it in the previous panel, is that the prevalence survey is a study of people who live in private households in Great Britain. There are a number of people we do not talk to simply because that is the sampling frame that we use. We do not talk to people in prisons. We do not include adolescents. We do not go into student halls of residence. Now, they are all groups who are more likely to have slightly higher rates of problem gambling. Therefore, the estimates in the prevalence survey should be seen within the context of who we interviewed; that is, adults in private households in Great Britain. There are other population groups among whom we think problem gambling rates may be slightly higher.

**Q519 Chair:** This may be a very ignorant question but how are people gambling in prison?

**Heather Wardle:** That is a really good question. I think there is a lot of private betting amongst themselves playing poker, and I know GamCare have been doing work within the prisons.

**Q520 Chair:** Oh, it is internal?
that the number of problem gamblers we have is small. I would say exactly the opposite, that the number of problem gamblers in Britain is large. It is actually very similar in size to the prevalence of problems associated with class A drugs, heroin, cocaine and crack cocaine. It is very similar, broadly in the area of 500,000. That is a big public health problem, so make no mistake: this is not a small problem.

Q523 Mr Sanders: Out of the, say, 500,000 or so, how many people is that out of? What is the total number of people who are gambling?
Professor Orford: Total number of people gambling?
Mr Sanders: Yes. If you have 500,000, or possibly 500,000-plus, problem gamblers, out of how many is that?
Professor Orford: Well, that is out of the whole adult population.

Q524 Mr Sanders: The whole adult population are not gamblers, are they?
Professor Orford: No, that is right. It is out of a smaller proportion of regular gamblers.
Heather Wardle: To give you some kind of context, what we have found in the prevalence survey is that around 32 million adults gamble, and that includes gambling on the National Lottery, having a flutter once a year on the Grand National, right through to the people who gamble every day. There is also another proportion of people, and the estimate is around 54% of adults gamble regularly, by which I mean they are gambling once a month or more often, but again it is on a range of activities. It could just be the lottery; it could be going into casinos on a regular basis. That gives you a sense of what the population numbers are.

Q525 Mr Sanders: What percentage is that, then?
Heather Wardle: Okay, of regular gamblers, so they are the people who are gambling once a month or more, the problem gambling prevalence rate among that group was 1.7%.

Q526 Mr Sanders: Which is statistically quite small. It is a lot of people, but as a percentage it is very small.
Professor Orford: Not in health terms it is not. If this was a public health problem, if we were talking here about cancer or heart disease or even about drug addiction, and it looked as if as a result of some Government legislation we now had an extra 100,000 or 150,000 people, this would have to be taken very seriously indeed.

Q527 Mr Sanders: Why do you think it isn’t?
Professor Orford: Because I think with gambling we are catching up. If this was alcoholism or if this was drug addiction, we would have accepted for a long time that we were dealing with addiction. I think we have had to catch up with gambling, but it is now very well accepted that gambling is a genuine form of addiction. I think we are catching up in that respect, but also there is an enormous amount of complacency around. I have to say some of the things that I think you have been told in your written evidence strike me as extraordinarily complacent.

Q528 Mr Sanders: An example?
Professor Orford: Well, I think people saying, for example, this is a small problem. I have even read people saying that it looks as if the rate is stable. The best evidence is suggesting that it is far from stable, that it has actually gone up significantly over the last three years, as was predicted that it would. I have heard people say that the only people who get gambling problems are people who are thoroughly problematic already and they have other mental health problems. That is very true for some people, although gambling problems bring about further mental health problems in their wake. I think there are a lot of what I would call complacent statements around this field.

Q529 Damian Collins: I would just like to ask the representatives from GamCare about the trend in terms of numbers of gamblers seeking help from your services you are seeing at the moment. Are you seeing a big increase in people coming forward looking for help, looking for assistance?
Andy McLellan: Certainly on the helpline. We operate two things. One is a helpline, which is nationwide, and we are seeing increased numbers of calls coming through. We are seeing increased numbers of people asking for help, advice, either for themselves or on behalf of their partners or families, and very often the people who contact us are the family members. What we see that as an indicator of, though, is not necessarily that the problem is getting bigger but that more people—thank God—are finding out that there is help available. That is I think an important distinction in any data that we are providing—if we are saying more people are coming forward for help, in many ways that is good news. That means more people are finding out about us, more people are being helped to deal with their particular problems.

Similarly, when we turn to our clients who go into treatment, last year, we increased the number we were treating by 25%. The previous year was a 25% increase on the number before. However, last year, we treated around 2,600 clients. Great, but that means there is an awful lot of us are still not contacting and whom we or the other organisations that were mentioned earlier—Gordon House or particularly the National Problem Gambling Clinic—are not helping. Between us, we are still only scratching the surface.

If I can add just one point to that, we have to be very careful in stimulating demand, because from our point of view there is no point in marketing our services too heavily if we then do not have the capacity to meet the demand. We are always very carefully managing how far we market, how far we put the message across. It is a twin issue.
Q530 Damian Collins: I would just like to ask Heather Wardle some questions about the research and data we have touched on already. Why is it that certain groups in society have been excluded from the sampling for the survey?
Heather Wardle: Mainly it boils down to resources, because to conduct the kind of research that you need to conduct to go into prisons requires a vast amount more resources, but they were unavailable to do that particular piece of work. There is already a different set of surveys that cover adolescent gambling, and the National Lottery Commission currently funds those. There is a different funding stream for those. It is mainly about the resource issue, and mainly because although the numbers of problem gamblers among those groups may be larger, as a proportion of the population they are quite small. We estimate they are unlikely to have a big effect on the prevalence rates. There is likely to be some increase, but when you take it as an overall population proportion it is not likely to affect the estimates in such a way that we would be thinking that these estimates are not accurate.

Q531 Damian Collins: To return to what you said earlier, you think that the results of your survey in terms of the prevalence of problem gambling, even though there are certain groups in society who were not surveyed, were still a roughly accurate reflection, or do you think they underestimate the extent?
Heather Wardle: They probably marginally underestimate it, but not in a way that I would be so concerned about them not being accurate.

Q532 Damian Collins: Is that a factor that should be considered if the survey was to be conducted again? Should these anomalies be addressed?
Heather Wardle: Yes, I think what you have to think is what is the most appropriate research methods for what you are trying to achieve. If you are just looking to try and monitor a trend over time, keeping with this methodology and accepting that, because it was the same in 1999, it was the same in 2007, that is absolutely fine. If you are looking to think about, “There are vulnerable groups of people and we want to do more work with them”, then it would be entirely appropriate to say, “Actually, what we want to do is do more work with adolescents. Let’s put our resources there”.

Q533 Damian Collins: How much did the survey cost?
Heather Wardle: The contract value of this survey was £542,000³ and some pennies.

Q534 Damian Collins: That is per survey? That is for one?
Heather Wardle: That was for one survey, yes.

Q535 Damian Collins: It is a lot of money. Most people who work in research say that is a big bit of resource.
Heather Wardle: Yes, it is.

Q536 Damian Collins: I do not see why there would be any resource issue. With that kind of budget, you could do anything you want, really. People conduct opinion polls at election campaigns for £10,000, with a bigger margin for error but nevertheless it can be done.
Heather Wardle: Quite a large margin of error. Yes, the objectives of this study were to measure among the adult population the participation rates in each different type of gambling activity, the participation rates of gambling overall, measure the prevalence of problem gambling, to look at the socioeconomic characteristics and measure attitudes. The design that we had was appropriate to meet those objectives.

Q537 Damian Collins: Are these face-to-face interviews with individuals?
Heather Wardle: Well, this is the other reason that our design may be comparatively more expensive: we use the best gold standard methods for collecting this data.

Q538 Damian Collins: It is face-to-face interviews?
Heather Wardle: We send interviewers out to households, and then the information is collected from those people using confidential self-completion methods, but the interviewer still visits the households. That is where a lot of the costs are incurred. Obviously, it is a lot cheaper to do things via the telephone, but then you have all sorts of biases even with random digit dialling, people only having mobile phones, and it just introduces extra sources of error.

Q539 Damian Collins: I am sorry to cut you short, I know people want to get in and we are short on time. If we had other research companies here they would probably say the reason they switched from face-to-face interviewing to telephone and internet questionnaires is that they think you get a more accurate response because regardless of how you protect the individual responding, people on the whole tend to want to make a good impression and will say what they think the interviewer wants to hear.
Heather Wardle: That is why we use confidential self-completion methods, exactly for that reason, because if you have an interviewer asking somebody, “How often do you chase your losses? How often do you lie to your family or friends?” there is a massive concern that people will provide socially desirable answers. That is why we only collect our data by asking people to either complete them for themselves on a paper document, which is then sealed, confidentially, away from anybody else in the household and the interviewer, or completing them on a laptop, which is then locked down and nobody else can see it until it is transmitted back to the researchers in the office.

Q540 Damian Collins: You are satisfied that is the best way rather than the other way?
Heather Wardle: That is the internationally best recognised method of doing this.

³ Witness correction: £540,500
Professor Orford: No, I did not mean it was what I given externally seems to be coming from people who that back up your own theories about the prevalence said that the research delivered what you expected it undervalued or overvalued the level of prevalence My point is really to understand whether you been put together, not necessarily what the result is. understand how reliable the research is and how it has panel and to the previous one, are basically trying to question. My questions about the research, both to this I just want to ask this and so on, so we have overlapping interests.

Heather Wardle: Has a very special interest in internet gambling? What do they study in gambling? Are they looking at problem gambling? Heather Wardle: Rachel focuses very much on prevalence survey work, so her expertise in making sure our design was the best we possibly could was invaluable. Mark’s interests are very broad. He focuses a lot on machine research but increasingly on online gambling and video gaming and so on.

Professor Orford: Adolescent gambling as well.

Professor Orford: Yes, although I think that compared with my particular interests, which have been particularly clinical—I am a clinical psychologist by background—Mark is a research psychologist who started off specialising in adolescent gambling. When there was a lot of concern about adolescent gambling some years ago, he was one of the first people to go and interview young people in amusement arcades and in other places. He has built up from there and, as you say, has a very special interest in internet gambling and so on, so we have overlapping interests.

Professor Orford: Well, the results were actually rather more considerable in terms of change than I was expecting. I had argued that with a survey size of 7,000 or 8,000, that was never going to have the statistical power to show what would be in real terms a very significant increase of, say, 50,000 people more—a 25% increase. In fact, it was a 40% or 50% increase according to the two measures, which achieved statistical significance even with the 7,000 or 8,000. I, like many other people, including the Budd Committee that preceded the Act, were expecting that the legislation might produce an increase.

Professor Orford: Could I just ask as well, Professor Orford was on the advisory board I think for your last survey. Who else was on that board?

Heather Wardle: We had Professor Mark Griffiths and Dr Rachel Volberg.

Professor Orford: What is their background? Heather Wardle: Professor Mark Griffiths, I think, is Europe’s only gambling professor, and he is based at Nottingham Trent University. Rachel Volberg is a gambling researcher and epidemiologist who has the most experience of any gambling academic in running prevalence surveys worldwide.

Professor Orford: From the United States.

Heather Wardle: From the United States, yes.

Professor Orford: What is their experience in gambling? What do they study in gambling? Are they looking at problem gambling? Heather Wardle: Rachel focuses very much on prevalence survey work, so her expertise in making sure our design was the best we possibly could was invaluable. Mark’s interests are very broad. He focuses a lot on machine research but increasingly on online gambling and video gaming and so on.

Professor Orford: Adolescent gambling as well.

Professor Orford: Issues related to problem gambling with interaction with those games, is that what he is studying?

Heather Wardle: Yes, although I think that compared with my particular interests, which have been particularly clinical—I am a clinical psychologist by background—Mark is a research psychologist who started off specialising in adolescent gambling. When there was a lot of concern about adolescent gambling some years ago, he was one of the first people to go and interview young people in amusement arcades and in other places. He has built up from there and, as you say, has a very special interest in internet gambling and so on, so we have overlapping interests.

Professor Orford: I just want to ask this question. My questions about the research, both to this panel and to the previous one, are basically trying to understand what the real value of the research is and how it has been put together, not necessarily what the result is. My point is really to understand whether you undervalued or overvalued the level of prevalence gambling. It strikes me, Professor Orford, when you said that the research delivered what you expected it to deliver, that people might question whether the questionnaire had been put together to deliver results that back up your own theories about the prevalence of problem gambling. Most of the advice that was given externally seems to be coming from people who have made that area of expertise.

Professor Orford: No, I did not mean it was what I expected. I meant that if you are doing a bit of science about the effect of something like a piece of legislation, you are obviously doing research to, in a way, test a hypothesis.

Professor Orford: Well, the results were actually rather more considerable in terms of change than I was expecting. I had argued that with a survey size of 7,000 or 8,000, that was never going to have the statistical power to show what would be in real terms a very significant increase of, say, 50,000 people more—a 25% increase. In fact, it was a 40% or 50% increase according to the two measures, which achieved statistical significance even with the 7,000 or 8,000. I, like many other people, including the Budd Committee that preceded the Act, were expecting that the legislation might produce an increase.

Mrs Mensch: Sorry, I have another debate. Just very briefly and could I ask you to keep this short, we heard a lot in the earlier sessions about the influence of gambling on children and whether that should be restricted. In your view, do you think the use of category D machines by children should be restricted? What is your view?

Professor Orford: I think I do. I think you were saying earlier—or people were saying earlier—that there is not absolute foolproof evidence of that, but in a way I have always been arguing that to do a study that would produce satisfactory evidence that everybody would be satisfied with, that what young people do at the age of 10 or 12 or 13 or 14 had a result on their adult lives later would be extraordinarily expensive—it would make £500,000 look like a small study. One has to go on what evidence we actually have, and I believe we are about the only jurisdiction that seriously regulates gambling that allows children to play on things that look just like adult machines and, therefore, could be said to be encouraging them to learn how to do that.
Secondly, there is an awful lot of evidence—psychological evidence, not just about gambling—that if you start on things early in life that are potentially dangerous, then you are more at risk of coming into problems with those when you are adult. Certainly, in the alcohol field there is a mass of evidence that suggests that.

**Andy McLellan:** Can I just add just as briefly as I can, I think GamCare’s stance on that and on most things is that we are very, very concerned to do something now to help the situation. We like to work with—and we think we should work with—what is likely to happen. Category D machines exist. If they did not exist, there would probably be other things that young kids would be enticed into using and have the opportunity of gambling on. The real answer is education. The real answer is to talk to kids; to talk to their parents. One of the most telling pieces of research that we found when we were looking at our own education programme that we have developed was that whereas the vast majority of parents will advise their kids about drink and will advise their kids about drugs, only 5% of parents perceive gambling as a risky activity that they should set some rules for. I think the answer actually is in a proper, thought-through education prevention strategy. The DfE at the moment is consulting on PSHE—personal, social and health education. Gambling is not mentioned in that. We are responding to that to recommend that it should be.

**Anthony Jennens:** It absolutely is step one. As Mr Blair said, “Education, education, education”. That is where we start.

**Q549 Philip Davies:** Professor Orford, I think my colleague Damian was about to strike on a rich seam before he cut himself short. He is far more polite than I am. You are a fanatic, aren’t you? You are an anti-gambling fanatic, aren’t you?

**Professor Orford:** No, my views are actually very much in line with the majority views of the British population. We asked people about their attitudes in the last survey and the survey before. The percentage of people who think that there are too many opportunities for gambling nowadays outnumber those who think the opposite by 12:1. The proportion who think that gambling is, on balance, good for society are outnumbered by those who think the opposite by 4:1. I was very surprised by those views, which I thought were in line with the majority views of the British public. Myesy in your ivory tower in academia they may be, but let me just run a few of these past you because these are from your book.

**Professor Orford:** Okay.

**Philip Davies:** “UK-based gambling internet sites should be made illegal. All gambling advertising should be phased out over a period of a few years. A national campaign should be mounted to oppose the further expansion of gambling. Consideration should be given to phasing out all commercial gambling over a period of a few years with all gambling run under Government franchise like the National Lottery and all profits going to good causes.” You are the Dennis Skinner of the gambling world, aren’t you? You want to nationalise the lot.

**Professor Orford:** I am honoured. I am honoured you have read my book so carefully, which I am afraid is human nature, is quoting out of context. You are quoting from almost the very last page of my book. In the last chapter, what I said was we should be having much more of a public debate in Britain about the future of gambling.

**Q553 Philip Davies:** It says, “My ideas are listed in this table” that I have just quoted from.

**Professor Orford:** I believe we are not having—

**Philip Davies:** They are not your ideas?

**Professor Orford:** Yes. What I said in that last chapter was we should be having a debate. We should put everything on the table, which we have not done in the past. We certainly did not do it in the lead-up to the 2005 Act. You will also see in that list, which you have not quoted, a number of things that I think are much less radical than that.

**Q554 Philip Davies:** They are all anti-gambling, aren’t they, in the list? There is no “Let’s have an expansion of gambling”—

**Professor Orford:** No, they are all things—

**Q555 Philip Davies:** Which of these do you agree with and which do you disagree with?

**Professor Orford:** They are all things that happen somewhere in the world at the moment.

**Philip Davies:** Which do you agree with and which do you disagree with?

**Professor Orford:** That is not the point. My point I was making—

**Q551 Chair:** Doesn’t that undermine a lot of your research if everybody disagrees about what is gambling?

**Heather Wardle:** That is why we have to be very careful about how we present the wording of our questions and how we talk to people about things. That is why we never say, “Please tell me about all the gambling problems that you have had”. We just say, “Please look at these things and tell me how often they have occurred to you”. It will use quite anodyne language. But you are absolutely right, we have to be very cautious of that when we are designing our surveys.
Philip Davies: It is now. I am asking you which of those things that you have put in there, which are now just a subject for debate, which of those do you agree with and which do you disagree with?

Professor Orford: Read out the first— rather than read out the last four, read out the first two.

Philip Davies: There are 14 here.

Professor Orford: Can you remind me what the first two were?

Q556 Philip Davies: Out of the four I have just read out, do you agree with those or not?

Professor Orford: Just say it again what the four were.

Philip Davies: "UK-based gambling internet sites should be made illegal."

Professor Orford: Well, they have only just been made legal and Britain rushed—

Philip Davies: So that is a yes.

Chair: Hold on, Philip, let him answer.

Professor Orford: We rushed in. In the 2005 Act, we rushed in, which other countries did not do. The United States did not rush into it. Australia has not rushed into it in the same way. We rushed into, without thought— in my view— legalising British-based internet gambling sites. My argument is that having got them I do not think I am necessarily in favour of completely abolishing them now, which I think would be almost impossible anyway, but I think we should be having a debate about it.

Q557 Philip Davies: “All gambling advertising should be phased out.” Do you agree with that or disagree?

Professor Orford: No, no, but I think it should be debated. I do think there was quite a bit of discussion about advertising earlier. Again, it is this question of evidence. There is a lot of evidence now appearing in the alcohol field that it does make a difference. Young people who are more exposed to alcohol advertising, who actually have looked at alcohol advertising, are more likely to become binge drinkers.

Q558 Philip Davies: “A national campaign should be mounted to oppose the further expansion of gambling.” You agree with that?

Professor Orford: Yes, I do.

Q559 Philip Davies: "All commercial gambling over a period of a few years should be phased out."

Professor Orford: No, I think it is very unlikely Britain will do that.

Philip Davies: I did not ask if it was likely, I asked if you believe it or not.

Professor Orford: No, but being a practical person as well I do not—

Philip Davies: In theory you do, but in practice you do not.

Professor Orford: Well, the Canadians did it and several Scandinavian countries did it, so it is by no means unknown. That is the way we run the National Lottery. If Britain was starting off and saying, “What would be sensible for Britain to do about gambling?” you might say that you would run British gambling under a licence in the way that we run the National Lottery. It is for debate. I am just saying we should have a debate and we have not had the debate we should be having is my argument.

Q560 Philip Davies: Heather, can I finally ask you do you think it lends credibility to your operation when you have as your adviser somebody who is clearly so fanatically partisan on one side of the argument? Do you not think that that in some respects actually calls into question some of the research?

Heather Wardle: I absolutely do not, because I know the processes and the credibility that we have in place when we conduct a piece of research. Now, the National Centre for Social Research is widely acknowledged as being the leading independent research institute in the UK providing robust evidence. We are very much focused on what the evidence tells us and what the evidence does not tell us. I have wide and great respect for Jim. I am also aware of his viewpoints and we have very engaging conversations about this. That is not to say that Jim’s viewpoints or his thoughts influence our research in any negative way whatsoever.

Equally, we have a very broad stakeholder body that includes lots of industry members. Now, we had to go and talk to all of those industry members about the questionnaire, be accountable to them and engage with them. The argument could equally be put on the other foot to say, “Well, having had that stakeholder engagement, is that going to bias results?” My job is to sit in the middle and to balance all of these things up and to come up with the best piece of research that we could. I honestly believe we have done that and I think this insinuation that Professor Orford’s involvement in some way undermines the research is deeply unfair.

Andy McLellan: Could I add just one thing? The thing that worries me about the prevalence study is I think that, as Professor Orford said, we have had some good material coming through over a number of years, which many other countries do not have. The main concern I have is that I am not sure whether we are going to have it in the future. The DCMS pulled the funding that it was giving to the Gambling Commission for funding the prevalence study. There is now concern, and I think they are looking at exactly how best to continue that. I think it is important that we do have reliable information, and at this stage we are not clear that it is actually going to continue in the same form and that would be a shame.

Q561 Chair: Can I just ask—probably Heather Wardle is the right person— the 0.6% to 0.9%, which really is the crux of this, on the one hand, you have I think Professor Orford saying, “This is a 50% rise, massive evidence that the problem is increasing”, and then you have the industry saying, “This is outside the statistically significant margin. We should ignore it completely. It does not suggest there is any increase at all”; A s a professional, what is your view about how significant that figure is?

Heather Wardle: Okay. Our view is very much as we reported it. That increase is just over the standard threshold of statistical significance, which means that we are 95% certain it is a real increase. There is a 5%
We need to establish whether or not the tiny number who are getting the help they need.

That is true, but actually it does matter what are we going to do about it? We have 400,000 problem gamblers. The problem is, let's say 400,000. Does it really matter which it is?

Anthony Jennens: Chair: Yes, of course. Anthony Jennens: untangle all of this. can only sympathise with your role in trying to polarisation of viewpoints between different actors. I in sampling error. Because of all of those things, we mentioned, Damian, dealing with an absolute change of that uncertainty and because we are, as you in influencing results.

On the balance of probability, the increase is real and likely, and it makes a lot of sense in the context of some of the other findings in the research; for example, the fact that we now have more regular gamblers than we had before. We are seeing regular gamblers gambling on more activities and we are seeing attitudes move in a more positive direction. In that kind of context it all seems plausible. But because of that uncertainty and because we are, as you mentioned, Damian, dealing with an absolute change in numbers between survey years of 17 people, it makes this analysis very sensitive to potential changes in sampling error. Because of all of those things, we recommended that some caution be applied to interpreting these, which unfortunately has led to the polarisation of viewpoints between different actors. I can only sympathise with your role in trying to untangle all of this.

Anthony Jennens: Can I make a comment, Chair? Chair: Yes, of course.

Anthony Jennens: We have this thing of, is it 500,000, is it 300,000, let's take a middle figure and let's say 400,000. Does it really matter which it is? We have 400,000 problem gamblers. The problem is, what are we going to do about it?

Q562 Chair: That is true, but actually it does matter if it is going up.

Anthony Jennens: It does indeed. That just makes it more urgent that we do something about it.

Q563 Chair: That is something that we should worry about. If there is a rise of 0.6% to 0.9% that is a significant increase that we should be concerned about.

Anthony Jennens: The number that does matter is the tiny number who are getting the help they need. Chair: Well, I agree with that, too, but we— Anthony Jennens: It is hugely important that all those who need it get it.

Q564 Chair: We need to establish whether or not the problem is increasing and, if so, why that is increasing. 95% suggests to me that you are pretty close to the view that there is an increasing problem. Anthony Jennens: I think it would be reasonable to accept on the evidence there is that there is some increase. How large it is or how small it is does not really hugely matter. What matters is what we do about it.

Chair: All right, I understand that view.

Q565 Steve Rotheram: You will be pleased to know that I will not be quoting anybody out of context. Given the time constraints, I will try to cobble these two questions together. How well regulated is the online gaming sector at the moment, and do you think that the proposed changes to the Gambling Act, i.e. changing regulation to a point of consumption basis, will help to control problem gambling online?

Andy McLellan: I think certainly the intention that they had with the 2005 Act of bringing online gambling under regulation was a sensible intention. The real problem has been that the misalignment between the social policy and the fiscal policy drove everybody overseas, so the majority of people playing online in this country may well not be aware of it, but are not playing on sites that are regulated by the Gambling Commission. They are playing on sites that are licensed elsewhere, whether it be Gibraltar, Antigua or wherever.

I think the Government’s intention to remedy that is probably laudable, but it requires primary legislation, so it is not going to happen. It is not going to happen for a while, certainly not for a number of years. From our perspective, I think the more important thing is to do more work with the existing overseas operators and get their standards of social responsibility up. We have a certification scheme that we operate that is gradually getting more and more take-up from online operators. That means that if somebody is playing on an online site and they see the GamCare certification logo, that will give them reassurance that that site is operating to certain standards in terms of age verification, in terms of player protection. I think in the short term that probably is more likely to be beneficial for the British public.

Q566 Chair: Can I turn to the other villain of the piece now, which we touched on in the last session, FOBTs, which seem to be regarded as by far the most dangerous form of gambling, certainly by some. Is that your view and is there evidence to bear that out? Anthony Jennens: We do not make the law, we just try and tidy up the mess that there is afterwards. That is our job. I am not going to get into a debate where we say they are good or bad. What we do know is that everybody who gambles who gets into trouble gambles on many different forms of gambling. That is reasonably established. There is nobody who is an exclusive FOBT player who does not do other forms of gambling.

There is also a question of “realpolitik” here. The FOBTs now account for something like 60% of the bookies’ profits. The levy—not the levy on social responsibility; the horse-racing and betting levy—would not be sustainable according to the bookies if FOBTs were taken away. If that were not sustainable, 80,000 people would be out of work, which is entirely unacceptable. Nobody is going to do anything about it, so it would possibly be a waste of time to focus too much attention on whether FOBTs are good or bad. The arguments put forward by the likes of Harriet Harman and David Lammy about clustering of FOBTs is largely an aesthetic argument saying that it ruins the high street. They say that Tottenham looks horrible and so on and so forth because you have all this clustering, which is because of the law that requires you only have four machines per premises.

Q567 Chair: I do not particularly want to go down a clustering argument at this moment. I want to concentrate on whether or not you believe that FOBTs
are more dangerous than other forms of gambling if you are potentially a problem gambler.

**Anthony Jennens:** I do not think that there is an answer to that. I do not think there is adequate evidence to say FOBTs are definitely more dangerous than any other form of gambling because—

**Q568 Chair:** You heard the evidence from the last panel who clearly thought they were.

**Anthony Jennens:** Because they are played in conjunction with so many other forms of machine. You must also remember that I find myself in a slightly invidious position, as the people who contribute the most to enable GamCare to deliver its services are the people who have the greatest interest in FOBTs.

**Q569 Chair:** That presumably would not in any way influence your views or your evidence to this Committee.

**Anthony Jennens:** Of course not.

**Professor Orford:** It is very honest. It is very honest of Anthony to admit to such a conflict of interest. I must say I think I would put it more strongly about FOBTs. I would not say it was the most dangerous form of gambling, but I am quite clear that different forms of gambling are differentially dangerous. Some are much more dangerous than others. I think the evidence coming from a number of different directions—I think someone on the earlier panel referred to it as triangulation of evidence—is that FOBTs are up among the most dangerous forms. In a way, if you think about it, what happened with FOBTs is that what used to be confined to the tables in casinos have come into the high street, so you can play roulette by just walking off a high street through a door. Anybody who has played roulette knows how exciting it is. It is fast. You can bet again very quickly. You can bet short, you can bet long, you can raise your stakes. There are numerous near misses that make you think that next time red will come up, so it is very exciting. Most people who have played roulette know that this is something they could easily get hooked on.

We have now brought that into the high street. My understanding was that it was brought in really by, in effect, circumventing the law. It was certainly brought in without proper consultation and it is now up amongst, I think, the most serious form, the most dangerous forms of gambling. I would have thought it was appropriate to think of doing something about it. Not for me to say what.

**Andy McLellan:** First of all, I am known for being fairly robust in my dealings with the industry and I am not always that popular with them. The FOBT position is that it is certainly true that more and more of our callers and more and more of our clients mention FOBTs as being a part, and a significant part, of their gambling pattern, but it is still part of a pattern that involves other things. What we do not know is whether the FOBT had not been there it would have been replaced by something else. Certainly, addictive gamblers, problem gamblers, are attracted by innovation as well, by whatever the latest thing is, so there is an element of that involved, although FOBTs are now fairly established.

I think the other thing I would say is that again—and I am repeating a point I made earlier—the important point is to make sure that wherever any type of gambling is available, the staff controlling that gambling are aware of the risks associated with it and take player protection seriously. I think we have quite a lot of evidence that most bookies do that, but there is a limit on what they can do. One of the things you were talking about earlier was self-exclusion. There is a real limit on, “I can self-exclude from one but I can go in next door”. We have a working group at the moment, we are working with some parts of the industry and Salford University to try and look at a way of introducing a cross-operator scheme. But, of course, you run up against things to do with data, confidentiality, customer data and so on and so forth, but there are ways round it, so we are looking at doing that. There are ways we can help.

**Q570 Chair:** But not just cross-operator, that could be expanded across all forms of gambling so that I could say, “I am a problem gambler. I am going to declare myself as such and as a result every casino, every betting shop, every bingo hall in the country knows, do not let me in”.

**Andy McLellan:** One of the things that we were approached to do this was because GamCare can be seen as an independent broker.

**Q571 Chair:** But are these possible?

**Andy McLellan:** It should be possible. There are considerable legal issues and, as I was saying, matters of commercial confidentiality, customer confidentiality, not forgetting that all of our operators are competing with one another for those customers as well. But these obstacles should be superable if we can get the betting operators to function on the social responsibility angle, which is very important to them in terms of their reputation.

**Heather Wardle:** I just to echo some of the things that Andy has just said, one of the really important findings that emerges from the prevalence survey is that although people tend to focus—and you will have probably heard this fact quoted—on the fact that of those who play B2 machines around 8% or 9% are problem gamblers, that is treating them as if they are this sort of silo-based person who does not do anything else. What we actually know is that the vast majority of problem gamblers take part in a range of activities and a range of activities regularly. From our data, what we saw was that of people who regularly take part in nine or more activities, 28% of those were problem gamblers. There is the linking up of self-exclusion, but if we could get every sector, every operator, on the same page in terms of prevention measures and responsible gambling strategies, that is going to be much more effective. Because you have a much greater chance of interacting with those people who most need protection and most need help.

**Q572 Chair:** Can I just finally turn particularly to GamCare? You had the rather striking statistic quoted in the first panel about £5 million out of a £5 billion
industry being put into funding research, education and treatment. As one of the beneficiaries, do you think the industry is doing enough?

Anthony Jennens: I think the industry at the present moment is doing a pretty good job and I am very much hoping that the new arrangements that do bind us—as I think Helen who is sitting here expressed concerns—more closely to the industry is a good, rather than a bad, thing. To define, and to talk about, the gambling industry is to talk about many diverse and diverse gambling. There is not just gambling industry. One of the things that most muck up the Bill was the fact that they were all pulling everybody on John Greenway's Committee this way and that, and some of the time they were listening. I attended it all, as a witness twice, and you could see the pendulum swinging in favour of casinos, against casinos, and so on and so forth. You have the same problem here. Everybody has a vested interest that they are trying to plug. Until the industry comes together, which they may be now, together with Business in Sport and Leisure and us, together with the Soho Clinic and Gordon Moody, and we say we have all been doing this—in my case for 16 years and Jim Orford for even longer—we know reasonably what we are doing. If you want to get this right, together with the rest of us to get it recognised—that it is very much in their interests to do anything about anything until we have solved problem gambling. We want to do anything about anything until the north wind stops blowing. Harvard came up with a study that said you have 40% of hard-core gamblers—forget about it, they are going to stay there. The 60% you can do something about and you can prevent them joining the 40% and suchlike. There is a large number of people we can help. We are not doing it, because we are deliberately blowing it off. My big bugbear there is that we are the only country in the English-speaking world that does not have a helpline number up on all gambling advertising. If you want more people to present to get help, then tell them how to do it.

Anthony Jennens: Do you ever see a helpline number on television? No.

Anthony Jennens: Do you see it round a football stadium? No, you see it only in places where you gamble, only there.

Andy McLellan: As you say, it is very available in gambling premises. It is the gambler who is in the gambling premises. We are often contacted for help by the gambler's partner. The gambler's partner is a gambler's partner, therefore, does not see the helpline and is not aware of that help. Put that number on the advert in the tube, put that number on the advert on football and so on and so forth, then you are reaching a different audience and people who can help their family.

Q575 Chair: Just tell us exactly what is it that you think you could be doing now that you are not doing.

Andy McLellan: At the moment, our network of treatment covers around 70% of Great Britain. We could, within a year, expand that through commissioning from other partners to cover 95%. At the moment, hardly anywhere in Wales has access to face-to-face counselling. I have forgotten the details, but I think in three of your constituencies there is no face-to-face counselling. We could do that. We could introduce an education programme in three areas, which we have already worked up, that would involve teachers, parents and groups of kids in schools to trial and pilot materials for bringing education about gambling into schools and into out-of-school activity as well. We could start doing that probably from the Easter term in three areas, which would then give us the basis for evaluating what works and what does not, which would give us a basis for expanding things throughout the whole country. Those are two things.

Q576 Chair: It is lack of money that is stopping you doing it?

Andy McLellan: On those, it is lack of money.

Q577 Chair: When Jennens says the industry is doing very well, actually it is not doing well enough to allow you to do what you think is necessary.

Anthony Jennens: It is doing well in that it is raising quite a lot of money and we will raise more money this year than was originally anticipated, despite the difficulties in the tearing down of the tripartite structure. I think that they have finally recognised—maybe "finally" is the wrong word, but they have recognised—that it is very much in their interests to get this right, together with the rest of us to get it right, because the levy would be a disaster.

Q578 Chair: A levy would be a disaster?

Anthony Jennens: In my opinion.

Q579 Chair: Why would a levy be a disaster?

Anthony Jennens: Because Government does not put things together for £5 million. It is more like £50 million or £100 million it will cost. You will have a whole army of bureaucrats. Most of the people who know anything about the subject will become
uninterested because they really just do not want to be minor civil servants. Also, you will not get patients coming in because it is Government run and, I regret to tell you, people do not trust Government and they certainly will not trust Government with something as confidential as something that they want to keep desperately secret, which is the fact that they are a problem gambler.

Q580 Chair: But arguably would they not feel that they trust the industry even less?
Anthony Jennens: They are not coming to the industry.

Q581 Chair: It is either Government funded or it is industry funded.
Anthony Jennens: Oh, it is industry funded, yes.

Q582 Chair: You could argue if it were Government funded they are not coming to the Government, it is just the Government who are funding it.
Anthony Jennens: Well, I am not quite sure that people would see it like that. People were very reluctant to put confidential information on the NHS thing, which went down to £37 billion or whatever it was. I am not suggesting that the Government would spend £37 billion on problem gambling, but you never know.

Q583 Chair: Given the time, we had better conclude. Professor Orford, a last quick word please.
Professor Orford: A very quick final word. Where is the Department of Health in all this? I know this is DCMS and it is not a Department of Health Committee, but this is to me a public health issue. A lot of the discussion this morning was really about health issues. I would have thought Government really at least ought to be having a twin, joined-up Culture, Media and Sport and Health approach to this, and I do not see the Department of Health involved in this at all. I do not know why. They have other things to do, I am sure. Chair: Yes, they probably have a few things to do. Thank you.
Thursday 12 January 2012

Members present:
Mr John Whittingdale (Chair)
Dr Thérèse Coffey
Damian Collins
Philip Davies
Paul Farrelly
Steve Rotheram
Mr Adrian Sanders
Jim Sheridan
Mr Gerry Sutcliffe

Examination of Witnesses

Witnesses: Richard Caborn, former Minister for Sport and Tourism at DCMS, and Tessa Jowell MP, former Secretary of State for Culture, Media and Sport, gave evidence.

Q584 Chair: Good morning. This is a further session of the Committee's inquiry into the implementation of the Gambling Act and I would like to welcome the former Secretary of State for Culture, Media and Sport, Tessa Jowell and Dick Caborn, the former Minister for Sport and Tourism. Quite a lot of us in this room bear scars from the proceedings on the Gambling Act. Can I start off by asking you your general view today? A lot of ambitions were contained within the Gambling Act, some of which have been achieved, some of which have not been achieved. To what extent do you feel that the Act has been successful?

Tessa Jowell: I always believed that this was legislation that was necessary. Sir Alan Budd's report made the case compellingly. It was legislation that was subject to an almost unprecedented level of scrutiny over six or seven years before it saw the statute book. However, I think that Richard and I recognised that gambling is an issue that touches very raw feelings in our society more widely, and those were reflected in the context that was set for the debate. What we aimed to do was to modernise what any measure was outdated legislation and to meet three tests: maintaining the very effective regulation of the gambling industry that meant that it was very substantially crime free, compared with other countries; allowing gambling as a legitimate activity in a fair way; but given the proliferation, which has changed significantly since the passage of the Act, and it was the FOBTs—the fixed odds betting terminals—that changed significantly. It was gambling and betting were not regulated in the same position is slightly different in the UKs. That appears to be a little bit of uncertainty about whether there has been an increase in the incidence of problem gambling, and I hope that that is something that the Committee might seek to interrogate more fully, because it is absolutely essential. Richard and I, and Gerry Sutcliffe subsequently, were very clear that there had to be reliable baseline data that tracked, on an entirely objective and rigorous basis, changes in the nature of problem gambling.

Richard Caborn: If I may add a couple of points on that. You were coming from an Act of Parliament in the 1960s that sought to drive crime out of gambling. Moving on nearly four and a half decades, the nation's culture and attitudes to gambling had changed, particularly in the mid-1990s when the lottery came on board. The ITC had come on board as well.

Q585 Chair: We will obviously look at the different areas of gambling activity in greater detail, but, generally, even though when it reached the statute book the Act was perhaps not as you originally envisaged it, do you think it achieved its three core objectives?

Tessa Jowell: I think it has the power on a continuing basis to meet all of those three objectives. There appears to be a little bit of uncertainty about whether there has been an increase in the incidence of problem gambling, and I hope that that is something that the Committee might seek to interrogate more fully, because it is absolutely essential. Richard and I, and Gerry Sutcliffe subsequently, were very clear that there had to be reliable baseline data that tracked, on an entirely objective and rigorous basis, changes in the nature of problem gambling.

Q586 Chair: If you want to measure the success or failure of it, you also have to look internationally. One of the most profound effects I saw on any of my visits as a Minister was in Australia. I went in 2002, and it is interesting looking at gambling in that sense. I have had to revisit quite a lot of the documentation and my notes from the time. In November, I went back and looked at my notes from 2002. I went to Brisbane, Melbourne and Sidney, and I talked to the regulators. Deregulation has had a profound effect on gambling. I look now at what is happening in Australia a decade on—I have no doubt you have looked at Australia—and they have set up, or have recommended, a ministerial committee to start clawing back what they do.

Something we are going to come to is FOBTs. The regulation, both voluntary and statutory, on FOBTs came out of my experience down in Australia—why it is four and why gaming machines are tied to it. The position is slightly different in the UKs. There was a fear that gambling and betting were not regulated in the same way. Gambling was regulated, but betting was not, and it was the FOBTs—the fixed odds betting terminals—that changed significantly. It was interesting—I am not making a comment on this in that sense—listening to the news this morning about
national lotteries and how certain people are trying to get round the word "national". Well, they got round the word "gambling" through betting on fixed odds, and what they did was very clever. Had we not controlled it with a voluntary agreement between the industry and Government three years before the Act came on the statute book, you would have had wall-to-wall FOBTs in this country, like you do in Australia. The responsibility of the industry and the initiatives that were taken at that time controlled that. No doubt we will come to that, but that was the framework in which we were working. We were trying to bring betting and gambling into the leisure industry in a responsible way. Has it achieved that? By a general measurement, yes it has.

**Chair:** Four members of the Committee were in Australia a few weeks ago. I would say that we have a similar impression to the one you did. It was quite an insight.

**Q586 Mr Sanders:** Do you think that ultimately the 2005 Act was a result of political battering due to the wash-up period, rather than exactly what you really wanted?

**Tessa Jowell:** It was certainly altered as a result of the wash-up. The proposed number of regional casinos was substantially reduced. But you have to accept the wash-up. The proposed number of regional casinos was that we had to secure the regulatory framework in which we were working. We were trying to bring betting and gambling into the leisure industry in a responsible way. Has it achieved that? By a general measurement, yes it has.

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**Chair:** Four members of the Committee were in Australia a few weeks ago. I would say that we have a similar impression to the one you did. It was quite an insight.
Tessa Jowell: That is true— you’ve got me on that as well. The point is that that was an argument that got out of control.

To come back to your point, John, this was a policy that at the time reflected other fault lines in the Government, but I did not feel that I was being forced to do something about which I was unconvinced. Richard, who has years of experience in regeneration, looked very closely at the regeneration case. There is an argument for the regeneration case in Melbourne; the argument is less compelling for Atlanta. Again, I say to Paul Farrelly that part of the success of the Olympics was our determination to swim against the tide of what would otherwise have been inevitability.

I think that a regional casino intention on regeneration could still be a means of regeneration. I doubt that we will ever see them in this country.

Richard Caborn: There were two schools of thought, as there always are when you take evidence on an Act like this. I am not blaming No. 10, but there were those who saw the regional casino purely as an economic and financial regenerator and there were others who argued that there should be one—in Blackpool. The argument was very strong on the Back Benches. When I took the Bill through Committee, I had to adjourn the Committee, to take out the number of casinos, and come back. My very good friend, Tony Banks, was there, and he asked me how we came up with a figure of nine—it was one of the most interesting and funny speeches.

Chair: I remember it well.

Richard Caborn: You do. It was absolutely hilarious. Every half an hour, he asked how we had come to nine. I can assure you that, as a Minister having to defend it, it was not the best of defences, but Banks’s speech was far better for its—

Tessa Jowell: It was the number of regions, I think.

Richard Caborn: It was, and it was also about getting the number down to under two digits and things like that—all the psychology. The two arguments were: do you go solely for regeneration, and if so, do you have one destination casino—the Los Angeles type? Or do you have regeneration in a number of areas? That was a debate that took place. I do not know whether we fell between two stools. On reflection, I think that we ought to have gone for one. I don’t know how many members of the Committee gambled—it is a legitimate activity, and you have to ensure therefore that people can play in safety, but gamble if they wish.

Richard Caborn: My mother doesn’t because she is a very strong Methodist, so I have no problems at all.

Tessa Jowell: I don’t think my mother does, either.

Q591 Jim Sheridan: Tessa, notwithstanding the general concerns of the public interest and the vulnerable and so on, on reflection and ignoring the politics of No. 10 at that time, do you think that the Act has had any impact whatsoever on the industry? In particular, the bingo and arcade industry claim that the Act has been a disaster for them.

Tessa Jowell: Five years ago, I would have been looking at these data all the time. I have not been looking at the trend data on bingo and arcades. We did obviously increase the protection and regulation of arcades in part through the delegation of responsibility to local authorities, but in a way that is exactly the point of the legislation. The legislation has the capability to monitor changing trends and, where those changing trends are undesirable, to intervene and act.

Richard Caborn: The refining of the Act, as Tessa has said, is important, but there are changing social trends as well. You know as well as I do. I happen to be the president of the trades and labour club in Sheffield, and I know about the decline in activity there. The change in cultures has made a change. The ITC has had a profound effect not just on gambling, but on all our lives. It has affected every aspect of our lives. What people have tried to do is make sure we respond to changes in ITC and also changes in the political world and changes in culture, because if you had the old Act—the 1968 Act—to deal with, you just could not do that. You would need primary legislation for everything. There is now an enabling commission there that is able to deal with those changes.

Now, if the commission wants to come back and argue about the sorts of things that may well happen in bingo or the times, stakes, prices or number of machines, they have every right to do that, but the Act gives them the power to do that, not politicians, and that was a fundamental difference between the 1963
Tessa Jowell: I would add that one piece in the has been—credit due—quite successful.

Q592 Jim Sheridan: We visited a bingo hall as part of this inquiry, and I was pretty sad to see the state of bingo halls in London. It is an age profile thing as well. We do not see as many young women, in particular, going to bingo halls, maybe because there are other attractions and so on.

The other question I would like to ask is about the Budd review and deregulation. He expressed concern that there could be a rise in problem gambling as a result of deregulation, and there is anecdotal evidence that that is the case. Do you think that the Budd review has failed to meet his goals in terms of protecting the vulnerable?

Tessa Jowell: A gain, I looked at the figures from the latest prevalence survey and there seems to be some doubt about the extent of the increase and whether it is statistically significant. I think—this would be my strongest piece of advice or recommendation to the Committee—that it is essential to ensure that this baseline of harm is constantly updated, so that the activation of the Secretary of State's power or the Gambling Commission's role can be put in place, because that is absolutely central to the whole purpose of the Act.

We will no doubt come on to FOBTs, but the other thing is to understand a bit more about the differential harm that new forms of gambling and their prevalence may create, but you can only do that by rigorous monitoring.

Richard Caborn: Again, the powers are there. You have the prevalence study, and if action needs to be taken in any of these areas—FOBTs are no doubt going to come up; that was a voluntary agreement—that can happen. You have the right to impose a levy, if you want, on the industry, if you want to raise more money in terms of problem gambling. In my view, that has been a great deterrent in many ways, and makes sure that the industry acts properly and not only makes money but also polices those agreements it has come to about, obviously, child gambling, making sure problem gamblers are picked up—whether that is in casinos, betting shops or whatever—and all the actions it has taken with the regulatory authorities on problem gambling.

There has been a marriage there that has been quite successful and reasonably monitored. On the stats I have looked at—and I agree with Tessa that you need to look at the base of those stats from time to time—overall, that has been reasonably successful. Look at the Australian model now. If you look at what has happened in Australia, and again I was looking at some of the stats on that of a population that is a third of the UK's, the problem is hugely greater there—hugely. They have real, real problems, to the extent that it is now at a ministerial level and they have set up a ministerial committee to start dealing with it. We are not in that situation. We can, over time, relax some things or pull them back in; and it is proportionate, I think.

Q593 Jim Sheridan: One of the problems we have as a Committee is trying to get a handle on exactly what the stats are in terms of problem gambling, because there are variations and different opinions of what they are.

Tessa Jowell: And minicabs—minicab offices and chip shops.

Richard Caborn: When people on estates were waiting for fish and chips to fry up—I am not saying that socio-economic As, Bs and Cs do not eat fish and chips, but it tends to be Cs, Ds and Es—they were all playing slot machines. We took 6,000—it was 6,000?—out of the shops. We even, when we got to advertising, went into whether to put it on kids' shirts: if you have Bet365, or whatever it is, do you put that on kids' kits? So we went into great detail to find out where we could protect children and the vulnerable; we really did.

If I may say—I am slightly digressing—we were the first, in 2006, to put integrity into sports betting. We had a conference at Twickenham. What the IOC is doing now is what we did back in 2006—the 10-point plan on integrity of betting in sport. We looked at all those areas; we took it very seriously indeed. Vulnerable people and children had never been in such an Act before. We took that very seriously. According to the evidence that I have read, I think that we have protected children and the vulnerable. We did take out fish and chip shops. The biggest argument is whether the seaside arcades affect kids. I don't think they do. That was all the evidence we were shown. There is still a raging debate about that one. We were under pressure to ban all the arcades. I used to go to Cleethorpes as a kid and it never affected me and I don't think it affects my grandkids now. Those were the arguments at the time. Did we get it right? Broadly speaking, I think we did.

Q595 Steve Rotheram: Following on from that, the Gambling Commission's figures show 70,000 occasions in 2009–10 when a person was tempted to gamble in a licensed betting shop but was unable to prove their age. Perhaps that reinforces what you are saying. Has the Gambling Act, therefore, ensured that...
there are sufficient measures to protect under-age people from gambling?

Richard Caborn: That is a very good illustration of the Gambling Act working in practice. The licence is tied to compliance, so every single gambling premises knows that its licence is at risk if there is evidence that it is allowing young people who are under-age to gamble. That is a very powerful deterrent. I was not aware of that figure, but the fact that so many under-age people have been identified is evidence that the power is working.

Richard Caborn: There is an area that did worry me and still does. When you are face to face, when you are physically going into a premises, you can do that. Remote gambling is the problem. I went to Gibraltar and they assured me that the access to plastic—a credit card—is the controlling gateway that you have there, but young people get access to those. That is a problem. I don’t know the magnitude of it; I don’t think it has been quantified. It is an area that could do with a light shone on it.

Tessa Jowell: I know you are aware of the difficulty of regulation in this area. Online gambling has the power to appeal to a large number of people to risk, as Richard says. We did introduce very rigorous tests. For somebody logging on to a UK-registered site, proof of age is one of the key requirements. The prevention of under-age gambling obviously extended to that as well. Again, I think this is an area of enormous complexity to which to extend the protective reach. Richard is absolutely right that a 15-year-old is more at risk from sitting gambling in their own bedroom, using money on a credit card they have procured but cannot meet, than in many other circumstances. I remember as part of the casino debate the argument being put, not by the casino operators, that casinos were a safer environment, if people were going to gamble, because casinos are highly regulated. We intended to ramp up the level of regulation, learning very much from the tricks of the casino industry in Las Vegas, for instance. There is sensory blank—with no clocks, pumped oxygen, that sort of thing—that keeps people gambling and risking money at a point when they may not be able to afford it. There are all those issues. However, if you are gambling in a casino, you are visible to other people. If you are a 15-year-old sitting in your bedroom, you are very vulnerable.

Richard Caborn: I went to Gibraltar—I don’t know whether you have been to Gibraltar—to look at the system there.

Chair: Gibraltar comes up next, after you.

Richard Caborn: Right. What I saw there with the main companies was very responsible. There is no doubt that they were using ITC very effectively and they could, via the surveillance that they have, very easily pick up problems that were arising. I just want to clarify that what I saw there was very responsible indeed, they had complied with all the licensing arrangements that we had asked them to put in place. They were able to monitor and police very effectively. The difficulty you have got is who holds a piece of plastic. You do not see the person who is holding the piece of plastic, so you can only assume that it is the right person. That is a difficulty. I spent a couple of days in Gibraltar and what I saw was very effective. It is not a regulatory issue; it is a tax issue, in my view, which is the problem.

Q596 Mr Sutcliffe: Thank you very much for the legacy of gambling in my time as Minister. I want to go back a bit to betting shops, FOBTs and B2 machines. I would be interested to hear what the thinking was on the voluntary arrangements and why you felt that that was a route forward. The numbers of FOBTs have become a major issue. Some betting companies are trying to get around the voluntary arrangement by doing things such as extending floor size and doubling the size of machines. The casino operators are concerned because they see that B2s are in the betting shops, but they do not have the same opportunity. Even you have said that the casinos are the best regulated in terms of being able to see what is going on. Can you tell us the story of the deal on that? A side issue, which is being discussed in Parliament now—a private Member’s Bill has gone through—is the proliferation of betting shops on the high street, and what powers local authorities might have.

Richard Caborn: I will give you my take on it, and Tessa will give you hers.

Tessa Jowell: You may get a slight difference on this between the two of us.

Richard Caborn: I went to Australia in 2002, and I came back absolutely convinced that we had to tie the number of machines to something, whether it was shops, tables or whatever. That was absolutely clear in my mind. In 2002, we started to see FOBTs being put in—the definition of betting as against gambling created this problem, because the FOBTs were fixed-odds betting terminals—and I came back and asked my officials what powers the Gaming Board, as it was before the Gambling Commission, had. They said, “You’ve none, Minister.” I asked what we would do, and was told that we could not do anything. I said “That’s just not good enough,” because FOBTs were starting to emerge. Talking around it, as you do, it was clear that even the most responsible of the companies were saying “If they go down there, it will be a race to the bottom.”

That was the danger we were in, three years before we got an Act on to the statute book. We had a problem because of the definition and because of technology coming in, and we could have had wall-to-wall FOBTs across the country. We had no laws and no powers to stop that. I called four of the companies together and said, to put it quite crudely, “If you continue to race to the bottom, I shall make sure that that bottom is taken away from you when we bring an Act two or three years down the road. So I think it is a good idea if we all sit round the table and do a deal.” That is how the deal was done. The deal was done for four in a shop, and we did it against the background of not trying to fines and prizes, the need for operation and numbers and—very importantly, because Tessa particularly was concerned about this—the effect it would have on problem gambling. The prevalence study came in at that time, before the Act was introduced. It was a voluntary agreement, and
Q597 Mr Sutcliffe: Was it linked to opening hours?

Richard Caborn: That is different.

Q598 Mr Sutcliffe: It always surprised me that the only day with no racing is Good Friday, yet the betting shops are open on Good Friday. That is because of the impact of the machines.

Richard Caborn: They are open because that is their argument. It was that betting shops were not open at all the same time as racing was open. I don’t know what view you take on that, Gerry, but it was probably half of this and half of that. That is how the deregulation of betting shop hours came about, and they were also complaining that other betting organisations could open. I do not know whether that has had a major effect, to be quite honest.

Q599 Mr Sutcliffe: What about this issue now about the proliferation of betting shops in the high street?

Richard Caborn: I personally don’t think that there is such a proliferation. I asked my planners about it. There was a meeting of the Core Cities Group at the end of November, when this was on the agenda of the core city planners. At a meeting of the Core Cities planning forum last week, one city raised the issue of betting shops on the high street. Information was requested on whether the proliferation of betting shops on the high street was becoming an issue for Leeds council. None of the other core cities thought that there was a problem, and neither do we.

The takeover of empty or underused or underperforming premises that wants to move from class A2 to class A1. They can move within class A2, but that is all. That is either a bank or a building society. It is quite interesting that they put betting shops, banks and building societies all together: they are all gamblers. I think that if they want to move from that, they have to go through the local authority planning department and the local authority can stop it. There are no more betting shops now than there were then. In fact, I think that there are fewer betting shops now.

Tessa Jowell: Here’s my view. Richard and I worked very closely on this during the passage of the Act and I am on record—I went back and was reassured by how often I was on record—as saying that these machines are on probation. There were several things that I was concerned about. One was unintended consequences and the second was an industry becoming overly dependent on growth driven by these machines. The third, obviously, was problem gambling.

There is evidence, I gather, although it is based on a sample of 50, which is obviously not enough, that this may drive an increase in problem gambling. We know—this is the evidence from Australian pokie sheds—that what drives addiction is the speed of play. People get into a trance-like state. That is something that we were very careful about in how machines would be set in casinos.

I think that Richard and I disagree about the extent to which this has led to the proliferation of betting shops, but, as I was saying a little while ago, the important thing is to establish the evidence. I can tell you that in my constituency, which covers part of Lambeth and Southwark, there are 130 betting shops, with approximately 450 B2 machines, including 32 B2 machines in a very small area, which includes Norwood High Street. They have made an impact on the nature of the area. There is always a risk, which is worth interrogating, that they see off the entry of other forms of retail that would be more regenerative. I just gave you the example of this bit of my constituency that desperately needs that kind of regeneration. Higher quality retail would be a way of achieving that. The question is: is the prevalence of bookies’ shops putting other retailers off coming in? This will be my second recommendation to the Committee, if I may, Chairman: you should undertake a study to establish the facts of this. Richard and I reflect slightly different views here. A further examination should look in more detail at the evidence of proliferation and the need to alter the speed of play. I think at the moment, if you play constantly for an hour, you could lose £18,000 an hour. I would be concerned about that. We need to look at the speed of play, the level of the stake, the question of proliferation and the evidence of harm and the evidence of the evidence of harm beyond the indicative figures that have been provided by GamCare, because the bookmaking industry is now heavily dependent on the presence of these machines. They are clearly popular with the public who use them, so you obviously have to tread carefully on the basis of the evidence. In doing that, I think the three, if you like, licensing objectives of the Gambling Act are pretty good guides for you in reaching a conclusion.

Q600 Philip Davies: I was interested in what you said about proliferation of betting shops and the machines. I just want to try to tie the two together. Do you believe that the proliferation that you are concerned about—Richard isn’t, but you are—is caused by the limit of four machines per shop? If there was a higher limit of machines per shop, you would see fewer betting shops on the high street.

Tessa Jowell: If I were Secretary of State, I think you could fairly assume that I would come along with some answers to that. However, I come to the
Committee with questions. There is anecdotal evidence that, although there may not have been a significant increase in the number of betting shops—I think that needs to be established—they have tended to cluster more in deprived areas. In my own constituency, we don’t have FOBT machines in the affluent areas; we have them in the poor part of the constituency. Certainly, my colleagues, and no doubt your colleagues, would report something similar. That has to be interrogated.

The second point is about the question of what makes these machines so attractive. Is that attraction potentially disproportionately harmful? That’s why I think these are questions that no doubt the Committee would want to press the Secretary of State and the Gambling Commission to get answers to.

Q601 Philip Davies: I accept that the main driver of the 2005 Act was protecting people. I am sure that that was what was at the heart of what you were trying to do, and that you were trying to make it evidence-based. The bit I don’t quite follow is the issue of the limit of four that we came to, of machines in a betting shop.

Tessa Jowell: A limit to four?

Philip Davies: Yes—the rationale for it. It seems to me that you can play on only one machine at a time. You might be able to do two if you’re particularly proficient, but you’re going to be struggling to play on more than two. So whether there are four or six in a shop, what difference does it make to an individual’s ability to have a problem with their gambling? You need only one to have problem gambling, or, as I say, two at the most. Any more than that doesn’t affect me as an individual with my problem gambling. I am struggling to understand where the number of four came from, particularly as, in the last Parliament, I tabled a parliamentary question asking what evidence there was that linked the number of machines in an establishment with problem gambling. The answer came back, “There’s no evidence at all that the number of machines that you have in an establishment has any impact on problem gambling.” I am struggling to find out why on earth we have this limit of four. It seems bizarre to me.

Richard Caborn: As I have said to you, I can explain exactly how it happened. It was an agreement between the industry. It was a negotiation, and then to try to address the real concerns, which were clearly out there, and ensure that they were not harmful, we wrapped the prevalence study around that. It was very clear to the industry that if they allowed abuse of these machines by individuals in their shops, they might lose their licence, or the number of machines could be reduced or taken out completely. So it was in the interest of the industry to actually make sure that those shops were well run and properly policed by their staff, because if it got out of hand, and if it was shown to be getting out of hand by the prevalence study, we would have come back and said to them, “Sorry, you either reduce the number of machines or you take them out”. That was the voluntary agreement. There was no magic, scientific arrangement for four, I can honestly assure you. It was an agreement saying what was reasonable and what we believed—with the evidence that we had—was proportionate at the time. That is exactly how it happened.

Tessa Jowell: The other point is that at the time that four was settled on as the number, there was no certainty that these machines would remain, because we were absolutely clear that we could not know at that stage what their effect was likely to be. The final point on this, which the Committee will no doubt want to come back to, is to consider whether you are concerned about the extent to which there is in effect a casino service operated outside the regulatory control that would extend to casinos.

Richard Caborn: We were not in a very strong position to negotiate with the industry. There was no Act of Parliament that said you could stop these. If they had wanted to put FOBTs wall to wall in every betting shop—and opened up a load more betting shops—they could have done that. There was no law to stop them, because it was betting, not gambling. Therefore, when I went to the big four, as it were, and said, “I want a deal”, they could turn round and say, “Sorry, we’ll take us chances, kid. We’ll put as many as we want in.” I spoke to some responsible people who said, “Richard, if that happens, it’s a race to the bottom. If they do it, we have to do it.” So that’s the position you were in three years before you got an Act of Parliament. You had got an industry that could have gone down and gone wall to wall on FOBTs. There was nothing I could have done—and I was told that by officials. So we sit down, we reach a sensible agreement and we wrap around it a prevalence study. We say, “You act responsibly; we’ll act responsibly.” That is how it arose. If you are asking me how I justified four scientifically, I can’t. It is what we agreed. We would have four elements: the number of machines, the speed of play and the prizes, wrapped around the prevalence study. They were the four elements of the agreement.

Q602 Philip Davies: I have one final question, which is slightly off piste, but I may as well ask it while I am here. It concerns the previous inquiry we had about course/ off course bookmakers and their pitch allocations. I just want to confirm one simple question. It seems to us that the Act was designed to get rid of the five times rule that set the price for what bookmakers were on. A totally unintended consequence of the Act was the impact it had on the pitch allocations of bookmakers. Can you confirm that that was an unintended consequence?

Richard Caborn: It was. I made it clear to Alex Salmond, of all people, who took it up in an Adjournment debate. It was dead man’s shoes. That was the problem. We never legislated for dead man’s shoes.

Philip Davies: So the Act was never intended to impact on the pitch allocations.

Mr Sutcliffe: No.

Richard Caborn: It wasn’t; was it?

Chair: That was a little off piste, but so am I.

Richard Caborn: My postbag will be full.

Q603 Damian Collins: I want to ask a couple of questions about machines in casinos. Under the provisions in the Act, why is it that a small casino
needs more gaming tables than a large casino to maximise its allowance of machines?

**Richard Caborn:** Is that right?

**Tessa Jowell:** The ratio between gaming totals and machines was something that we considered carefully on the basis of advice, which would ensure that the casino regime complied with the three licensing objectives of the legislation.

Q604 **Damian Collins:** So a small casino has to have 40 gaming tables to maximise its machine allowance and a large casino only 30. What advice did you receive that led people to believe that that was the best outcome?

**Richard Caborn:** When I reflect back on it, there were areas where we could have applied more common sense. I must admit that this is one of the areas. It is something that needs to be revisited in my view. You take a view in light of five years' experience. I really do welcome this Committee, because I think you can have a look both in terms of dealing with people's concerns about harm but equally about fairness within the industry. I hope that you will look at some of these areas because I think they do need revisiting.

Q605 **Damian Collins:** Did you consider having one ratio but limiting the number in smaller or large casinos and operating at the same ratio?

**Richard Caborn:** You got into this argument not just about casinos, but about pubs and clubs. We had a big argument about whether the limit for working men's clubs should be £500 or £250. It was a much bigger picture than that. It was all about how many machines were going to be in the nation for gambling at the end of it. The pubs and clubs were arguing that the FOBTs in betting shops were a totally different animal. Then you have the new casinos—the £1,500 and so on. It was not an exact science. Let me put it that way.

Q606 **Damian Collins:** Did you consider setting a maximum number of machines for a small or large casino, but operating the same ratio between machines and tables? Is that something you considered?

**Richard Caborn:** I think it was. I would have to go back and check all that to be quite honest. I don't know all the detail now. I just can't recall it all. What I am saying is that it wasn't just about casinos and machines. There was a wider impact on machines in a lot of establishments, including casinos. As Tessa said, we were under this pressure about casinos and how many there would be anywhere. Would there be a mass proliferation because you were going through the permitted areas? That all came into it.

**Tessa Jowell:** Our greatest focus was on whether to allow category A machines—the unlimited jackpot—and if so, how many. Richard is right. You don't appoint Ministers to be experts in the ratio between gaming tables and machines. You appoint Ministers to meet the public policy objectives of a new policy and to make sure that as far as possible the activities that go on within that regulated environment enable those objectives to be met. But I think Richard is absolutely right. It is a very fair question. It may be that perverse effects were created by that. It would be good for the Gambling Commission to review that within the licensing objectives set out in the Act.

Q607 **Damian Collins:** Thank you for that. The reason I ask is because one of the unintended consequences is that it has made it harder for small casinos to compete. That is a legitimate area of concern for us. I have some other questions about casinos but I think we are going to come on to that later.

**Dr Coffey:** On online gambling, the Gambling Commission states that the majority of remote gambling sites accessible to British citizens are regulated overseas. How successful do you think the 2005 Act was in creating a regulatory framework for online gambling within the UK?

**Tessa Jowell:** I am sure Richard will want to say something about this. It is extraordinarily difficult. We held at Windsor race course—

**Richard Caborn:** Ascot.

**Tessa Jowell:** We held at Ascot race course an event where we sought to encourage online operators to come and locate in the UK and be subject to the UK regulatory regime which, from a public policy point of view, would increase public protection. However, the tax regime, as the offshore operators would see it, is disadvantaged by a ratio of 80:1. I don't think anybody moved onshore to the UK as a result of that event. This is an extremely difficult issue for the Gambling Commission and for this or any Government, given the growth of online gambling. I think you will want to keep on going back on the basis that you reaffirm the relevance of the three licensing objectives on which the Gambling Act is built. You will want to keep on going back and looking at how public protection in the context of increased online gambling can be sustained.

**Richard Caborn:** First, I think a lot of those offshore would want to come back onshore, from the people I spoke to. The tax regime is the problem. My view—and I would be interested in those questions when you get the Treasury Minister here—is that it is a big opportunity lost. We have the best regulatory regime in the world. It is extremely well policed, and I think that is still the case now. It was a great opportunity to get employment, but because the Treasury was not prepared to be flexible and look at how you could have a tax regime that would keep them onshore—it was interesting to read the evidence of Bet365.

Q609 **Dr Coffey:** They are the only ones who stayed onshore.

**Richard Caborn:** They are onshore. It is interesting to read their evidence. Had it been a plc, it would have gone offshore, but because it is a family company, it stayed onshore. I can tell you the vast majority of those people—when I went to Gibraltar—who are working there would want to come back. They kept as much onshore as they can, so it is a tight issue. Whether there is a way of negotiating a tax regime that would bring them back onshore, and the jobs with that, I don't know. But you would then have a vibrant onshore—because you cannot, as it were, put them into a more difficult position onshore—but I think there is a debate to be had around that. What I think was disappointing was that the Treasury was quite dismissive at the time about whether we brought this
industry into it. You can have the banking industry and a lot of other industries here, but we did not particularly look at whether we wanted the betting and gambling industry here. That is still an open question and one that should be pushed out, because I still believe that a lot of jobs are in it, that a lot of tax take is in it, and that we have the best regulatory regime in the world. It is the most transparent and well policed. That is one end. As far as the other issue is concerned, what we tried to do to mitigate against that was the white list. What we tried to do—to go back to what Tessa has been saying—was make sure, wherever people were gambling, that we protected the punter, children and the vulnerable, and that people got a fair deal. The only way you could do that was to get people to sign up to licensing. What powers have you got? The only power we really had was that we will let you advertise. If you do not license with us, you cannot advertise. That is about the only weapon we had to use against them, but I think, broadly speaking, it worked. The big boys offshore who are licensed come on, and I think we have kept with the principles of the Act: we protect the vulnerable and children; it is crime-free; and people get paid out.

Q610 Dr Coffey: I want to talk about tax. You obviously believe that tax policy is highly relevant in terms of the position of the offshore, so what would be, in your view, an appropriate tax rate to bring people back on?
Richard Caborn: I do not know. I cannot answer that question, because I have not been involved in it. I will not bore you or even let you know the interesting discussion that we had with the Treasury at the time. I can tell you that it was fairly robust, considering that we had gone to all this trouble to put what I think was a pretty good piece of legislation on to the statute book, but not for it to be exploited by others who are coming in later, like Gibraltar and the rest of them. I thought it was a bit ludicrous, but there you are.

Q611 Dr Coffey: You are not willing to offer a figure. What about 10%?
Richard Caborn: No, I’m not. The difficulty you now have is that you have to look at the tax in its totality on gaming and betting, because you have the onshore—and there are differences with the onshore as you know, with some of the areas here that need to be revisited. But if you are going to look at the whole taxing of bringing offshore onshore, with those who are already onshore, you have to look at equalising that out as well. So there would have to be an equation whereby the tax take would be at least neutral in that, but you get your gainful employment and other economic regeneration off it, and see whether there is an equation there. I do not know, and I am not that bright.

Q612 Dr Coffey: Denmark has had it accepted by. I think, the ECJ, which confirmed that they have a differential tax rate for online, as opposed to land-based. It is lower for online. Would you see that as being equitable?
Richard Caborn: I would not want to give a view just like that. I would have to consider what the consequences of that were. It depends what your objectives are. If they are to bring offshore onshore, it is to do what? It is to get a bigger tax take for the nation, or at least overall. It is to create employment. It is to show the world that we are a very good regulatory regime to operate within. It gives a lot of credibility, and there are a lot of jobs in that. That is how you approach it. What all the details are, and how you manage that, and whether it is viable for the Treasury, I don’t know.

Q613 Paul Farrelly: I agree with you; I would as the hon. Member for Stoke City. I reveal my hand, Chair, yet again. Bet365 may take a more socially rounded view of its obligations both to secure employment and pay tax in the UK, but that would not be available to it if it were on the treadmill of the stock market and profit maximisation. I fully accept that. I want to ask you whether you think that the white list has worked. I do not know whether you followed the case of Full Tilt Poker and Alderney, where the Alderney regulators, like our Gambling Commission, didn’t have mechanisms in place to make sure that client moneys on deposit were separated from the running of the firm. What do you think of how the white list is operated, in the light of this particular case?
Richard Caborn: I don’t know. I am not a gambling person in that sense. I have been out of gambling. I had to read up before I came to the Committee, just to look back. It made some interesting reading. It is good how some witnesses rewrite history as well. Anyway, that is another issue. I haven’t got a view on that, Paul. When I recall when I went go Gibraltar, they were able to segregate betting and gambling from the normal operations of Visa, MasterCard or whatever. You had special numbers, and it was coded. As far as I could see, it was a fairly well policed and regulated system that you could very quickly show up in terms of people departing from certain patterns. However, you are talking about having whether you have the reserves to back that up. It is a bit like the banks in that sense.

Q614 Paul Farrelly: Or pensions.
Richard Caborn: Yes. That, I did not go into. I won’t give you a view because I am not in a position to do so.

Q615 Paul Farrelly: We have got Alderney, Gibraltar and Jersey following, but the wider question is promoted by what has happened in financial services. It is through mechanisms such as the white list. Why do you think that the UK should provide opportunities for offshore havens that are not part of the EU nor part of the United Kingdom, to operate? In a small jurisdiction, you might think that they cannot provide sufficient resources—if you look at Alderney, as a small island—compared with established countries such as the United Kingdom from which they are drawing custom.
Richard Caborn: It is an interesting question. In the real world, how do you stop them operating in the UK? With the ITC you have now, how do you stop them operating in the UK?
failed, to keep them onshore because your tax regime
drives them offshore?

Q616 Paul Farrelly: That wasn’t the question. The question
was why have a white list that includes a small island like Alderney.

Richard Caborn: Because they were prepared at that
time. The question you raised did not come up. Were they
prepared to sign up to the licensing conditions that we were prepared to lay down? The
answer to that was yes, they were. Guernsey and Jersey didn’t sign up to it. They complained and didn’t
sign up. But those who signed up to the conditions for the
licensing were able to operate here and also access advertising. That was the only lever that we had.

Q617 Paul Farrelly: So the white list was a sort of
franchise system.

Richard Caborn: It was a franchise system, yes. To
go back to the point that Tessa keeps referring to, it is
about protection. We were in the game of trying to
protect the vulnerable and children, make sure that it
about protection. We were in the game of trying to
protect the vulnerable and children, make sure that it
complete safety and protection to the people who sit

Chair: That does not stop them telling them to do so.

Richard Caborn: I could not possibly comment.

Paul Farrelly: One final question: in terms of the way
forward and the replacement of a white list, do you think
that we should be going down a UK route? That means
that operators are entitled to take custom here
only if they have got a licence from the Gambling
Commission, which entails all the complications of
enforcement, or do you think we should adopt a
different model, whereby we will accept people taking
money from customers here who have a licence in any
EU jurisdiction?

Tessa Jowell: There is obviously merit in looking at the
possibility of international agreement. We certainly
looked at this but, from memory, it was one of those
things that we ran out of time on. There is certainly
merit in doing that, and in getting other countries to
sign up to our licensing objectives. As your line of
questioning reflects, you understand entirely the
complexity of this.

My view would be that we should not pitch our
gambling industry at a regulatory hurdle that it simply
cannot meet. You have to have the right to take the risks. It is
important in communication with the gambling public
that they understand the risks that people take if they are
using unregulated sites in jurisdictions that we have
absolutely no relationship with. You can almost
certainly not stop them doing that—I was thinking about this beforehand. Look at the difficulty that there
is in protecting intellectual property, for instance, for
all those reasons. You could probably only do it by
getting Internet providers to block certain sites and so
forth, but then the sites change their domain name—
they are highly mobile.

I would take it in three stages. I would look at those
jurisdictions where it might be possible, on the basis that
Richard has outlined, to secure regulatory
reciprocity with, if you like—that is the first thing.
Then the second is to look at the possibility of
widening an international concordat, either through
the EU or more widely. The third, to deal with the
fact that you are never ever going to be able to deliver
complete safety and protection to the people who sit
at home in their bedroom to go online and gamble, is
to get the Gambling Commission to address how the
kind of public health warnings about the risk that
people face are best communicated.

Richard Caborn: Just reflecting on what was said,
first of all I would be asking the industry a number of
questions. What is the percentage of its operations in
the UK? If you have a company that is based in
Gibraltar, what percentage of its operations is actually
UK-based? That also begs the question, do you then
try to get such companies back onshore? I would
guess, say, 50% of it was on the UK, and then you
were to bring in further operations, which you would
have to look at. I do not even know the percentage—
it would be an interesting question to ask—so what is
the perceived percentage of gambling on non-licensed
operators? There are people who are not licensed, but
gain access to the UK, which they can do and do do:
what percentage are they of that other market? If you are
only talking 1% or 2%, to be quite honest, I would
not even bother with that but say, “Fine, I’ll live
with that. I am not going to start bringing complex
regulations into place just to catch 1% or 2%.” If it starts
moving into 10%, you have to start looking at it.

There is a big macro picture to look at about the
operations offshore: what is the percentage of their
business here in the UK? Then you can start making
a judgment. The next question I would ask is: what is
the percentage of non-licensed operations operating
here in the UK? Again, I have no feel for that.
Depending on that, I would start saying, “Well, you
need to bring in that further regulation.” Again, I am
far from expert on this but, reading what the Minister
is doing in the consultation he put out in July last
year—I only read it superficially, and I am not saying
I went into it in any depth—I am not clear what it is
going to achieve that you cannot do now. I do not see
where it is going to take the case forward.

The big, big issue here is tax. If you want to bring
them onshore, that is the issue. If not, you are dealing
with the symptoms, not the cause, which will be a
problem. You will be chasing this far for ever more
because, I tell you what, the ITC runs a lot faster than
political decision making and they will find ways
round it one way or another. That is the difficulty
you will have, but is it a big problem? I do not know
whether it is or not, to be quite honest. I have always
said that, to the best of my experience, those who
operate here and are licensed, whether it be in
Gibraltar, Malta or wherever it is, operate responsibly.

Q618 Paul Farrelly: The issue for the industry is not
only a UK issue, but a European issue. That is why
the focus of my question was the EU’s move to start
regulating and taxing. There is an issue of having
different regulatory regimes and possibly double-
taxation regimes, so it has an impact as well.

Richard Caborn: I did not think the EU had
responsibility for gambling.

Paul Farrelly: No, it is individual states now moving
into it.

Richard Caborn: But the Commission has no
competence on gambling. I think I am right on that.
Chair: That does not stop them telling them to do so.
Richard Caborn: I could not possibly comment.
Q619 Chair: We still have one or two small areas to cover. You have rightly spoken several times this morning of the need to base policy on evidence and the need to carry out research. Are you disappointed at the amount of research that has been carried out? Do you think the voluntary funding by the industry has proved sufficient?

Tessa Jowell: I must say that when I was preparing for this session and looked at the research that has been conducted, I was surprised that the Government had not been given a more robust research base on which to proceed. That may be something that the Committee wants to consider further.

Richard Caborn: I can honestly say that, although specifically in the UK there might not be, there are oceans of research out there internationally. When I had the conference of M inisters with responsibility for gambling down at Ascot, an amount of international research had been done: the Australians are doing it; the Americans have done it; and New Zealand has done it. There are oceans of research out there. What you do with it is a different matter. Whether or not there is something specific, the one thing you have is a stick, and I presume it is still the same now. If they do not pay up, you have the right to put a levy on it. It is really up to the industry, therefore, on all sides to say, “How much do we need to do this research, education and prevention?” Based on that type of discussion, and if you are not satisfied with it—

Tessa Jowell: Richard is absolutely right about that. My focus is very particularly on the issues that apparently specifically in the UK there might not be oceans of research. The first was that you’ve got a campaign run by a national newspaper, the Daily Mail. The second thing was that you were coming up to an election in 2005. That was the reality of it. Anyway, it did just save the chunk of the Bill, which was all the commission, online gambling and all that. Did you save all that and do a deal on wash-up on the casinos?

Tessa Jowell: To be absolutely clear, that was my concern, that having been through all this scrutiny, we didn’t lose the Act. If it meant reducing the number of casinos, then it seemed to me that that was a small price to pay for securing the legislation. It was also absolutely certain that there wasn’t going to be time in a legislative programme for another gambling Act if it fell before the 2005 election. I was absolutely clear, and Richard was too, that there was a pressing public policy and public risk need for this legislation, which is why I was prepared to agree to reduce the number.

Richard Caborn: Well, I disagree with that. I was in Blackpool but on the telephone. I was saying, “Don’t panic.”

Q621 Damian Collins: I have some final questions on casinos. Earlier, we touched on the change in the number of new casinos that were going to be allowed. Was it ultimately a purely political decision?

Tessa Jowell: Ask him.

Richard Caborn: Not to overstate it, there were two things. The first was that you’ve got a campaign run by a national newspaper, the Daily Mail. The second thing was that you were coming up to an election in 2005. That was the reality of it. Anyway, it did just save the chunk of the Bill, which was all the commission, online gambling and all that. Did you save all that and do a deal on wash-up on the casinos?

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Richard Caborn: Well, I disagree with that. I was in Blackpool but on the telephone. I was saying, “Don’t panic.”

Q622 Damian Collins: Why do you think that the Daily Mail’s campaign had so much influence? One would say that in other areas of national life, the Daily Mail didn’t seem to have very much influence.

Richard Caborn: It’s called an election.

Tessa Jowell: The Daily Mail is an extremely effective newspaper, but actually, the decision was taken on the basis of parliamentary politics, rather than all these other external forces. Also, I have to say that I worked very, very hard to build a coalition among the faith organisations and organisations working with children, because their confidence in this legislation was very important to me. I think that we did a pretty good job on that—they did a pretty good job in helping us to really nail the extent and degree of public protection.

Q623 Damian Collins: Only one new casino has been built following the Act. Would you think, with hindsight, that it would have been better to allow existing casino operators to apply for the new licences?

Richard Caborn: I think so. My personal view is that I think I would. If we actually got to revisit that, I would. But I would revisit a number of areas on the casino issue, although not the Gambling Commission; I think that’s sound. This casino issue got highly politicised. When you look at the amount of gambling in casinos, compared with the rest of gambling, it is minute, relatively speaking.

Tessa Jowell: Issues like this, it’s not so much that they become politicised; the then Opposition were doing what an Opposition do, which is make trouble for the Government, and they made trouble for us on the number of casinos. I was perfectly willing to concede on that to protect the legislation. That is what
you do if you are a Government—you just have to face the realities. I was always interested in the fact that, when public opinion was tested, there was not this great national spasm of hostility to what we were trying to do in the legislation. One of the things you just have to do in government is separate noisy controversy, which, of course, is legitimate, from the evidence on which you’re basing policy and the purpose of the policy. Another example is the Licensing Act, which was highly controversial in some quarters, but was legislation that was badly needed.

Richard Caborn: We had some real opposition. We had our own opposition, internally, I can assure you, because a lot of my dear colleagues on the Back Benches—

Damian Collins: There was a difference in B team.

Paul Farrelly: There were arguments from the occupant of No. 10 as well, I remember.

Q 624 Damian Collins: Maybe that was something that should have been looked at. The existing operators could have bid for the licences. The other matter is the portability of licences. Apparently, there are 37 unused licences in the country at the moment; 35 local authorities bid unsuccessfully for licences, one of which is my own local authority in Shepway, Kent. Should we consider whether authorities should be able to bid for those available licences?

Richard Caborn: My answer to that is yes. I would. These are areas in which you, in your recommendations, and the Commission are in a position—again, I use this comparison between Australia and us—to be able to relax that, rather than pull it back in. You are in a totally different position from them, and you have an evidence base on which to make those decisions in a more informed way than you could have done five years ago.

Tessa Jowell: We incorporated in the legislation obligations on local authorities, which created, in effect, what we described as a triple lock: the community must want the casino; the local authority must be prepared to license it and give the necessary planning consent; and the Gambling Commission must be prepared to license the operator. It is pretty powerful control. The idea that you could have an epidemic of casinos all over the country, in the face of an unwilling public, is simply not true, because local people have to consent to there being a casino. I agree with Richard—if there are unused licences that meet the tests of the triple lock, I would support using them.

Q 625 Dr Coffey: On regeneration, we met casino operators abroad, and two points jumped out: it would be wrong to have a supercasino as the bedrock of regeneration and there was a very strong message about realistic commercialism. There was no way that people would ever invest in Blackpool as a supercasino and it would be more realistic to have one in London or on the south coast to make the numbers add up. I want to hear your views on both those points.

Richard Caborn: My view is that the reason Wembley stadium did not go to Birmingham, when I first became a Minister, was that the disposable income in London was five times greater than that in Birmingham. The commercial rationale was to put it where the biggest disposable incomes were. You can use that argument on supercasinos, too.

In terms of directing it to Blackpool, we were moving gambling and betting into the leisure industry, which is the base of Blackpool. Therefore, in my view, it made a lot of sense to marry the two things together. That is where the supercasino ought to have gone, to revivie an industry that people in Blackpool knew very well. It needed some push, and the supercasino would have given it. That was the rationale.

Q 626 Dr Coffey: What is your view on whether a casino can be the basis of regeneration?

Tessa Jowell: Again, you have to take it on a case-by-case basis. The case that M anchester developed—and it prevailed with the panel—for a supercasino was compelling. You make judgments on the basis of the baseline. How do you measure regeneration? It is a bit like legacy in the Olympics—it means a multitude of things. You have to define it, so what does it regenerate mean? Does it mean inward investment, more jobs, better environment, or a more effective way of dealing with the ambient consequences of poverty? You then construct a proposition specifically to address those definitions.

As I have said, there is evidence that cities have used casinos to do this, but it is not a given. The reason that the panel rejected Blackpool and created a furore was that they were not satisfied. A casino in Blackpool would be so exposed, in the absence of other economic activity, that there would be a risk of not being able to meet the public protection criteria that M anchester could do more securely. You have to take this on a case-by-case basis. You have to be persuaded not by the principle but by the competence of the proposition.

Richard Caborn: Can I just raise one quick issue, which has not been touched on, which is the releasing on sports advertising? It is fetching in new money to the advertising industry of about £150 million to £200 million a year on the back of sport, ostensibly. It would be nice if the Committee could look at a 10% levy on that to go to grass-roots sport. I think that would be great. If that had been around when I was there, I would have looked at it. That is new money into the advertising sector, which is worth £150 million to £200 million. If 10% of that went to grass-roots sport, that would be very welcome. A recommendation from your Committee, Mr Chairman, would be equally welcome.

Chair: That is a little way off the main area we have been examining. Thank you for your suggestion.

Q 627 Damian Collins: On the media aspect of it?

Richard Caborn: Yes, on what we released in the Act for them to be able to advertise sports betting on television. It is a new sector, which is worth between £150 million to £200 million. The Act allowed them to do that, and it is predicated on the back of sport. That advertising revenue, which is new revenue to
Chair: Good morning. We now turn to the second session of this morning, when we are looking at the offshore regulators. Thank you for your patience. I welcome Andre Wilsenach, the Executive Director of the Alderney Gambling Control Commission, Phillip Brear, Gambling Commissioner, Gibraltar Gambling Commission, and Graham White, Chairman, Jersey Gambling Commission, gave evidence.

Q628 Steve Rotheram: First question to Phillip. What evidence do you have to back up your criticism of the DCMS consultation paper from 2010?

Phillip Brear: The point I make in our written evidence is that there is no evidence to support the assertions that were being made. Once the paper was published, there was an informal consultation among the online regulators, and we agreed that, between us, we could identify only a handful of complaints each year from British consumers. There was no evidence that we were not meeting information requests and no evidence that there had been any technical failures or jeopardy to the UK customer gambling experience. There was quite a stark contrast between what the DCMS paper was suggesting and our experience as the primary online suppliers to UK customers.

Q629 Chair: Is that view shared by the other two jurisdictions?

Andre Wilsenach: Yes, I think it was quite difficult to understand what the objective of the change was. I am sure that it is probably right to comment that it now has very little value, if anything, to debate the pros and cons of it or the rationale for the change. As I understand it, the train has left the station. I am not so sure what value it brings. However, when we looked at that, you will have seen from our written evidence— we found it quite hard that the baby had been thrown out with the bathwater. We thought that the UK had missed a huge opportunity and had a wonderful tool that it had created in the 2005 Act through mechanisms such as white listing to create common standards across borders. That is, in actual fact, what happened as a result of white listing. As Phillip just said, it was also evident at the time that there was no indication of the player being damaged. There was no indication that the player was suffering. There was no indication that the standards that prevailed were lower. In fact, I think the DCMS White Paper comments on the standards that were applicable in jurisdictions such as ourselves. Therefore it was difficult to understand how the player would be better off in a situation where they move from the previous situation to one of regulation at the point of consumption. So I agree with that. I have a few views, Mr Chairman, on what I think are certain dangers of moving forward with that approach, seeing that the train has left the station; you won’t mind me commenting on that. I am sure you have heard this before. How the UK implements that system will be very important. It is easy to do that in a new jurisdiction such as Denmark, or in France or other jurisdictions which did not really have a strong online sector. But to turn this ship around in a well established jurisdiction—a mature market—such as the UK is going to be difficult. My view focuses on two areas. First, if the UK is going to do it in a bureaucratic manner whereby the cost is going to increase as a result of increased regulation and duplication of things that have already been done and are still being done at the moment, you will run the risk of marginal operators leaving the UK. That then poses the question: will the player be better protected? My second concern is whether you are going to impose additional taxes. That is really my point about an established market, where you have established vested interests as a result of the 2005 Act. If you scrap that, take it off the table and introduce a whole new regime, and with a tax rate of 15%—duty on gaming taxes—those that stay in the UK will find it very difficult to compete with those that had either left for sunnier places or are operating from sunnier places in the world. We all know, I think, that the blocking mechanisms don’t work. At best it is a defensive mechanism. It is a consolation that you do something, whereas I think the UK has an enormously strong attraction. It has a huge, very established market. The ability to promote and market in this jurisdiction must be enormously attractive. If you are going to impose a new system of regulation and licensing at the point of consumption, that is the tool that you want to use: saying that if you want to advertise here you’ve got to have a licence. Graham White: Jersey currently is not white listed so I can only pass comment on my observations. I wholeheartedly agree with my colleagues here. One of the dangers for the United Kingdom is that the tax regime is prohibitive, quite frankly. No operator will come to the UK to pay 15% on its gross gaming win and 10% on its betting. It is just ludicrous. They are also looking for an experienced regulator, someone with knowledge who can hit the ground running. It is for others to judge whether that is the case in the United Kingdom. What particularly bothers, certainly myself in Jersey and other regulators, is player protection. I am not convinced that player protection would still be the most important factor if you are getting something like 400 licensees in the United Kingdom.
Obviously, the commentary was about Phillip Brear: view?
Can you say what evidence there is to support that increase was due to online national lottery activity. Can you say what evidence there is to support that view?
Phillip Brear: Obviously, the commentary was about the UK market. If you track back the number of suppliers, or you track back the scale of the supply, if you actually then use the Gambling Commission statistics to demonstrate where there has been growth in online, the only growth in online, I think since 2005, has been in the national lottery. The rest of the online market, in terms of its UK value, has actually remained at this 5.6%, and I think at about 5% or 6% of people, and 5% or 6% of the actual cost, whereas there is a very clear doubling and trebling of the national lottery online value. The Gambling Commission’s commentary makes it quite explicit that this accounts for most of the reported growth in the use of online facilities.
The other measure of proliferation is the number of operators. Of course, there has not been an increase in the number of operators facing the UK; there has been a decrease in the number of operators. As I said, there is lots of mythology and emotion around references to gambling. The reality is that, when you boil it down to hard statistics or hard cases, accepting that is never a full description of the real world, the evidence just does not stack up. We are left almost with a different agenda being played out by certain players in the regulatory community in the UK that we cannot reconcile with our experience of supply into the UK and, indeed, into other markets.
Graham White: I think there has been significant growth since 2008. The statisticians will tell you that the forecast growth for the United States—$21.2 billion in 2008 to $30 billion in 2012, which is a 42% increase—is faster than the 15% forecast for the industry as a whole. I would not subscribe to the view that the 2005 Act has stimulated a proliferation. It was going happen anyway, and, as we speak, there are many other countries worldwide embracing it. There are something like 2,700 internet sites, owned by 667 sources and they have the same principles—likewise in Jersey and in one or two other jurisdictions.
Andre Wilsenach: If I may add to that, your previous question related to proliferation of the industry, and I think one should perhaps just make the comment that the financial situation at the moment obviously helps consolidate the industry. However, what certainly has happened is that, as a result of increased change in the way in which online gambling has been regulated at the point of establishment to the point of consumption throughout Europe and other parts of the world, there has been a proliferation of regulation, in my view. Phil is quite right that there are aspects of the regulatory framework that you can see have been duplicated in some of these jurisdictions.
Unfortunately, we still do not have what we have, for instance, in the accounting industry, where there are international accounting standards. I cannot for the life of me understand why regulators find it so difficult to co-operate and establish basic rules or standards that licensees have to comply with. I am not at all pointing a finger at the UK. In actual fact, I am pleased to say that we have very good relations with the UK commission, and we interact and communicate often on various matters. In Europe and the rest of the world, however, it is very tricky to say the least. You often find a regulatory framework being introduced and licences being issued without reference to the work that has been done in the past, information that is sitting there, experiences or lessons that have been learned. I find that rather unfortunate.
Graham White: If I could add to what Andre has been saying, I have been a regulator for 29 years, and I have seen this proposal of standardisation. Quite frankly, without the leadership and without the ongoing management of it and a consistent approach, you are never going to get it. We have played with it at the Gaming Regulators European Forum. We
played with it at the International Association of Gaming Regulators, which in fact, to be fair, has produced a common standard application form, which is voluntary, but my observation is that, quite frankly, national interest will prevail.

One has to bear in mind that, sometimes, you are not getting experienced regulators. They are people from the Ministry of Finance or the Ministry of Interior who have other jobs to do. They are not wholly and solely focused on gaming regulations, and they regard it as a revenue-collecting exercise that has nothing to do with protecting the vulnerable or preventing crime.

**Phillip Brear:** I have just a short point on that. You must also recognise that there are jurisdictions that apply what we might regard as ultra-high regulatory standards and asking them to diminish them is just a complete non-starter. Now, these gentlemen know about the places that I am talking about—there were 50-page personal application forms and 1,000 pages of submissions to obtain a licence. You are talking about regulatory burden. It is so horrendous that you have wheel the application forms in. We may have these debates with our European colleagues about how we think that thing is a little over-cautious and unnecessary, then we look in a different direction and we think, “Goodness me, there is a mountain to climb in other places.”

**Andre Wilsenach:** I do not want to belabour that, but it was really the point I tried to make at the start. I think the UK missed an opportunity. If you look carefully at what the white list had done as a concept—I am not arguing for the white list; I have accepted that it has gone—it required other jurisdictions hosting operators marketing into this jurisdiction to comply with certain minimum standards. That was extremely useful. I think it is a pity that that model, that tool, was never used and extended any further.

**Q632 Damian Collins:** How successful do you think the UK’s policy of white listing has been?

**Andre Wilsenach:** I can only talk as a white-listed jurisdiction. We thought it worked quite well. We obviously were minded that there were problems with the implementation of it. As I said before, it was a significantly useful tool, it was probably not well employed and implemented. I could see that there were difficulties in making sure that what applicants for white-listed jurisdictions were telling DCMS was checked. It is one thing to tell the DCMS or the Commission that you are doing all these wonderful things. It is another actually to do those things that you require the industry to comply with. From that perspective, it had made it tricky to implement. I could imagine that there were not the resources at the time to go and actually check. So in my view it was pretty much a desk exercise to determine whether you would get white-listed or not.

**Q633 Chair:** How did you deal with it the International Association of Gaming Regulators, which in fact, to be fair, has produced a common standard application form, which is voluntary, but my observation is that, quite frankly, national interest will prevail.

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**Andre Wilsenach:** I do not want to belabour that, but it was really the point I tried to make at the start. I think the UK missed an opportunity. If you look carefully at what the white list had done as a concept—I am not arguing for the white list; I have accepted that it has gone—it required other jurisdictions hosting operators marketing into this jurisdiction to comply with certain minimum standards. That was extremely useful. I think it is a pity that that model, that tool, was never used and extended any further.

**Q632 Damian Collins:** How successful do you think the UK’s policy of white listing has been?

**Andre Wilsenach:** I can only talk as a white-listed jurisdiction. We thought it worked quite well. We obviously were minded that there were problems with the implementation of it. As I said before, it was a significantly useful tool, it was probably not well employed and implemented. I could see that there were difficulties in making sure that what applicants for white-listed jurisdictions were telling DCMS was checked. It is one thing to tell the DCMS or the Commission that you are doing all these wonderful things. It is another actually to do those things that you require the industry to comply with. From that perspective, it had made it tricky to implement. I could imagine that there were not the resources at the time to go and actually check. So in my view it was pretty much a desk exercise to determine whether you would get white-listed or not.

**Q634 Damian Collins:** In your opinion, in terms of what would concern the UK Government, would you say there is no material difference between the jurisdictions in Jersey and Guernsey?

**Graham White:** No, because obviously we talk, we both belong to the same organisations and I would go so far as to say that we are personal friends. We
exchange information, and so on and so forth, and I
helped initially to set up Alderney when I was the
chief inspector of the UK Gaming Board and
Gambling Commission. We know each other, we
understand and we are helpful, and they have been
terribly helpful.

I am absolutely certain that we would pass muster if
the Gambling Commission looked at us and did not
do a tick-box exercise as it did right at the start. As
Andre has mentioned, there was no checking of the
veracity of the statements made. To my knowledge,
since that white list has been in place, there has been
no prosecution of a white listee, and no action has been
taken by way of sanction, fine or whatever on the
people who are white listed. If it ain’t broke, why
fix it?

Phillip Brear: As a non white listed jurisdiction, we
have access through other mechanisms. The principle
of white listing is a sound one, but the defect was in
the structure of the entry criteria, which were set up
with good intentions but I do not think that they met
the real objectives of the Gambling Commission or
the UK Government. Where you are approving a
jurisdiction and that jurisdiction is out of reach, or it
is of a nature that means you are unable to exercise
any supervisory relationship in terms of that
jurisdiction’s decisions, you are opening the door to
UK difficulties. That is not to criticise any specific
jurisdiction, but it means that Alderney, Jersey,
Antigua or Tasmania could approve something, and
that operator could appear on the UK system, but the
UK don’t know about it until it appears. To unwind
that would be a horrendously difficult exercise.

Q635 Damian Collins: What concerns do you have
about a transition from a white-listing system to one
of compulsory licensing by the Gambling
Commission?

Andre Wilsenach: As I said in my introduction,
accepting that the train has left the station, I would
cautions on two areas. Having had discussions with
the UK Gambling Commission I am under no doubt that
its intention is to co-operate with us, but the caveat
for me is that there would be co-operation with a view
to developing a white list and, because of the
relationship that existed and the standards that have prevailed, to accept what has been
done. I obviously do not expect it to grandfather all
our licensees into the UK. There may be certain gaps
to be filled, and we accept that. Where testing has
been conducted and there is ongoing testing and
certification of certain games, I would find it very hard
if the UK Gambling Commission started from scratch
with that. As I have said, I do not see that tendency. I
think that a consultation process in going from where
we are to where the UK wants to be is going to be
critical.

Graham White: There are problems of jurisdictional
issues as well. Who prosecutes? Where does the
offence take place? It is a really over-bureaucratic
problem. That is something that I would counsel the
UK to address very carefully, because there is no point
having the law if you cannot enforce it.

Phillip Brear: I am not sure that the model as
proposed has been properly worked through, covering
some of the points my colleagues make. We would
take issue that the UK will license people that we will
not license. That seems quite an unusual position to
be in—that we have higher entry barriers than the UK
actually has.

Then there are the issues of duplicate licensing and
duplicate regulation, the conflicts that that might
create, and the undoubted extra regulatory burden and
complication around that. Actually, if someone takes
a cold, hard look at the simple model that was set out,
I just fail to see how it can work in practice and
deliver better regulation for customers. It may deliver
more regulation for operators, but I am not sure it
delivers better regulation for customers.

Q636 Damian Collins: I want to ask Mr Wilsenach
a question about Full Tilt. What do you think the
failures of regulation were that led to the development
of that situation?

Andre Wilsenach: Can I preface my comments on
Full Tilt by saying that I would have been very
disappointed if the Committee had not asked me
questions on Full Tilt?

Chair: There was no danger of it not coming out.

Andre Wilsenach: I shall try to be as helpful as
possible, but I should preface what I am going to say
by mentioning that the FTP matter is sub judice. There
is ongoing legal action in the United States. There is
a risk of self-incrimination, and therefore, the hearings
by the tribunal in this particular case that led to the
revocation of these licences were held in camera, as
you might know.

Let me start by saying that one of our statutory
obligations—it is the case with most regulators, and
my colleagues will know exactly what I am talking
about—is to protect the reputation of the industry, and
certainly also that of the jurisdiction, which we take
extremely seriously. There are basically two things
that we do to ensure that. First, we conduct extensive
investigations and due diligence investigations to
ensure who we allow in the door. We have no doubt
that once you have allowed an operator in, he is in,
and you have to be extremely careful at that stage. We
take that very seriously. The second thing we do is
continually inspect and monitor our licensees.

Unfortunately, passing the test of suitability—Graham
said he was a regulator for 28 years. Did you say that?
Graham White: Twenty-nine.

Andre Wilsenach: It doesn’t show. I have been a
regulator for 20 years now, and unfortunately, we have
seen, in a number of small instances, that someone
who had passed the test of due diligence—and that is
no guarantee that an operator will remain suitable—
will, for whatever reason, start doing things that might
turn them into a rogue operator. That applies to a very
small number of operators after passing the test of
suitability. It happens in every sector. It has happened
in this sector, and in the finance industry.

In FTP’s case, what did not help was the fact that
significant enforcement actions had been taken by the
DOJ. Those enforcement actions were very covert in
nature, which resulted in a situation that almost
created an opaque environment, within which the
operator could do certain things and get away with it.
For example, the operator could carry on without

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informing us of the actions that had been taken, because if he did not inform us of it, we would not know that from the US authorities, and that was quite evident. The second thing is that it led the operator to misrepresent its financial position. As a result of that misrepresentation, they operated in a situation in which they did not necessarily have the resources to pay players.

What we normally find with licensees is that if they make a mistake or act in breach of the regulations, they immediately put up their hands and say, “I’ve made a mistake; I’ve acted in breach of my regulations. This is what I’ve done to fix it.” That is not what happened in this particular case. In actual fact, it was just the opposite. It was a case of deliberately deceiving the regulator—in this particular case, the regulator in France and the authorities in the United States. As I said, those covert actions by the Department of Justice created an unfortunate situation in which neither we nor the other regulators were aware of it.

It is important that, when we became aware of what had happened, we immediately conducted a special investigation. We brought in forensic auditors to drill down into the areas where we thought there may be problems. They discovered that in fact our suspicions were valid. I immediately suspended the licences and investigated further. A tribunal conducted hearings subsequently, and the rest is history. Those licences were revoked.

I believe that under the circumstances—I know there are questions about it, and I can understand that—we acted swiftly and appropriately, but that is my view. We have recently appointed Peter Dean, the former chairman of the UK Gambling Commission, to do an independent external review of how the AGCC dealt with the FTP case. The outcome of that will be made public by the end of March. We have looked internally at whether we could have done things differently. We have identified areas where we can sharpen our pencils, specifically in monitoring risk. The other important area where we have learned lessons in this particular case is the protection of player funds. We have reviewed that in the past, but it may be necessary to review our position on it again. What do we do to ensure that the player is fully aware of the position with his funds? Are those funds commingled? Are they segregated? Are they held in trust? So that, if something happens, such as in this particular case, the player is satisfied that he knew what was happening.

Q637 Damian Collins: I know that other colleagues want to come in on this subject, so I will make one more comment before handing over. When something like this happens—you could look at the failure of the regulation of financial services in the UK—everyone will say that they did everything by the book, but there is still a failure. So you say that the failure was either in the rules or in the way in which the rules are enforced and in the resources behind that enforcement. My question to you and Alderney is do you have the resources to be able to police the rules and regulations that exist for companies of this scale that operate in different jurisdictions?

Andre Wilsenach: We think we do. I do not want to say anything that might prejudice the outcome of the Peter Dean report, but it will be interesting to hear what Peter says. I am really looking forward to that, because it will be someone else looking at us, rather than myself commenting on it.

Q638 Paul Farrelly: Mr Wilsenach, can you tell me how many employees you have at your Gambling Commission and what your annual operating budget is?

Andre Wilsenach: We have a total of 20 employees. We operate on the basis where we want to have a relationship or a ratio of one inspector per four, often five, licensees. You ought to keep in mind that not all licensees are necessarily live. Of the 50 companies that have been licensed in our jurisdiction, I would guess that around about 30 to 35 are live.

Q639 Paul Farrelly: How many inspectors do you have?

Andre Wilsenach: We have around about 12 inspectors.

Q640 Paul Farrelly: Out of the 20? Are the remainder support staff?

Andre Wilsenach: The remainder are support staff.

Q641 Paul Farrelly: What is your operating budget?

Andre Wilsenach: The operating budget runs at around about £2 million a year.

Q642 Paul Farrelly: How does that relate to the financial benefit to Alderney from having positioned itself in this sector, guesstimated per annum?
Andre Wilsenach: You should appreciate that Alderney is a very small jurisdiction. Phil shared with me that they have just had an election in Gibraltar. I asked him how many people there are in Gibraltar and he said around 30,000. That is huge compared with Alderney. Alderney has a total population of about 1,500 people. During the summer it goes up to 2,000 or 2,500. Therefore a small income makes a huge difference in the case of Alderney. All the licence fees go to the States of Alderney, to the benefit of Alderney. That is roughly £2 million. So an operating budget of about £2 million, profits of about £2 million—that goes to the States.

Q643 Paul Farrelly: How many additional people in Alderney outside the 2,000 to 2,500 do you reckon are employed in the industry?

Andre Wilsenach: Probably round about 50 staff members. What you also need to be aware of is that the benefit does not stop in Alderney. A huge part of the sector is based in Guernsey. Guernsey gets a significant benefit from the servers being there because they have an excellent telecommunications infrastructure. It was estimated two years ago that Guernsey benefits to the tune of about £50 million a year from the servers being held there. Alderney benefits in total by round about £7 million.

Q644 Paul Farrelly: In terms of industries on Alderney—with 50 to 70 people employed in Alderney, is it the biggest industry?

Andre Wilsenach: It is certainly the biggest industry in Alderney, but not necessarily within the Bailiwick of Guernsey as a whole. It is certainly a major sector.

Q645 Paul Farrelly: I am glad you said that, while not wanting to pre-empt the Dean report, the key thing is that no regulation is going to stop or deter a crook like Robert Maxwell raiding a pension fund, but the question is, what do you do afterwards and what lessons do you learn. Prejudicing the conclusions of your report, the slam-dunk—as they would say in the States—conclusion is that you have to take some action about regulating and try as best as you can to enforce separation of the company's money. I am glad you said that. Is that the way you're going to go?

Andre Wilsenach: Yes. I think it would be very short-sighted of us to say, “We've done everything that we possibly could. We are the best regulator in the world and they are a bunch of scoundrels.” I think the way to go is to say, "Look, this was a unique case," and for various reasons, it was a very unique case. But the question is, what lessons can we learn from this going forward? Also, hopefully, other jurisdictions would learn from that. I can tell you that we are working closely with the UK Gambling Commission on some of these things. For instance, our thoughts in the area of protecting player funds are shared with the UK Gambling Commission. We would share with it the outcome of our assessments and investigations. It is obviously not clear cut. For instance, if you look at the new regulations by the Nevada gaming control board, they would go as far as to require that player funds be held in escrow and that the banks inform the regulators on a daily basis of the status of those funds. There are all sorts of complications with that. There are other jurisdictions that segregate. Segregating funds doesn't necessarily mean that if a problem hits, those funds are necessarily available. It all depends on whether the banks recognise the third party interest and all sorts of other legal niceties, but those are the sorts of things that we are looking at. Without a doubt, I think that the most important thing in all of this is to make sure that at all times, the player is well informed of the status of his funds and that it isn't hidden somewhere in the terms and conditions, but that it is very obvious to the player what the position is with his funds.

Q647 Paul Farrelly: Mr Brear, you wanted to come in on this.

Phillip Brear: Just to make a couple of points. Any of us could have been caught by a corrupt entity seeking to deceive the regulator. Two issues arise from that statement. The key to this is actually who you license and, when you license them, who they are and what the company culture is at that time. A few years ago, there are people holding licences at the moment in Europe whom we've actually refused licences to. We find that quite stark.

The second issue is that if you have a situation like the Full Tilt issue, is the UK regulator better equipped or more likely to detect so does this sort of activity than a small regulator that generally engages in what I call face-to-face or even eye-to-eye regulation? We are a much smaller regulator than Alderney, but we have the people on site, and we meet them—literally not all of them—every day, but we meet them daily over the months, so the attempt to deceive isn't done down the wire or over the sea.

Paul Farrelly: You see the whites of their eyes.

Phillip Brear: We see the whites of their eyes in pre-licensing, licensing, post-licensing, regulation and how are things this week or this month. I’m not saying that that is possible in every jurisdiction—it isn't. It certainly isn’t possible when you have 3,500 licences, which the UK commission has, and it is looking to add on another 50 or 100 online licences. We believe that we will provide, collectively, a firmer and more direct form of regulation to online gambling than is possible or is taking place now in the UK, with the few online licences that it has issued.

Q648 Paul Farrelly: Mr Wilsenach, I don’t want to extend this too long, but next week, when our Gambling Commission comes in, it will—ironically—have to explain itself in respect of the submission that it has put in, which looks very much like a submission on your behalf on Full Tilt, but it’s not in your name, so thank heaven for that. It’s a brief on Full Tilt poker.
I only received it just as we sat down today, and it is an after-the-fact briefing on Full Tilt Poker and I can say that it is astonishingly complacent. With respect to any lessons learned, it repeats a mantra that our commission, like yourselves, has adopted a “caveat emptor approach for a number of reasons”, and those include, on the subject of consumer choice, the fact that “players should be allowed to choose to transact with operators that do not protect funds and take the slight risk to their funds.” It is astonishing in what it says, and I hope that they will not be as complacent when they come before us next time.

I want to question the detail. In its submission, which I am sure you have seen if you co-operate closely, the Gambling Commission says: “When false reporting and the inability of FTP to pay its players became apparent, Alderney immediately suspended all licence holders.” The way I go back to the time line, it was on 15 April that the FBI seized Full Tilt’s domain, and yet it was only on 29 June 2011 that you suspended the licences. That is not immediate.

Andre Wilsenach: No. Many people have made the mistake of thinking that we suspended the licences as a result of the actions that the DOJ had taken. That was not the case. On 15 April, we did not say, “The DOJ has taken certain decisions,” and then suspend the licences on the 16th. When the DOJ unsealed the indictments on 15 April, what they had in actual fact done for the first time is publish information that we were not aware of. That information was the missing piece in the jigsaw puzzle for us. It was very helpful in the sense that it took us to areas where we had suspicions, and as a result of which we did not have any basis for suspending—if you see what I mean.

As a result of the information that was contained in there and, because, as you can imagine, the DOJ unsealing those indictments caused a whole rush of media publicity, other information then became available, which indicated to us that, in actual fact, there is a bit of information in the DOJ indictments suggesting X and someone else is saying Y, and if you put it together, that is where we ought to go. We then conducted the forensic audits, and those audits indicated to us that we had been deceived, so when I say that we immediately suspended the licence, it was not because of actions taken in the DOJ. It would have been very short-sighted of me to act purely on the basis that there were problems with the companies. The investigators brought in the forensic auditors and the findings indicated that they had not reported to them certain actions taken and that they had misrepresented their financial position. They were not in a position to pay their customers at that particular date, and so I immediately suspended them.

Q649 Paul Farrelly: A final question: between 15 April and 29 June, did any customers of Full Tilt lose money?

Andre Wilsenach: No. Not that I am aware of.

Q650 Mr Sanders: This is to all three of you. Does online gambling pose a greater risk of problem gambling due to constant easy access and high limits of play with unlimited stakes and prizes?

Graham White: There is no evidence to support that view. The prevalence study is, in my own personal opinion, probably not worth the paper it is written on, because the methodology is suspect. If you are carrying out a prevalence study on problem gambling, it is not a tick-box exercise—yes/no. Let me give you an example that I find extraordinary. If you tick the box that says, “Have you ever lied about your gambling habits?”—I suspect we all have at Cheltenham when we have told our wives that we have only put £10 on when we may have put on £20—it does not make you a problem gambler. The point I am making is that I do not believe that that prevalence study was carried out.

To answer your question, as far as I am aware—these two gentlemen will be able to elaborate—there is no evidence to support that view. I am currently working on a committee with the Royal College of General Practitioners on gambling addiction, because I was a trustee of the Gordon Moody Association, which treats addicts on a residential basis, and I also chair responsible gambling groups in four locations in the United Kingdom. We are looking at this and I have to tell you that, to date, we do not believe that there is significant evidence. There is undoubtedly the potential and it depends how you define problem gambler or addict. There is a lot of confusion about that. There are too many agencies playing at it. It should be a centralised body, looking at the research, education and training.

Phillip Brear: I largely endorse what Graham says. The evidence from the prevalence study, for whatever it is worth—it is similar to other European studies in its methodology and outcome, with the same defects—suggests that problem gamblers are not substantial users of online facilities. They tend to use even cheaper and easier methods of gambling to exercise their addiction, notably in the UK there is a strong association with betting at dog tracks, in betting shops and in arcades, with a minuscule reference to online. The underlying issue is: what is problem gambling? As Graham says, you need to tick only three boxes on the problem gambling scale and you are a problem gambler by definition. They include questions that members of the public would whimsically say, “Oh yeah, I do that occasionally.” Suddenly, the system is saying that they are either a problem gambler or a potential problem gambler. These people may bet only five or six times a year, visit a race course and that is it. This definitional issue of what is a problem gambler is weakening and possibly undermining much of the debate about where problem gambling rests and what the tools are to prevent it.
the threshold, if you do a tick-box exercise. A tick-box exercise has to be verified and there has not been enough research in this field. I am starting to repeat myself, but the methodology is wrong and, as a result of that, it becomes toxic in political circles and people start to become very interested, quite rightly, in problem gambling, particularly in the young, which is a particular thing of mine, but the effort and the money is disproportionate to the threat. There has not been a proper analysis in my view, in this country, of problem gambling and the instancing of it.

**Andrew Wilsenach:** It is fair to say that one problem gambler is one too many. No one wants to see that sort of thing happening, but I agree with my colleagues that it is very overstated, specifically in this country. If you consider the amount of money and effort that has been ploughed into it in this country, I do not think that there is any country in the world that does what this Government are doing in the area of problem gambling, which raises the issue that I highlighted earlier: if there is something that could be done a bit better—I know that your brief is to look at areas where the implementation of the Act can be improved—I would suggest a statutory levy. I know that is not popular. I think that is worth reviewing. If that has not been raised, I think that that is an area worth going to.

**Q652 Mr Sanders:** May I ask, Mr White, in the new code of practice that you are developing, are you seeking ways in which technology can be harnessed to identify early signs of problem gambling?

**Graham White:** That is a very interesting question. We are particularly keen at the moment on the training and awareness of primary health care workers, because we do not believe, and it is a fact, that general practitioners know how to recognise the signs when a patient presents themselves with, say, stress or anxiety. They do not ask the 12 questions that can tease out the fact.

**Q653 Mr Sanders:** It will be a tick-box exercise, then?

**Graham White:** It is face to face, fortunately. We are just about to organise workshops in the country for GPs. To answer the question, yes, technology does have a part to play. It is extraordinary how GP practices are technically very good at the moment. We are looking at ways to do it. We have an e-learning programme that we are working on at the moment for GPs. I hope that answers the question.

**Q654 Mr Sanders:** The current system of self-exclusion requires a gambler who wants to be self-excluded to apply to each operator individually. Should each online gambling jurisdiction operate a self-exclusion system that covers all its licences?

**Graham White:** May I make one comment before I pass it on? One has to be very careful about self-exclusion. People can exclude from a casino because they have reached their own limit. That does not mean to say that they are a problem gambler. Or they can say, “I don’t want to come in for six months because I am saving for a holiday.” One has to be very careful—again, this is definition and evidence-based—that it is not a kneejerk social response.

**Mr Sanders:** There would be a problem if they did not self-exclude.

**Graham White:** They may not be addicted when they self-exclude.

**Mr Sanders:** I know. That is what I am pointing out. You are probably right that it is the definition of terms. “Problem gambling” could be that example of the one person who wants to self-exclude because they have some other plan, and it could equally be somebody who does have a problem.

**Graham White:** My experience of the industry, certainly the terrestrial industry, is that they take these matters very seriously. Apart from the legal requirement, they have tremendously impressive training, awareness and identification. They have relationships with GamCare.

**Q655 Mr Sanders:** We have seen good examples of it where there is a face-to-face interface between the gambler and the people taking the bets. The question I am asking is on the online environment where there is no face-to-face contact. If somebody can self-exclude themselves from one, would the system cover all of the licences?

**Phillip Brear:** The theory is very attractive. I forget which state does it already, but I think France, rather than Italy, has gone down this road and has already hit what are looking like very difficult problems in terms of applying a blanket self-exclusion scheme. The self-exclusion scheme requires a commitment by the operator or operators and, of course, a commitment from the customer. The reality of online gambling self-exclusion is that the customer very quickly seeks to find a way of circumventing his or her previous self-exclusion by using a slight variation in address, date of birth or payment method. Most of our work on self-exclusion is around customers who have circumvented the scheme, have lost more money and then said, “You should have found me. You should have stopped me.” The reality is that online it is relatively easy to create a pseudo-identity and circumvent the scheme, whether it is an individual scheme or a blanket scheme.

The other point I would make is that many customers use self-exclusion to manage their gambling, so they decide, “My luck is out,” or, “I am fed up with site X and I now want to concentrate on site Y,” or, “I want to stop this slots business and I want to carry on with my poker.” They manage that self-exclusion process, but not in the way that you are suggesting. So then to bring in another layer above, such as blanket self-exclusion, sectorised self-exclusion or self-exclusion that cuts across, sounds attractive theoretically. In practice, it is already not wholly effective and it would become even less effective if we tried to spread it across, in our case, 23 operators.

**Graham White:** I think that is the case with the terrestrial casinos. You can be self-excluded from one, but you can walk into another. There is no central database to bar you from the whole estate, and that is a deficiency in the system.
Q656 Mr Sanders: That is an interesting example, because if people in the casino industry itself have a problem with someone whom they want to ban from one casino, they seem very capable of being able to ban them from all casinos. Surely, if technology can be used in that direction—
Phillip Brear: That is not our experience.

Graham White: I am very sorry, but that is just not the case. I was chairing a meeting yesterday in Swansea, and we were discussing that particular aspect, which is a fault of the system. You can walk into one casino and self-exclude—a week and two days later, you can go into another one. You can go into a bookmaker and self-exclude—a week and two days later, you can go into William Hill as opposed to Coral, for example. That is the weakness of the excused system.

Having said that, there is mileage as to the solution. If people want to reapply, they should have to produce evidence that they have sought and received treatment. It is then the decision of the manager or whoever is operating the particular form of betting.
Mr Sanders: I was talking about when casinos have a problem with someone who has been caught cheating. They are very clear about ensuring that every other casino knows, and they will exclude that person.

Graham White: With the greatest respect, it depends which part of the country you are in and the relationship between the competition.

Q657 Chair: All three of you have a wealth of experience of regulation, both in the UK and overseas. Tell us what you think of the Gambling Commission.

Phillip Brear: I’ll start. It has not been as positive or productive a relationship as we would have wished or expected. That is bizarre, given that I was a member of that organisation for the two years around its inception. We find that co-operation has tended to be a one-way street and that our priorities are not aligned. As I said in my evidence, we always meet any and every request for assistance, but when we have offered to do joint working, rewrite MOUs or do joint exercises, we get nothing back. It is bizarre. We cannot get to the bottom of it. It has not been the productive experience that we had hoped for.

I may have mentioned earlier about how this organisation can regulate online gambling when it has no experience in it and its principal online gambling adviser works from Australia. We find it incredulous that it feels, “We can grasp this, and the UK customer will be better off if we are cradling these people.” We think it feels, “We can grasp this, and the UK customer will be better off if we are cradling these people.”

Graham White: With the greatest respect, it depends which part of the country you are in and the relationship between the competition.

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Graham White: With the greatest respect, it depends which part of the country you are in and the relationship between the competition.

Q658 Chair: Mr White, where do you stand between these two different experiences?

Graham White: It would be quite wrong of me to criticise, or even pass on the anecdotal hearsay complaints that I receive, because I have no evidence to support them.

Chair: Feel free.

Graham White: The Hampton report highlighted various inadequacies, which I know they are addressing, and certainly, there was the report by Baroness Golding and Lord Mancroft, and the NAO report. So I think they are fully aware of their deficiencies.

I could go into the reasons for those deficiencies, and I think it started with the transition, particularly for Scotland—which I feel particularly strongly about, because I was the senior inspector in Scotland for many years. The Scottish Law Society report criticises the Gambling Commission for neglecting them, which are their words, not mine. I am astonished that they did not address the issue of the different types of legislation in Scotland, particularly liquor licensing. Half my time as a senior inspector, in a regional office in Edinburgh, was liaising with the civil authorities, the lawyers and the police on matters of law, and the law is different. They reason that indifference— I have no reason to doubt the veracity of the Law Society. The Gambling Commission are now addressing it, but it may be just a bit too late. I do not know and I am not qualified to judge. That is just one example.

Unfortunately, with the transition arrangements, I was told that it was none of my business as the chief inspector, and that it is best that I don’t know. That, of course, sent shock waves throughout the estate. I have to say that they were obsessed with radicalism at that stage—but that is water under the bridge—and you would expect them to be if they were charged with a new role and function.

They moved to Birmingham. I was listening with interest to Mr Caborn’s and Tessa Jowell’s comments about economic regeneration; in my view, it is absolute nonsense. No casino is going to regenerate the economic infrastructure. It might initially, as is happening in the east end of London. I think your Committee, Chairman, are going to see Aspers next week. Yes, there is employment. That employment is not restricted to the east end of London, nor in Blackpool would it be restricted to those people living in Blackpool. How can it be? The staff will commute. There is a curiosity value for the first six months, then it will fall off. There are hundreds of factors, such as the economic downturn and the smoking ban.
I do not know why, and have never understood why the Gambling Commission was initially 300 souls, and it is now about 207. The threat analysis and perception has not materialised. I was told, “We need an FBI-type approach”. Where is the evidence for it? Where is the evidence for the prosecution and criminal intelligence for the industry? There isn’t, and there has not been in 25 years. So it is Ian Fleming—forgive me for being facetious—and the concept that it is black fedora hats and Thompson machine guns, and organised crime. Yes, it may have been in the 1930s, but not now. They are very professionally regulated. They are not going to jeopardise their mortgages by doing anything criminal, but I leave you to judge that when you visit the casinos on your own.

The move to Birmingham was a mistake. How on earth can 200 people make a professional relationship with Malta, with all those problems?

Paul Farrelly: Graham is touching on this issue of how regulation is actually delivered in reality. You have to have relationships with your operators. You have taken much evidence from people who are licensed, white-listed or otherwise beholden to the Gambling Commission. It has been damned by faint praise. It could be better; it is a difficult job.

Graham White: I think that it realises that. It is doing its very best, and I am sure it will address it. It got the same question: what is the perception and the reputation of the Maltese gambling authorities?

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And then they got rid of regional offices in Scotland, hence the lack of liaison. There are no regional offices anywhere. I agreed in my time that they should be slimmed down, but not got rid of. It is centrally controlled with all those problems.

Phillip Brear: Graham is touching on this issue of how regulation is actually delivered in reality. You have to have relationships with your operators. You have taken much evidence from people who are licensed, white-listed or otherwise beholden to the Gambling Commission. It has been damned by faint praise. It could be better; it is a difficult job.

Graham White: I think that it realises that. It is doing its very best, and I am sure it will address it. It got the same question: what is the perception and the reputation of the Maltese gambling authorities?

Paul Farrelly: Your experience, finally, Mr Wilsenach, given that the Maltese made significant play when we met them in Brussels that they had turned down Full Tilt.

Andre Wilsenach: I am very interested in that. You might know that France did not turn them down. Let me not say any more about that. Malta had its problems. I do not want to comment too much about that. I understand that they have gone through structural changes. I have seen new faces there. I know that they have had difficulties in several respects, specifically in the area of licensing with previous directors and so on, which I do not want to comment on. We have seen interesting things where licensees of ours would have a problem with our requirements in respect of player registration, player verification and the costs associated with that, and would then threaten us by moving to Malta. We would say to them, “Look, if you could do this in Malta, be our guest, but this is not going to be acceptable to us.”

Then we find that in actual fact they moved away from us, and we would assume that they would be allowed to operate in Malta without doing those sorts of things. You must understand that that is the sort of perspective that I have. I do not know on what basis they do business there. I cannot tell. If that is the reason why they have left Alderney for Malta, that is their decision. If that is the way that Malta wants to regulate, it is clearly their decision.

Paul Farrelly: Would you be able to give us examples—names of people who have moved?

Andre Wilsenach: Yes.

Graham White: May I make a final point on this international relationship? Nobody is perfect in this world. You just have to work at it. The point that I would like to make is that it is not just gambling that is a revenue-collecting exercise. It is the lawyers, the accountants, the auditors and the technology, so it is a cocktail of things. Certainly Jersey is making great strides with the Maltese. They are being very receptive, very efficient and very accommodating. I think a regulator does have a vested interest in ensuring that the gambling industry is healthy and wealthy, because, in the words of Shirley Littler, a much admired chairman of the Gaming...
Board, a healthy, wealthy industry is a compliant one. I think a regulator has an interest in that, or should have, and that is what I think the UK Gambling Commission perhaps may like to address as part of its role and function, which it is currently not.

Chair: That is all. I thank the three of you for coming.
Members present:
Mr John Whittingdale (Chair)
Dr Thérèse Coffey
Damian Collins
Philip Davies
Paul Farrelly
Steve Rotheram
Mr Adrian Sanders
Jim Sheridan
Mr Gerry Sutcliffe
Mr Tom Watson

Examination of Witnesses

Witnesses: Philip Graf, Chair, Gambling Commission, Brian Pomeroy, Chair, Responsible Gambling Strategy Board, and Jenny Williams, Chief Executive, Gambling Commission, gave evidence.

Q662 Chair: Good morning. This is a further session of the Committee’s inquiry into the Gambling Act, and I would like to welcome for our first part this morning Jenny Williams, the Chief Executive of the Gambling Commission, Philip Graf, the new Chairman of the Gambling Commission, and Brian Pomeroy, who chairs the Responsible Gambling Strategy Board. May I ask you to start by saying what your experience has been of the Act? You have told us that you think it is broadly fit for the purpose of regulating gambling, but have you had any problems with the Act in any area?

Jenny Williams: The Act has the powers that, broadly speaking, are needed. It is a very flexible Act and is largely future-proof. It provides lots of powers both for the Commission and for the Department to set conditions or to change regulations. For example, they can decide that something is a sport or is not a sport; they can change lots of definitions. The Act is not drafted easily, it is quite complex. We have had a lot of issues understanding what different sections mean. There are some awkwardnesses in some of the ways that the different licences are set up, and you have to navigate around, but you can do that. The main issue that we have, which indeed the Government have, is obviously remote gambling. We would support the Government’s view that a change is needed there. Broadly speaking, I think we would be our view.

Chair: We will be coming to remote gambling in more detail in due course.

Jenny Williams: May I add that there is an issue in Scotland about the powers for local licensing authorities? A gain, one can get around the problem at the moment, but with a lot of extra resource and effort. A lot of these things you can get around, but additional powers in Scotland would be helpful.

Q663 Chair: In terms of the relationship between the Commission and all the different local licensing authorities, there has been complaint in the past that the sharing of responsibilities is not fully understood. Is that something that you think is still a problem?

Jenny Williams: Yes, I think it is still an issue, and it is one of our priorities for this year. Again, the concept of local licensing authorities policing the high street—they are there, they are on the spot, they are in and out of premises—makes a lot of sense, with us providing a national overview and expertise, and dealing with more nationally and regionally based companies. All of that makes sense, but there has been a struggle getting the local authorities—for understandable reasons, because they are under huge pressures—to give it the priority that we would like. We are working quite hard on that, to make it easier to provide expertise and quick guides for the local authorities—and I think we are making some progress; not as fast as we would like, but as I say, we are making it a priority.

It is not being helped, of course, by the changes at the centre of the Local Government Association, which has just disbanded its central co-ordinating organisation, which we used to liaise with quite a lot; we had a concordat and it would provide centralised advice to local authorities. But what we have done there is to take one of the lead people—the gambling lead—into the Commission, so she is now helping us and we are setting up a local authority liaison unit to be a single point of contact. We are hopeful that we will make progress, but it is resource-intensive and time-consuming, and we can only go so fast.

Q664 Chair: In terms of local authorities, you will be aware that some have said that they do not think that they have sufficient powers to control the number of gambling premises, and they have looked for specific licensing use classes. Is that something you have sympathy with?

Jenny Williams: You have to go back to our licensing objectives. Essentially, we are concerned with keeping crime out, and with fairness and openness and protection of the vulnerable. Local authorities have the powers to deal with crime and disorder, that is perfectly clear, and between us we have the powers to deal with the protection of the vulnerable, in terms of properly protected licensed premises. The main problem in terms of the clustering issue, which is what it is really all about, and the high street is, broadly speaking, a planning issue, to do with, “Do you like the way that the high street is developing?” From a personal and individual point of view, I might have some sympathy with having more control, but from a Gambling Commission point of view, in a technical sense it is irrelevant.

Q665 Mr Sutcliffe: The gambling industry makes a major contribution to the economy, both in terms of...
its size and the number of people it employs. When
you talk to people in the industry about that, their
concern is that the regulation sometimes affects their
ability to grow as an industry. The Gambling
Commission gets caught in the middle, if you like,
because it is your problem that they are not able to
move forward. You say in your written evidence that
the Act has been evolving and you are learning things.
We are now five or six years into the Act, which is
the first piece of major legislation for 40 years. Do
you think you have made sufficient progress? Do you
think there are things that you could have done better
that you have not done? What do you think is the
current state of play in your relationships with the
industry?

Philip Graf: My sense of it—I have been with the
Commission for about nine months—is that the
Commission has made quite a lot of progress. The Act
brought in substantial changes in responsibility and
scope for regulation. It brought new people under
regulation, so inevitably there was, from what I can
see, quite a bit of bedding down and learning to be
done. It is clear that if you move towards risk-based
regulation, it requires you to have a deep knowledge
and information on which to build your risk base. The Commission
has made quite a lot of progress in this area. Could it
have been faster? Perhaps.

There was quite a transition to be made. The move to
Birmingham was not so much about the geography of
the move, but about upsaling the industry, changing
people’s understanding of how regulation would work
under a new regime and bringing in new people. All
of that meant that there was a bedding-in process and
a learning process for both the Commission and the
industry—the industries, if I may say so. A lot of
progress has been made in understanding the industry,
and the Commission, from my knowledge, has built a
fair degree of credibility. It is working very hard to
make the risk-based approach more sophisticated. Yes,
we would like to be able to go faster.

Q666 Mr Sutcliffe: Sometimes the Commission is
accused of being over-bureaucratic. I am sure that
is aimed at lots of people sometimes, but are we now at
a time where it really ought to be an independent look at
the Commission’s progress? At the moment, the ball
is very much in the Commission’s court about how it
grows and develops. Do you think there is a need now
to take an outside look, given the nature of change in
the sectors?

Philip Graf: My instinctive reaction is no. There is
still work to be done, and I think we are making
progress in the work. My experience over the last nine
months, and the evidence to the Committee supports
this, is that although people in the various industries
have various issues, there is quite a lot of support for
the Commission and its approach, while there is
understandably a desire for us to continue to get more
efficient and make sure that we are focused and
proportionate. I think the Commission is very much
focused on that. The challenge for us going forward,
and I am sure we will come back to this, is the global
nature of the industry and the technology implications.
That goes to the whole nature of what you regulate,
how you regulate it and the question of protection,
which is a significant issue that applies not only to
this industry and this regulator, but to others.

Q667 Mr Sutcliffe: As the regulator, do you also see
yourselves as advocates for the industry?

Philip Graf: I do not think it is a regulator’s job to
promote an industry, to be frank with you. First, in
our particular case, we are not an economic regulator.
Sometimes people who have advocated that we should
be a promoter of the industry, as it were, perhaps
confuse us with being an economic regulator. But
even the responsibilities of those economic
regulators—Ofcom, for example, of which I have
some experience—are not about promoting the
industry. They have duties towards the citizen and the
consumer, which are their principal duties; the
subordinate duties are about developing services and
products for the benefit of the consumer.

The other point here, which you made right at the
beginning, is the issue of balance and of where the
Commission is. If we were to end up promoting an
industry, it would cause real issues for our credibility
with wider stakeholders and our ability to be properly
objective and to fulfil our duties. I think our job is
to provide solid, good regulation, which encourages a
responsible industry and ensures a competitive
industry.

Q668 Philip Davies: When I speak to people in the
gambling industry about the Gambling Commission,
the most common feedback I get is, “Gambling
Commission. Yeah. Very nice people. Don’t know
anything about gambling.” How would you respond
to that?

Jenny Williams: At one level, they would say that,
wouldn’t they? People do not like people challenging
and interfering in their business. It is perfectly true
that when we were set up, we had relatively few
people in the organisation who knew about the betting
sector. We were completely open about that.

Picking up on the earlier point about reviewing, from
my perspective, it seems like we have been under
continuous review since we started, because our
whole set-up is what we consult and we talk. We
consult the industry. They have duties towards the
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to provide solid, good regulation, which encourages a
responsible industry and ensures a competitive
industry.
Q670 Philip Davies: It is about equivalent to, and probably more than, what the Prime Minister gets paid. Do you think there is any justification that you should be paid at the same rate as, or more than, the Prime Minister? If so, what is the justification for that?

Jenny Williams: I didn’t set my pay. I got the job in open competition. It would have been unusual for somebody to say, “No, I’ll take half the pay, thank you very much.”

Philip Graf: I understand the question about the Prime Minister. Without wishing to get into the other issues that the Prime Minister may or may not get as part of his overall remuneration package, the context for Jenny is a situation where she was recruited through open competition. She was awarded a pay salary. She has not had a pay increase for a number of years. She has turned down her bonus for the last couple of years. I think, absolutely, she is value for money in the context of running the Commission.

Q671 Philip Davies: The reason why all this is relevant is that all the income for the Gambling Commission comes from the gambling industry—not just big companies, but many small companies as well. They want to make sure that the money that they are working hard for is properly justified and properly spent.

I want to touch on fees. We seem to have a rather sensible fee structure. There are all sorts of problems with having sliding scale, which would be much more resource-intensive. There are all sorts of problems with having banded fees. Why on earth do you have a fee structure that prevents small operations like that from expanding and delivering something for their customers that presumably they would want?

Jenny Williams: This is an almost unique example. I know the case well. It is to do with the legal interpretation of remotes. It is actually one that worries me slightly, the legal interpretation, but that particular case is almost unique.

Q672 Philip Davies: But that doesn’t make it any better, does it?

Jenny Williams: I am just saying that the legal interpretation that we were given—funnily enough, in the office yesterday I was talking about whether we need to go back to it—was that that would come into a remote licence, which is why he would trigger the additional amount.

Q673 Philip Davies: What are you going to do about things like that?

Jenny Williams: I have just explained that we were talking in the office about whether we need to review that. Hard cases make bad law, as it were. We reviewed a lot of licences and a lot of other fees proposals. We have cleaned up and improved things. I have mentioned that one of the problems with the Act is the complexities of the two sorts of licences, the different charges and trying to get fees that are sensible for the majority. You are bound to get injustices, but as I said, that example has concerned me and we are looking at it.

Q674 Philip Davies: You say that hard cases make bad law and we just want fees that suit the majority. This person has a business; their livelihood is at stake.

Jenny Williams: I understand that.

Philip Davies: They cannot have a regulator who says, “Oh, well, there’s always bound to be the odd one.” Surely the Gambling Commission must produce fees that suit and apply properly to every business. It should not write off ones that happen to be hard cases.

Jenny Williams: I am sorry. I just think that, in reality, you cannot have fees that fit absolutely everyone—they will not fit some well. It does concern us.

Q675 Philip Davies: So it’s hard lines for poor old Geoff Banks. I’ll give you another example to chew on. I don’t know whether you read the Betview magazine that comes out each month. In December’s issue, there was an interesting interview with Howard Chisholm, who runs Chisholm bookmakers. He was asked about his plans for expansion in the future. I’ll read out exactly, word for word, what he said: “In the last few years we have completely stopped buying. The recession has kicked in and there is a very significant reason we aren’t going above 50 shops.” He has 49 shops at the moment. “The Gambling Commission charge according to the number of shops in your estate and these charges apply in bands. We would end up paying an extra £23,210 for one shop over the 50 limit. If the Gambling Commission’s current fee proposals take effect in April 2012 that figure will increase to £27,512—a ludicrous situation.” The bureaucrats within the Commission have decided that was the way to do it and once decided they can’t be seen to change their minds as it would look as though they didn’t know what they were doing in the first place. We are looking at a couple of new licences but if we take those shops we’ll close two existing units to keep under 50.”

What do you say to the staff in those two Chisholm bookmakers that would have to close in order to allow the company to buy those two licences, simply because of your ludicrous fee structure?

Jenny Williams: What we say is that there are practical problems in having a completely sliding scale, which would be much more resource-intensive and difficult. If you have a banded system, you will get boundary problems. We would say to Mr Chisholm, “If you think you are only going to buy two more shops, and no more, take out a separate licence. You can do that, and that will get across the boundary problem.”

This structure is to allow for people who are going to expand much more, and then you get into a more reasonable fee. That is the problem with banded fees. There are all sorts of problems with having sliding fees, which would be much more resource-intensive. I’m afraid that in the real world there are practical trade-offs to be made.
Q676 Philip Davies: In the real world, this is a business that is not expanding simply because of you and your fee structure. That is what is happening — it’s here, in black and white, in this magazine.

Jenny Williams: But I have explained how Mr Chisholm could expand without closing the shops.

Q677 Philip Davies: Is that the system that you should have? Because of your system, people have to go round it in a different way. Why not just have a more sensible structure, where somebody doesn’t have to pay an extra £27,500 just for opening one or two new shops?

Jenny Williams: If you have lots and lots of bands or a sliding scale, you will have much more bureaucracy and coming and going with changing fees. There is a trade-off to be made. We have changed the bandings; or are proposing changing them, to get round some of the big step jumps. We may not have got it right. We consult, we talk to the industry, but in the end, we have to take a sensible overall view. There will be problems at the boundaries.

Q678 Philip Davies: Do you think that these situations are sensible ones to be in?

Jenny Williams: It seems the sensible trade-off at the moment. I might take issue with your saying that we would not change our minds; we have been changing our mind in response to points put to us the whole time. We learn, they learn, but we cannot make a fee system infinitely variable without huge bureaucracy, so there is a trade-off.

Q679 Philip Davies: Finally, can I ask you to go away and think a bit more about the two cases that I have highlighted to see whether you could do anything more sensible that will not prevent these businesses expanding?

Jenny Williams: Yes, I will. As I said, we are thinking about the first one. We have been thinking quite a lot about the second one, and the Department will be responding on the current fees consultation shortly.

Q680 Jim Sheridan: Jenny, even without a pension, £160,000 is not a bad deal.

Jenny Williams: I accept that.

Q681 Jim Sheridan: That’s quite good money. Philip answered on your behalf that you had turned down bonuses in recent years. How much were those bonuses? What sort of benchmarks were used to give your bonus?

Jenny Williams: I do not know how much I would have been awarded, but they would not have been large sums. It would have been in the £4,000-£5,000 ballpark, so I am not making great claims for that. It would have been for exceptional performance or reasonably exceptional performance.

Q682 Jim Sheridan: How do you measure that?

Jenny Williams: It is a judgment for the board.

Q683 Jim Sheridan: If Gerry does an exceptional job, he does not get a bonus for it. What is the benchmark?

Philip Graf: The remuneration committee of the commissioners would set that. An exceptional performance would be measured in terms of the outputs that we deliver, and also in terms of the cost reductions that we seek to deliver as well, because those are areas that are of particular concern. I do not think that Jenny is involved in that process. That is why I am answering the question, Mr Sheridan. I do not want to let her answer questions if she is not involved in that particular process.

Q684 Mr Sutcliffe: To take that further, I go back to Mr Davies’s point that the industry are paying the fees and are therefore concerned about remuneration. The issue is about their understanding of what the benchmarks are. In terms of representation of the industry with the Commission, how does that work? In terms of liaison and dialogue with the industry, how does that work in helping them to understand?

Philip Graf: Jenny can answer in terms of the executive. Over the past year, I have had more than 30 meetings with different stakeholders in the 39 weeks that I have been there. I see it as part of my job to establish and build relations with the industry and to be there to listen and understand the industry’s concerns. I have had regular conversations with the industry and there have been regular debates about fees and costs, but I have not heard one person raise Jenny’s salary with me in any conversation. They have obviously raised questions about the cost of the Commission— I understand that completely — and other issues that the Committee is rightly asking us questions about, but I have never heard one person raise the question that Jenny’s salary was an issue for them.

Jenny Williams: May I make a point not about my salary but about staff salaries? One of the problems we have in retaining people and in getting people from the industry is that the industry pays a great deal more. There is an issue for regulators about getting some of the expertise that we need to stand up to some of these big companies and the experts that they can bring in.

Philip Graf: I am sure that is not the first time you have heard that from regulators.

Q685 Mr Sutcliffe: How would you describe the move to Birmingham and what has happened in Birmingham?

Jenny Williams: There is a popular myth that the move to Birmingham was a disaster. In fact, as Philip has already pointed out, the issue was the fact that we were taking on new people in the new sectors and there was a new Act. That would have applied whether we were in Birmingham or London. The field staff, the home-based staff, were not affected by the move. They were the people who knew the existing sectors very well and knew about regulation. Given that we had to recruit large numbers of people in fairly short order, Birmingham was a very good place to do that. It was probably much easier to get the large numbers of people needed to re-license the industry in somewhere like Birmingham. Of course, we had large savings on accommodation, so we were able to move into very efficient, good accommodation in terms of working together. It was much better than the
Because essentially we regulated Jenny Williams: Why does the system work in that way? individual shop’s contribution is probably about £150. fees, and a national chain a few doors down where the independent bookmaker paying out over £1,000 in high street of a town in my constituency there is an independent bookmakers versus national chains. In the problems that we have encountered during the inquiry, my constituency, which is relevant to some of the else? On the question of fees, I have an example from Philip Davies, and then move on to something Q687 Damian Collins: May I follow the question from Philip Davies, and then move on to something else? On the question of fees, I have an example from my constituency, which is relevant to some of the problems that we have encountered during the inquiry, namely the disproportionate cost of fees for independent bookmakers versus national chains. In the high street of a town in my constituency there is an independent bookmaker paying out over £1,000 in fees, and another chain a few doors down where the individual shop’s contribution is probably about £150. Why does the system work in that way? Jenny Williams: Because essentially we regulate operators. It is different, obviously, at the local authority where you are paying on a shop basis—the premises fees. We regulate operators, and there are huge economies of scale in regulating a big chain. You can get them to do a lot of the compliance work and demonstrate what they are doing, so although you still have to sample visit, there are huge economies of scale. In terms of reflecting the cost, there is a fixed cost in regulation. Parliament said that we had to regulate the small, independent bookmakers. We are trying to get the amount down and, as you will have seen from the fees proposal, the amount is coming down a bit despite upward pressures on cost inflation and that sort of thing. It is coming down, but it is quite hard to see how low you can get it. Q688 Damian Collins: The fees are a lot higher now than they used to be. That is certainly true, and it is something that all these bookmakers complain about. Jenny Williams: Absolutely. Q689 Damian Collins: There is no question about that. I appreciate that if it is a new company, there might need to be a slightly heavier regime, but what about if you have an operator that has been in business for 30 years in the same premises, which has never been a problem and always gets a clean bill of health, and yet it is paying nearly 10 times in fees what someone else is paying a few doors down the road? That is just wrong. Jenny Williams: There are two separate issues, aren’t there? Damian Collins: Well, I would say that they are both wrong. Jenny Williams: One issue is why bring in regulation after 30 years of impeccable behaviour? The reason, as the Committee will know well, was concern about machines and technological development. The view was taken that it was not acceptable any more to have such light-touch regulation of betting—once operators got licensed, I think they paid something like £30 a year. That was not being regulated in the way that Parliament decided it wanted bookmakers to be regulated. That is one change, and there was inevitably going to be a big increase in fees from that point of view. Now we have learned more about the industry, and the industry has learned more about the Act—there were some quite big changes in terms of the social responsibility measures, such as age verification—we are trying, as the latest fees proposals show, to bring those costs down. It is a different ball game now with machines from what it was 30 years ago.

Q690 Damian Collins: Do you think it is wrong to have such disparities in fee structure, particularly with businesses that may have had an impeccable trading record for a number of years? Jenny Williams: We do our best to make our fees cost-reflective. We are looking to see whether we can bring down the cost of what we do, but if the Government wants a lighter regime for small independent bookmakers, there are costs involved. There are also costs involved in keeping an eye on what is happening in processing regulatory returns, and in being able to advise Government—Q691 Damian Collins: I am sorry to interrupt. We understand that, but we are trying to learn from what has happened since the Act and look forward. There is a lot of concern about the issue in the independent sector. Do you think we should look at a change in the regulatory environment and a change to the system so that there could be a slightly closer relationship between the fees paid by independent operators and by national chains, certainly when they are operating in the same neighbourhood, side by side? Jenny Williams: There is a bit of a move, because we have been through the educational phase and we are doing less with the independent sector. A lot of the things that we are spending our resources on, such as betting integrity and tackling illegal machines, are being loaded far more on the big chains because that work is being spread across them in relation to their size. There is a bit of a readjustment going on anyway.
Q692 Damian Collins: I am sure that you are doing your best, but what I want to know is whether you are content or whether you think it should change. Do you accept my view that this is unfair and wrong and therefore the system should be changed to make it fairer, or do you think that this is the best way to do it?

Philip Graf: One of the challenges here is what would be fairer. I understand the frustration that you are expressing, Mr Collins, and that your constituent might express. In a sense, the challenge is how you spread it fairly. What is a fair way of doing it that reflects the burden on us? Given that we wish to reduce costs overall—we are absolutely on board with that—how do we develop something that is seen to be fair? We are not against something like that. We are interested in understanding how we might be able to do it.

Q693 Damian Collins: It is time to move on to a different topic, because I think we have exhausted that one. Do you think there is a relationship between the accessibility of gaming machines, particularly B3 machines, and problem gambling?

Philip Graf: B3 machines?

Q694 Damian Collins: Do you think there is a relationship between gaming machines that are available for people to play, the numbers of them and where they are and problem gambling?

Jenny Williams: There is no doubt that there is a relationship between the accessibility of machines and gambling, and there is a relationship between the amount of gambling and problem gambling. It is very unclear how tight that relationship is. It is one of the things that we spend a great deal of our time looking at. We look at research from this country and from other parts of the world to see that relationship, but it is very unclear how tight that relationship is.

Q695 Damian Collins: The reason I asked is that it is stated in the impact assessment that was prepared for the Department when the Minister approved the raising of the stakes for B3 machines that there is “no evidence that the availability of £2/£500 machines in unlimited numbers prior to the implementation of the Gambling Act adversely affected the levels of problem gambling in Great Britain and the Gambling Commission advise that proceeding with a more flexible B3 entitlement without a cap on numbers is unlikely to adversely impact on the licensing objectives of the Gambling Act.” Is that your view?

That suggests that there is an unproven case as to whether the accessibility of these machines is driving problem gambling.

Jenny Williams: Yes, our view was reflected. We were talking about the fairly low-stake machines and the machines that were available at the £2 stake in some numbers before the Act came in. In a sense, one had a bit of history to look at. There was also a question in terms of the relativities within the industry. Again, within the sort of parameters that one was looking at, there was no evidence to suggest that would cause a problem. As I said, it is a much more complex relationship than simple numbers.

Q696 Damian Collins: In that case, if you were asked for a view on further liberalisation, would you support that because there is no evidence to suggest that problem happened?

Jenny Williams: I think the Commission, as with the Government, takes a precautionary view. Our gut feeling generally is that in itself putting limits on numbers of machines, stakes and prizes is a rather crude way of tackling problem gambling. We would like to be able to move—it is our dream in the longer term—to something that is much more focused on people and on social responsibility measures, so that it is much more targeted. That is not possible with the current set-up and the current state of investment in the industry.

If you look at what is happening, for example, in Norway, Nova Scotia or, probably, Australia, where they are introducing pre-commitment limits, so that people can limit the amount they gamble and the time they spend on it, you can see a direction moving there. You might then be able to relax those rather crude limits on machines, stakes and prices, but at the moment, that crude measure is one that people use around the world as a precautionary way of dealing with problem gambling.

Q697 Damian Collins: Do you think that there has been a significant increase in problem gambling since the Gambling Act?

Jenny Williams: I know you have heard a great deal of evidence from people who are a great deal more expert than me. In all probability, the last prevalence study showed that there was a just statistically significant increase in problem gambling. What the researchers said, as you know, was that it is unclear yet as to whether that is the start of a trend or whether it is a statistical fluctuation, because the previous one showed no increase. Yes, in all probability there has been a bit of an increase since the last prevalence study.

Q698 Damian Collins: But do you regard that as statistically significant?

Jenny Williams: I am advised, as it were, by people greatly more expert than me that it is yes; “on the margins of”, is what they say, but I turn to Brian because he is very much involved in this.

Brian Pomeroy: There were two tests applied. On one of them, the increase was taken as statistically significant. It was only just, but none the less it was statistically significant but on the other it wasn’t. That is what has been thrown up to a not completely clear-cut result. I think the sensible interpretation, frankly, is that there has been, or there is likely to have been, an increase and to work on that basis; but since, as the researchers point out, it is not clear, as Jenny says, whether it is a blip or a trend, to monitor that and to try to get as frequent future data points as it is possible to do to establish whether there is a trend.

Q699 Damian Collins: Do you think therefore that the prevalence study should be continued in its current format?

Jenny Williams: Our view—we have been working a lot with Brian on this and he may want to comment—
is that the prevalence study is world-class, the ones we have had. That is generally recognised. But, arguably, it is too large for prevalence. You don’t need anything as big as that for the prevalence of gambling and it is too small to get what is really interesting about problem gambling, which is the causes. So we want to decouple the two. We have various tracker surveys that monitor the prevalence of gambling, which we are carrying on with. What we are looking to do is to piggy-back on some health surveys for a more detailed look at problem gambling and the correlates that will help us look into possible causation. We are also developing—we have put some real effort into developing with some worldwide experts—a mini-screen that we are piloting alongside these health surveys. It will only be a fairly crude measure, but if the mini-screen gives us a measure we will be able to run that with our quarterly survey, which will give us a much more frequent, albeit fairly crude, measure of whether problem gambling is increasing or not. So that would be a great advance if we can get it to work.

Q700 Damian Collins: Do you think the prevalence study has been flawed in its failure to analyse some of the social causes that lead to problem gambling?  
Jenny Williams: It was not designed to do that. It was designed to do just what it said on the tin—the prevalence of problem gambling.  
Brian Pomeroy: It was designed to measure the state as it is at the time that the field workers go into the field. In other words, it is designed for how many people gamble, how many problem gamblers there are and it also looks at attitudes and so forth. It was not designed to establish causation.

Q701 Damian Collins: That is why I asked. I am not asking whether it failed to do what it was designed to do. I am asking whether it was badly designed. Should it have been designed to take into account other factors as well that might now have been more helpful for us?  
Jenny Williams: There is an enormous debate about what else could be done. You have probably picked up the debate about whether there should be a longitudinal study tracking people. Problem gambling is a significant problem for a significant number of people, but there are actually very few when you are looking for them to get the sort of studies that will be able to look at the big surveys that will pick up enough people and then track them over a period. That is why we are moving to a different way of trying to look at it, to drill down particular groups and see if we can get at it that way. As I say, it was fine for what it was designed to do, but that is one of the reasons why we are moving away from that.

Q702 Damian Collins: One of the frustrations we see several years on from the Act and two prevalence studies, is that people seem to say, “We just don’t know.” Nobody knows what causes problem gambling. We don’t really know how much there is and we don’t really have any kind of analysis of how it works in different social groups. That to me would seem to be a failure of information gathering and research.  
Jenny Williams: We have a pretty good idea about the size of the problem, within a fairly broad margin. We have a pretty good idea of the types of people who are affected. What gets to them is that the problem and that is why we need to drill down. It has been pretty valuable in terms of things like showing that, contrary to a lot of popular opinion, problem gambling is not restricted to one particular sort of gambling. The one thing that you can say about problem gamblers is that they gamble a lot and they gamble on a lot of different things. That comes out very clearly from the prevalence study, I think that has been a really useful bit of learning for everybody and it has come out very clearly. That helps you to direct some of your further inquiries. It also gives us enough to be able to know where you direct attention for prevention and education. If you know that the young, the unemployed, the single—those sorts of people—are more likely to be problem gamblers then you can direct preventive efforts towards them. You don’t know exactly the mechanism, but it does help you to direct help.

Q703 Damian Collins: The Government’s impact assessment, which I referred to earlier, states: “It remains extremely difficult to ascertain whether certain social groups or particular agendas might be susceptible to problem gambling. The research is inconclusive.” Is that a conclusion that you share, and do you think there is a problem with the way the research has been conducted so far?  
Jenny Williams: I suppose it is a generalisation. You notice that more men than women are problem gamblers.  
Brian Pomeroy: The prevalence survey actually picks up quite a small absolute number of problem gamblers, and that creates its own problems of statistical interpretation. But what the prevalence survey does do is give you demographic data of those people who show up on the screens as problem gamblers. There is certainly scope for follow-up studies. A mong the strategy board’s projects—as you know, I started chairing it just three weeks ago, so I am very new to it— is, for example, looking at machines. The prevalence survey does not give you causation, but some kinds of gambling clearly cause public concern. There is anecdotal evidence. A research programme was set in train before I became Chair to look at specific areas, machines being one, and there has been discussion about doing something with the Internet. Although the prevalence study tells you something about demographics, it does not tell you everything, and there are other avenues that are being explored to get better insight into the question we are discussing.  
Jenny Williams: There are probably more men than women problem gamblers, and there are more men than women gamblers, but as more women are gambling online, we want to look very carefully at whether there are more women problem gamblers. It is the interaction of those two factors.
Q704 Damian Collins: What you get from the study so far is that problem gamblers tend to be in lower social demographic groups, and they tend to be male, and living in poorer areas of the community. That would be common sense to most people, but that is what we have been told so far. I suppose the slight frustration is why we know more about that, given that most people could have guessed that was the entry level.

Philip Graf: Without wishing to repeat what my colleagues have said, in a sense there are two challenges. You are quite right that the challenge is getting more detailed information, and the small sample size is a real issue. The other question is about causation, which in a sense, as you quite rightly point out, the survey was not designed to cover. People advising you will say that the issue of causation is not something that we are trying to get to the bottom of, but it is a global issue trying to understand the causation issue that takes you into this area. As Jenny said, it has helped us in a number of areas in terms of giving us information and a sense of direction on this. It has also been helpful, I think, in understanding that it is more complex than simply one machine or specific form of gambling being linked with problem gambling.

I hope that the work that we are seeking to do following on from this will go down the lines you are talking about. We recognise that we must do more detailed work on causation and the whole question of problem gambling. We clearly recognise that.

Q705 Steve Rotheram: Despite the issue having been pretty comprehensively probed by my colleague, there is an argument about whether the percentage increase in problem gambling is marginally statistically significant, or more robustly significant. Perhaps all three witnesses will say how significant an issue they consider problem gambling to be. Which side of the argument do you come down on?

Brian Pomeroy: What the statistics show is that it is statistically significant. On one of the tests, there was a statistically significant change, but only just over the boundary. That is just a statistical fact. That is what it showed. Does that fully answer the question?

Philip Graf: I am sorry to cut across a colleague. For a small number of people it is a significant problem, so there is a significance around the problem itself. The increase in one of the measures in the statistics, as Brian said, is at the margin of being statistically significant, but it is statistically significant. The question, as Jenny has pointed out, is whether this is a trend or a one-off situation. What we are seeking not to do, going forward, is to see whether we can measure that more often and better to find out what is happening. Of course, for that small group of people and the people associated with them—their families and everyone else—it is an issue and a problem. We wish to make sure that we understand that problem as well as we can, both its causation and prevention, then we hope to bring that figure down, because it is a significant number, and with the families an even bigger number of people is affected.

Q706 Steve Rotheram: Would you contend against the Methodist Church evidence to us that argues that the problem of problem gambling is on the increase?

Jenny Williams: In all probability, I think that all three of us would say that the last prevalence study almost certainly showed an increase in problem gambling. As I say, whether it is a trend remains to be seen. From a policy point of view, what we know is that we have, broadly speaking, 400,000 people with all the family affected, and that is a serious issue for us, with our third licensing objective. In policy terms, that is good enough for us to be devoting real time and attention to it and to be commissioning further work.

Q707 Mr Sanders: Under the 2005 Act framework, are UK citizens at risk from unregulated or poorly regulated providers?

Jenny Williams: Obviously, the black market is out there and people are at real risk. If you mean how much, the current position is that most people who market actively into the UK are big, well-regulated chains. People can find all sorts of people on the internet, but we put out stuff advising people to check where providers are regulated and that they are playing on properly regulated sites. There is always a risk on the internet, and people can find unregulated or poorly regulated sites if they look for them.

Q708 Mr Sanders: Do you recommend that people only go to the white-listed, regulated companies?

Jenny Williams: Only white-listed or EU-regulated companies are allowed, so we certainly recommend that people only go to legally allowed ones, yes.

Q709 Mr Sanders: In terms of the white listing, how are jurisdictions assessed for their suitability?

Jenny Williams: This was done by the Department, of course, but advised by us. At the time, only a limited number applied and they were for the most part well-established jurisdictions with a track record that could be looked at. The Department, advised by us, had a look to see whether their regulations were part well-established jurisdictions with a track record that could be looked at. The Department, advised by us, had a look to see whether their regulations were broadly comparable and, in some cases, they adjusted those regulations to make them broadly comparable with the UK ones.

Q710 Mr Sanders: Has the Gambling Commission inspected any of the white-listed jurisdictions?

Jenny Williams: No, that is not part of our powers or functions.

Q711 Mr Sanders: Should it be?

Jenny Williams: As I said, when it was set up, there were well-established jurisdictions and a limited number of companies licensed by such a jurisdiction, and we had tended to license their terrestrial arms, so we knew a great deal about them. Going forward, it is a rather different view, because you have got a lot of European jurisdictions moving into online gambling regulation, which they have not done before, or they are doing it in different ways; you have also got a lot more operators moving into the remote space, such as new start-ups, which again was not the case when the white list was first set up. We are with the Government.
that the way to go forward is not to carry on with the white list but to look much more on an operator basis and to go for domestic licensing. As I say, we are moving into a rather different world, with a lot more players coming into it.

Q712 Mr Sanders: The Gala Group advocates new legislation requiring any operator trading with or promoting to British residents to be licensed and regulated in Great Britain. Would you recommend such a requirement?

Jenny Williams: Yes, I think that makes a lot of sense. It does not necessarily mean that they have to bring their servers onshore or anything, but they have to be subject to our regulation and our standards—common standards—so that anyone gambling remotely in Great Britain knows that they are facing the same standards, the same type of regulation, the same probity checks and the same age verification checks, and they can have confidence. If they have got problems, they don’t have to go to lots of different regulators with their queries, which is one of the problems as more and more places are opening up.

Q713 Mr Sanders: Given that we are not there, and that there isn’t yet a proposal for such a regime, are you still in favour of allowing non-British companies to advertise in the UK?

Jenny Williams: As I say, at the moment, the people who are allowed to advertise are those in the white list plus the EU. The vast majority of those are well-known brands and people that we license on the terrestrial side. I do not see that there is a huge problem at the moment, but the direction of travel is worrying as more and more jurisdictions are going into the online business without a great deal of experience. There are different cultures and different expectations.

Q714 Mr Sanders: You say that there isn’t a problem, but other countries have banned such advertising. Why do you think they would do that if there wasn’t a problem? The fact that you don’t know there is a problem does not mean that there isn’t one.

Jenny Williams: I’m not quite sure when you say that other countries have banned such advertising—some countries have prohibited online gambling, so obviously they try and ban it and there is usually a huge black market in those countries. Some countries are protecting their own state monopolies and do not want competition from other people. I am not quite sure which countries you are thinking about.

Q715 Mr Sanders: I think Australia has banned television advertising of gambling for live events.

Philip Graf: There is no doubt that regulators around the world often come from very different perspectives. Often, there are issues around prevention or banning. I am not commenting on the Australian situation, but certainly when I went to a regulators conference it was interesting to see—you can see this in the situation in the European Court—that regulation has often been used as an economic weapon, but not as a social weapon. In other words, it is designed to protect monopolies. Equally, certain regulators have duties that are much more geared around protection rather than the nature of our duties. Different regulators will come at this in different ways. In some countries, it would seem that a lot of the regulation banning online gambling is to do with the protection of in-country businesses or monopolies. That shows a different attitude to the whole question of competition to that taken by this country.

Q716 Mr Sanders: I don’t know whether there is a problem; I am not naturally against these things, but it strikes me that television advertising of gambling is probably the most effective advertising of all. It is not like advertising a sofa where you have to wait for the shop to open before you can go and view it; you actually respond to that advert instantly. If that is within the context of a live sporting event—

Philip Graf: As the Chairman will know, in my previous existence, I had some involvement with the question of advertising and the types of advertising on television. It is a question that the ASA and Ofcom have certainly looked at. One of the problems that I think you get to in this whole area if you look towards restrictions is about how you make them proportionate and targeted, and whether the restrictions are actually effective, given freedom of expression and the other side of the argument. I know that it is quite a difficult area for the advertising regulators.

Q717 Mr Sanders: But advertising of financial services comes with a warning that investments can go down as well as up. These adverts do not come with a warning that you might not get your money back.

Philip Graf: Do you think that people who bet think they are always going to win?

Q718 Chair: You said that you had some involvement in advising the Department about the suitability of jurisdictions for white-listing. You also said that you have not actually been to any of the white-listed jurisdictions. How do you advise the Department if you do not go there?

Jenny Williams: I explained our rather limited role, which was to compare the regulations that had been set up, and say what we knew about their track record. I said that they had an established track record, and that one knew quite a lot about the companies that had been regulated. So, as I say, it was a rather different ball game then. We were not set up to be, as it were, an inspector of other regimes, and I do not think that that would have been a feasible—

Q719 Chair: But it is now proposed that you should be.

Jenny Williams: No. What is now proposed is that we license operators. We are capable of looking at operators with our systems and our integrity checks and our source of funds, that sort of thing. That is what we can do.

Q720 Chair: You are potentially going to be required to license operators who are scattered all over the world.
Jenny Williams: Yes, and we already license people who have some key equipment here, but have equipment elsewhere. That is not, as it were, a particular issue. There are resource implications and scaling up, but the methodology works perfectly well with people in other places.

Q721 Chair: If you were required to issue a licence to all those offering gambling opportunities to people resident in the UK, have you made any estimate of how many additional operators you are going to have to issue licences to?

Jenny Williams: No, not precisely.

Q722 Chair: Have you got a ballpark figure? We are talking hundreds, presumably.

Jenny Williams: Oh, yes, hundreds. Denmark, a much smaller jurisdiction, I think issued about 39 licences. A lot of the people will be already licensed by us for their other arm, if I can put it like that. We have already said very clearly that we would expect to operate with the home regulator, and if they have done the checks, and if they are doing the audits, we do not want to duplicate. We are not empire building. We are very happy to allow information from other regulators; but we do want to see the ‘homework’. What we do not want to do—picking up your point—is to try to do a second-hand assessment of their ability. If they have done the work and they can share it with us we are very happy. I do not think there will be a huge duplication or need for one-for-one additional resource, because where they are properly regulated and the work has been done we are very happy to use that. As I say, we work with other regulators.

Q723 Chair: Do you anticipate that you are going to need more resources and more staff to take this on?

Jenny Williams: We would need some, obviously. A lot would depend on the extent to which other regulators can—‘act as our agent’ are not perhaps quite the words—carry on doing their regulation and share what they have done. To the extent they do that we will not need that much more. We would need some, clearly.

Q724 Chair: We heard from some of the offshore operators—I do not know if you saw the evidence—that they were complaining that they had almost no communication with the Gambling Commission at all; particularly Gibraltar and Jersey.

Jenny Williams: Yes; to be honest I was a little bit disappointed, because I have a great deal of respect for Phil. He was a colleague of mine. I think I have a lot of communication with Phil. We exchange information.

He has a problem. He has a much clunkier regulatory set-up than we do. If we need to get information from him for criminal investigation purposes we have to go to our police, across to their police and down, so it is quite clunky, whereas we can just provide information, under our powers, much more straightforwardly. I am not sure why he was quite so feisty, if I may put it that way, because, as I say, we do exchange quite a lot of information. He is on my working party on e-gambling. Bad day, I guess.

Q725 Dr Coffey: What would be the advantage of the UK regulating remote gambling on a point-of-consumption basis?

Jenny Williams: Sorry—what would be the advantage?

Dr Coffey: Yes. What is your view of the primary advantage?

Jenny Williams: There would be a number. From the UK consumer point of view, they would have confidence that there would be the same standards. We deal with a lot of people phoning up because they think that we regulate them—not unreasonably: quite often the thing will be .co.uk or something like that. It will look like a British operator, and we have to say, “No, you have got to go to that regulator or this regulator.” I am not saying there is anything wrong with the regulation, but you have to hand them on, so the consumer has to deal with a lot of people. We are charged with advising the Government on the regulation of gambling, and the impact of gambling. At the moment, we only regulate about 20%, at the smaller end of the remote business. Now, increasingly, we do not have the information on which to advise properly. The other thing is that we do not have, as of right, information on suspicious transactions or unusual betting patterns from the people we do not regulate. We may get them, but we do not have them as of right, which does limit our betting integrity work.

Q726 Dr Coffey: I know you do not have the right, but have you ever been refused information?

Jenny Williams: Yes, there are problems and it can be quite clunky in terms of getting it.

Q727 Dr Coffey: How many times have you been refused information?

Jenny Williams: That I don’t know, but I can think of several examples in the past year, or times when it has taken a long time or when operators have told us that they are not able to provide it to us directly.

Q728 Dr Coffey: I hear that betting integrity is a problem. Normally, the origination of any information about betting integrity comes from the operators themselves because they are the ones who are losing out.

Jenny Williams: My point is that the ones that are overseas do not necessarily provide it directly to us. Sometimes we have to go through their own regulator.

Q729 Dr Coffey: Is it not also fair to say that the main advantage will be tax revenue?

Jenny Williams: That is not, as it were, for the Gambling Commission. It is a bit of an interest to us.

Q730 Dr Coffey: It might help reduce the fees for people based onshore?

Jenny Williams: If you could get the Treasury to give us some money, possibly, but that tends not to be the way that it works with the Treasury.
Q731 Dr Coffey: What if you had a wider number of licences?
Jenny Williams: We would get more fee income.

Q732 Dr Coffey: Hopefully, you will be able to reduce your fees.
Jenny Williams: Spread the cost, absolutely. That is right. On the level playing field, there is obviously a structural stress at the moment because people licensed offshore can undercut the people who are licensed here. It is not a level playing field at the moment, which has regulatory implications.

Q733 Paul Farrelly: I want to break a little new ground. Just for clarity, in the future, a licence is a licence is a licence, irrespective of where the servers or equipment are located. Is that right?
Jenny Williams: That is the proposition.

Q734 Paul Farrelly: Does that mean that the provision in the Gambling Act 2005 about siting equipment has not worked well or was really a distraction?
Jenny Williams: The view the Government took was that, loosely speaking, remote gambling would be licensed on the basis of where it was supplied from. The Government are now taking a different view, partly because of the way in which things have been developing in Europe. They feel that it is better to concentrate on the point of consumption. Yes, with the benefit of hindsight, that was a mistake.

Q735 Paul Farrelly: We clearly have more and more countries moving in to regulate in Europe. We have a number of successful online operators here who are concerned about not only having to satisfy this regulation here or those conditions there, but the potential for double taxation in the future in the different regimes. We are going down a route where we are going to license on a UK basis only, so it is replicating what is happening increasingly around Europe. Is there an argument for operators to be allowed a UK gambling licence if they are already licensed by another European Union country?
Jenny Williams: The view the Government took was that, loosely speaking, remote gambling would be licensed on the basis of where it was supplied from. The Government are now taking a different view, partly because of the way in which things have been developing in Europe. They feel that it is better to concentrate on the point of consumption. That is something that I have been pushing for, but we are a long way off it at the moment.

Philip Graf: What I found extraordinary at the regulators’ meeting was the variation in not just standards but philosophy and approach. Some of the regulators were part of the Government; some were not. There were very different objectives. So getting to that point in the short term would be extraordinarily difficult.

Q736 Paul Farrelly: Picking up on what John said, if you were to get to that point, you would necessarily have to check how well regulations worked in other countries and how fit for purpose they were and, therefore, vet other regulatory regimes.
Jenny Williams: Sorry. You have slightly lost me. If everybody had common standards and, a bit like in financial services, there was a common understanding about how you do things, that is a very mature regulatory position. We are a long way off that. We are all still learning in remote gambling regulation. If you take something like money laundering, it took something like 14 years to get to the position where the best taskforces in different countries go and assess the capability of money-laundering regulations in other countries. In the longer term, I think we will be able to get to that sort of position, but we are a long way off that at the moment. As I say, we are still learning together.

Q737 Paul Farrelly: A final question on this point: to be helpful, could you name to us any European jurisdictions where, at the moment, you would not consider their licensing to be up to your standard? Would you therefore baulk at automatically granting anyone licensed in those countries a licence without actually vetting the operator yourself?
Jenny Williams: It is a problem of a lack of knowledge, isn’t it? We do not know enough about the way they do things. We do not know enough about the competence of their staff. We do not know enough about their approach, and it would be very time-consuming to find out. It is not proven, if you like. We just do not know. We could not provide the assurance to the consumer.

Q738 Paul Farrelly: Let me try to help you. Let me reduce 27 to just one. This is not pejorative at all, but let me just pick out Malta. What would your view be on Malta?
Jenny Williams: My view on Malta, based, as I say, on not having crawled all over it, is that we had some issues about the way Malta used to approach it, because it used to give what were effectively provisional licences. Somebody would apply and they would get a provisional licence. We do not do that, so we were uneasy about that. Now, that has changed. In my dealings there, it is—fairly superficial; I cannot pretend anything else—with the current regulator there, I am very impressed. He has been very useful in some discussions about another topic that I know you are interested in, which is the protection of player funds. He has very interesting insights into the way they do it there and the issues. At that rather superficial level, I would have more confidence now, but I could not assure the UK Government or the UK consumer, because I just do not know enough about what they do and how they do it.

Q739 Paul Farrelly: Let me just hop to another island that is outside the EU—Gibraltar. As a second example, what about Gibraltar?
Jenny Williams: As I have already said, I have a lot of respect for Phill Brear, the regulator there. They have a very different approach, as he himself pointed out. They limit the number of licences. As it were, they select people who have a very strong track record and, to some extent, they rely on their reputation to
carry them forward and on very close personal regulation, if you like. That is a very different style from UK regulation. It may work perfectly well. Again, without crawling all over what he does, there are no obvious problems, if you like, with the people he regulates.

**Q740 Paul Farrelly:** What do you mean by personal style?

**Jenny Williams:** I meant that, as he described, he relies very much on what is a bit like the old-style City regulation—the nod and the wink—and the Governor saying, “I don’t like that: stop it”. It is a different style of regulation. They are moving—they have consulted on and I think they have just put in place regulations—to a much more open regulation-based type of approach. As I say, you can do that with 20 big operators. We would not be able, and I do not think anybody here would expect us, as it were, to have a restricted market and simply say that only a limited number of people can come. That would probably not help the consumer either, because you would not get the competition.

**Q741 Paul Farrelly:** Looking to the future—this question is for Philip as well—people have clearly got to have confidence that the Gambling Commission is well set up to monitor the bona fides of the expected influx. One of the comments that the Gibraltar regulator made when we saw him last week was that your main online gambling adviser—you are waiting for this, of course—is based in Australia. It reminded me of the BBC relocation manager to Salford who is flying in from the United States. Can you just say a bit more about that?

**Jenny Williams:** I was terribly surprised at that being seen as a weakness.

**Paul Farrelly:** I don’t know whether it is true or not.

**Jenny Williams:** He is not our lead adviser, although he is an important adviser. He is a guy, who we recruited when we set up, from Australia. He was one of the very few people worldwide who had already been regulating online in Queensland. He was responsible for setting up a lot of the international technical standards. We were very pleased when we recruited him. He came and helped us set everything up. After four years, he wanted to go back to Australia for family reasons. We persuaded him to take a career break, which he did. We have other staff on the remote side. When, at the end of that year, he did not want to come back just yet, we persuaded him—I am very pleased that we did—to take on a part-time advisory role for us. It works extremely well with modern technology. He is, of course, much closer to what is happening in Australia and that part of the world. We were talking to him last night and we talk to him most weeks. I regard it as a great strength that we have someone with 14 or 15 years remote experience.

**Q742 Paul Farrelly:** How big is your online set-up?

**Jenny Williams:** That is a very different set up—

**Q743 Paul Farrelly:** How many people?

**Jenny Williams:** We have people, for example, who cover both remote and non-remote. My machines experts—I have two of them who do both, as it were.

**Q744 Paul Farrelly:** The machines experts are experts in slot machines?

**Jenny Williams:** Yes, but they are server-based machines increasingly.

**Paul Farrelly:** Treat me as a novice.

**Jenny Williams:** There is enormous convergence between land-based and remote, because people are providing stuff electronically. The expertise that you need for technical standards, for test houses and for that sort of thing is increasingly the same for land-based and for remote. I can draw on my non-remote experts in all sorts of ways. I draw on my land-based people for things such as money laundering, which is an important issue in the remote space. I have a big intelligence unit with 10 or so, which cuts across both remote and non-remote. I have about four or five who are dedicated almost exclusively to remote, but I draw on experts across the commission.

**Philip Graf:** This touches on quite an important point. Looking forward, the issue about convergence and technology, whether it is remote or land-based, is significant for you. You look at these machines and effectively they are servers and the slot machines, as you would call them. The whole question of understanding and dealing with technology is one of our ongoing challenges. It is the same for all regulators: the question of how you keep up and how you have the staff to do so. Finding and attracting the staff is another question. That remains one of our key challenges going forward. Whether it is remote or land-based, it is a little incoherent.

**Q745 Paul Farrelly:** I have one quick last area. Clearly, you will only know whether you are fit for purpose when you have a problem. Full Tilt—there but for the grace of God—happened in Alderney. I was rather surprised last week to find that you had put in a submission about Full Tilt, which almost seemed to be on behalf of Alderney, which I am not sure was terribly well advised. I do not want to make too much of it, but when I read the submission—you will have seen last week’s transcript—I was rather surprised about some of the arguments that you were using to justify the caveat emptor approach, which does not require player funds to be protected in any way from the money the operator uses for the business. One of your reasons was: “Players should be allowed to choose to transact with operators that do not protect funds and take the slight risk to their funds.” I invite you, before you write that sort of stuff again, to replace “players” with “pensioners”, and “operators” with “Robert Maxwell”. It is not really a great consumer choice.

**Jenny Williams:** I am glad you raised that. Can I just make it clear that we were not putting in evidence of behalf of Alderney? Dr Coffey had a briefing from us, largely on betting integrity and issues such as that. She asked us about Full Tilt but there was not time to go into that. We thought helpfully to provide some
All right. I was astonished, too, "astonishingly complacent".

**Q748 Mr Sutcliffe:** On gaming machines and the review of stakes and prizes, the Government made a quick decision. Gerry.

**Chair:** We have two last areas we need to cover this subject.

I was also a little taken aback when you described this as complacent.

**Q746 Paul Farrelly:** No. I think I wrote "astonishingly complacent".

**Jenny Williams:** All right. I was astonished, too, because I am not remotely complacent. I don’t think anybody before has ever accused me of complacency; over-worried, possibly. I was trying to explain that there are a lot of issues. If you insist on true, 100% consumer protection, as for pension funds and banking deposits, which only goes up to £80,000—you do not have protection on bank deposits over £80,000—that will come at a very big cost. You can get partial protection. What you will do is drive consumers into the black market where they will get a much cheaper deal. All the evidence shows that if you build in too expensive protection that is what happens.

I was saying that there are arguments for our present position, but I also said—which is why I don’t think we are remotely complacent—that the moment the Full Tilt episode occurred we got in touch with Alderney and were very open. We have been working closely with them looking into it. We have been talking to other regulators; we had a session last time with the regulators comparing notes—I mentioned what Malta was doing—and we have another session next week when we are going to talk about this. We are not remotely complacent. You must not mislead consumers, either. It is very hard to give 100% protection without huge costs.

**Q747 Paul Farrelly:** Philip, before we move on, would you like a final word on lessons to be learned about player protection?

**Philip Graf:** Jenny has explained the lessons very well. We are looking to learn. Peter Dean is doing a report for Alderney. Jenny chairs a national committee of regulators. One important thing to recognise is how much Jenny is in the lead in areas such as this. It is an area where we are concerned to get it right. To get it right means to get it right for the consumer both in terms of understanding what can be done, and making sure you do not have the law of unintended consequences, which, because you make it very expensive and gold-plated, you end up driving consumers somewhere else. It changes the way you do it. Going back to the beginning about the balance the regulator has to strike, I am very confident that neither Jenny nor the Commission is complacent on this subject.

**Chair:** We have two last areas we need to cover quickly. Gerry.

**Q748 Mr Sutcliffe:** On gaming machines and the review of stakes and prizes, the Government made a recent announcement. Who is going to take the lead on that? Will it be the Commission or the Government? This is an area where I have always found a great concern about the categorisation and lack of science in relation to machines. Would you like to say something about the review?

**Jenny Williams:** As you know, the Department will be in the lead, because, in a sense, the Department has to exercise the trade-off between the economic advantage to the industry against any possible risk to the consumer, so the Department will be in the lead. We will look to Brian and his colleagues for expert advice or informed judgment on what is known about the possible implications. With the benefit of that advice, we will feed into the Government’s process.

**Q749 Mr Sutcliffe:** I am concerned that there is a lack of science in how to deal with these categories. I think certain sectors of the industry have had problems because of that lack of science. What would you say about that? When the review is conducted, will that be an area you look at? What is the science? If it is a casino, it is linked to the number of tables and machines. If it is a seaside venue—there are so many complex issues in relation to these categorisations. I would argue: is a betting shop a casino in terms of FOBTs and the issues around that? How are we going to get to a situation where we can understand the categories or why there is a need to have these different categories?

**Jenny Williams:** You start with where we are, and it is a question of changes from where we are. The categories that were put in place were, essentially, a result of discussion—trade-off, whatever you call it—in Parliament at the time about how precautionary the then Government felt they wanted to be. There are stresses in the structure. The obvious one is the fact that people can play any number of any stakes on their iPads, yet if you go into a licensed venue, you are limited, so it surprises. I said before that there is not a huge amount of science. It was pragmatic. We would like to move away from these rather crude measures, but we are not there yet. We have neither the technology nor the information.

**Philip Graf:** I agree with Jenny. It seems to be in the way that the Act was constructed. When we heard some of the evidence recently, it was a fully pragmatic exercise, right? Moving away from it, there is work that we have asked RGSB to do. We are also very conscious of what is going on round the world in terms of this exercise. It would also be extremely welcome if the industry, which wants to make the changes, makes the case on an evidence base. I am sure the Minister would be delighted to get good, solid evidence on that basis. Again, you know our view about the longer term and the way you’ve got to go in dealing with this.

**Q750 Mr Sutcliffe:** As you said, in evidence, the former Sports Minister said that the wash-up made a difference to the outcome of the Act. As the Minister who followed him, I understand that well. We are seeing that different sectors of the industry are having problems with growth and development because of an unscientific situation.

**Philip Graf:** The argument about social responsibility is inevitably conflated with the one about competitiveness—no doubt about that. One would like to find ways through that, and we are anxious to see
what evidence we can find. However, as Jenny has said, machines are a pretty crude, if necessary measure as things stand.

Q751 Dr Coffey: May I ask about society lotteries, specifically the Health lottery? Why did you agree to issue the 51 licences when each CIC has the same three directors and they are all registered in the same place? To the man or woman on the street, that seems like one big lottery conveniently legally created.

Jenny Williams: I understand entirely the point you make. They met the legal criteria. In other areas a single operator has multiple licences for various commercial reasons, and they will have the same directors. They met the legal criteria. They were fit and proper people—source of finance. They chose to structure themselves and they were legally entitled to do that. That is the question of licensing. Then there is the question of whether they are operating separate lotteries. There is a question of licensing to run a scheme and then whether it actually works in typical schemes. We have issued guidance about what we expect to see from lotteries that are marketed under a common umbrella.

Q752 Dr Coffey: In reality, it is just another National lottery. Only 20%, effectively, goes to the projects as opposed to other bits. I know that the CICs make those decisions, but it is the same three people deciding where the money goes, it seems, all round the country.

Jenny Williams: You originally asked why we licensed them, which is why I explained.

Q753 Dr Coffey: Yes. I ask the question because it seems to be one National lottery, because they are, effectively, working together.

Jenny Williams: They are combined for a marketing purpose and other society lotteries do that. The Act provides for people to be able to employ an external lottery manager to work on their behalf, so that is allowed in the law. If you are asking whether this was a scheme designed to get around the lottery limits, yes, clearly it was.

Q754 Dr Coffey: Would you mind sending us the legal advice that you obtained on the Health lottery, please, that we can then publish?

Jenny Williams: May I give some thought to that?

Dr Coffey: I am sure you can. I am sure we will send a follow-up letter requesting it anyway.

Jenny Williams: Yes, I will give some thought to it.

Dr Coffey: I appreciate that you may not want to answer now.

Philip Graf: Be assured that it was looked at in great detail and very carefully.

Dr Coffey: I am sure that you did it, but we would still like to see it.

Chair: I think we should draw a line there, because I am conscious that we need to move on to our next session. Thank you.

Examination of Witnesses

Witnesses: John Penrose MP, Minister for Tourism and Heritage, Department for Culture, Media and Sport, and Miss Chloe Smith MP, Economic Secretary to the Treasury, gave evidence.

Q755 Chair: Good morning. We have the Minister with responsibility for tourism, John Penrose, and the Economic Secretary to the Treasury, Chloe Smith. I apologise for keeping you waiting. Thank you for your patience.

I will start with you, Minister. How do you see your role as responsible for gambling? Do you regard gambling as something that needs to be regulated and that is fraught with danger, or do you see it as harmless fun and it employs a lot of people, contributes quite a lot to our GDP and so on. In that respect, it is something that we should welcome and it lightens up everybody’s lives. For a small but significant percentage of the population— I heard you asking questions about this earlier— gambling becomes a real problem and becomes an addiction of some kind. That is very serious for those people and for their families and the communities in which they live. Therefore, we have to treat it with great care as well. It has this worrying, dark side to it, if I can put it that way, so clearly it needs regulation, but we need to strike a proportionate balance, because for the vast majority of us, having a flutter on the Grand National is a bit of fun and should remain so.

Q756 Chair: It is also, obviously, quite beneficial to your colleague sitting next to you.

John Penrose: I am told so. I am sure that she will expand on that when you ask her.

Chair: We will come on to that in more detail.

Q757 Damian Collins: We have had some consideration of the powers that local authorities have over the number of gambling premises in their areas. Do you think they have enough power and discretion over permitting new operators to come in? Do you think they have enough powers to stop betting shops coming in that they don’t want?

John Penrose: I am rather guided by the submissions and comments that we are getting. There seems to have been a shake-down process and a period after the Act came in, and I think you have been asking questions along those lines of other people who have appeared in front of you as well. From what I can see, the majority of those problems have been either teething problems of one kind or another, or individual local authorities getting used to running this process.
Not many people have come to the Department and said that they think there is a fundamental problem with the way in which the powers are framed and that they should be drawn in a different way. Clearly, now that the shake-down process is largely done and we have had a period for everybody to get accustomed, if people come back to us, we will listen to that very carefully, but up until now, that has not been a major theme of what people have been saying to us.

Q758 Damian Collins: It was put to us by the Local Government Association and one of the local authorities that appeared alongside it that, effectively, there is nothing that a local authority can do to prevent a betting shop from coming in if it does not want it.

John Penrose: There are two issues, one of which is planning policy, on which, in fact, the Department for Communities and Local Government is about to issue some consultations, which will include questions about this sort of stuff, so I don’t want to park my tanks on their lawn or anything like it. One of them is about gambling regulation and making sure that we have got things that are proportionate to the risks of gambling. We have an escalating pyramid of severity of regulation, heavy-handedness of regulation or intensity of regulation depending on the perceived risk of what kind of occupation is going on. I am not sure what people would suggest that DCMS changed in order to correct any perceived problems that you are describing. It may be that those problems do exist and, as I said, I am very, very happy to look at them. One of the advantages of your inquiry, of course, is that this is the right moment to present that and to come up with suggestions. But this is one of the ones where we have got to proceed quite carefully, because it is going to be a double action between DCMS and Communities and Local Government to make sure that the interplay between gambling regulation and planning is rightly based.

Q759 Damian Collins: Do you see yourself as a localist, when it comes to gambling?

John Penrose: I see myself as a localist on pretty much everything.

Q760 Damian Collins: So your presumption, coming into office and looking at things on your desk, would be that we should be looking to give communities more control over what goes on in their area. If people want to attract gambling facilities into their area, we should be supporting them to do that, too.

John Penrose: Yes. There is always, inevitably, a tension between giving as much discretion to local communities to decide what they want their community to look like and feel like, and making sure that, if you travel from Shrewsbury to Weston-super-Mare and you want to go into your local branch of William Hill or whatever else and have a flutter on the 4.10 at Newmarket, you have the same level of protection from the wrong kind of gambling. Yes, I am a localist. There are boundaries on localism and boundaries on centralisation, but yes, of course, we want to devolve powers wherever possible.

Q761 Chair: It was always a principle that the harder forms of gambling—the ones where potentially the losses could be greater—were going to be in the more controlled environments. So the more control you have, the more you were going to allow quite significant amounts of money to be won and lost. Do you think that it was a mistake to allow B2 machines into the high street in betting shops?

John Penrose: I guess that I work on the basis of available evidence, and there are a number of people who are concerned about the level of B2 machines and a number of people who are concerned about the number of betting shops, although interestingly, the number of betting shops is actually lower than it used to be—quite substantially lower. I hear the concerns. I guess that most Ministers would respond that, if we can prove that they are causing a problem, as opposed to causing concern—if there were data to show, for example, that problem gambling is increasing in areas where there are more B2s rather than fewer—they would take that extremely seriously. But I have to proceed on the basis of evidence, otherwise we are playing with people’s jobs and economic well-being, as much as anything else. We shouldn’t be undermining that unless we have a jolly good, social evidence base to back up the assertion that it is causing a problem. If it is, that is a very good reason for interfering. But we have to have that evidence base first.

Q762 Chair: If there is no evidence that it is causing a problem, would you be sympathetic to the calls of the industry to increase the number of B2s allowed in betting shops?

John Penrose: I am afraid that the problem with the evidence base cuts both ways. One of the things that horrified me and I suspect, horrified my predecessor—I am looking at Gerry here—is that, when you say, as a public policy issue, “What happens if I was to follow the suggestion”—of whichever group of the industry had been in to see you most recently—“and double the number of machines, halve the number of machines or increase the number of casinos by x, or reintroduce the membership requirement? What will happen to problem gambling if I approve that?” At that point, there was a long silence and everyone looked at their toes, because no one really knows. There are a lot of strongly held opinions and genuine, devoutly held opinions. Some of the opinions are quite professionally well informed, but we haven’t got the evidence either way. Therefore, it is extremely difficult to argue for either increases or decreases in the number of machines. In fact, what I said to BACTA was that I would love to look at some of those things because there is a great deal of frustration in the industry as much as anything else, but we move away from what is currently there at our peril, without a solid foundation of fact and understanding.

Q763 Chair: So what are you doing to get it?

John Penrose: You have just had Brian Pomeroy and various others in front of you. We, or I should probably say they, are working extremely hard with vigorous encouragement from me in the Department,
to try and improve the arrangements we have for education, research, training, treatment and so forth. There has been quite a lot of criticism of those arrangements in the past, and there have been some changes recently. One of the things that I am pushing for is to say, “We need to have a process that identifies what we know and don’t know about the risks of different kinds of games, environments, and different kinds of people playing different kinds of games, and how those all work.” You have heard already that we do not know nearly enough about that at the moment, and we need a proper programme of, not so much fundamental research, but practical research to say, “If you double this number of machines or halve that, what will happen to problem gambling as a result?” They are working on creating a process, a system that will start to address those issues. It will take some time, but we have to start from where we are.

Q764 Chair: You have also cut back on the amount of money available for funding gambling prevalence surveys.

John Penrose: We have always taken the view—in fact, we agree with the previous Government on this—that the Gambling Commission, and dealing with problem gambling, research, training, treatment, and so forth, is something that the industry needs to fund. That rightly is one of the quid pro quos, if you like, for having a comparatively open market that is carefully regulated; that the industry itself must pay for the things that deal with any problems they create. It is not really so much a question of what the Government will pay. The industry needs to be responsible about this, and to be fair, particularly the large firms, but many of the smaller ones too, understand that and are very willing to step up to the plate, and I expect and hope that they will continue to do so.

Q765 Mr Sutcliffe: Briefly, on that point—I agree with what the Minister is saying—there are unintended consequences of the Act. We have had evidence from previous Ministers about those consequences, and I understand the dilemma about the risk, but there are businesses and communities in which growth is not taking place because of the restrictions there. You have just said that it will take a long time, which I understand, but there is no science to this, as we have been told. It is about the linkages from casinos, to tables, to machines and all of that. Can you understand the frustration from a sector that there is no clear position? I pose the question: what is different about a betting shop and a casino, in terms of B2 machines?

John Penrose: The short answer is yes, I understand the frustration. I feel it, too. Anybody would feel frustrated looking at this, but the difficulty is that we cannot be naive enough to try and reopen the Pandora’s box that was opened during the passage of the 2005 Act. Everybody in the industry—there are one or two people around this table who had a ringside seat to the 2005 Act, too—still has scars on their backs from the process that was gone through. I do not think anybody would seriously argue that the 2005 Act was an exercise in brilliantly-judged legislating, or that it was a controlled process. It got pushed around an awful lot and I think you have heard evidence of numbers being pulled out of the air, and so on. Therefore, yes, there is a great deal of frustration. The problem is how you fix it. I think it would be a huge mistake for us to try and rerun the 2005 Act without enough facts, because all you would get is whoever has the best hotline into the largest circulation daily newspaper having a competing dialogue via megaphone, which is what happened then. Everyone saw the results and no one was particularly happy with them. So I share your frustration; my problem is how we move forward. I think the only way we can move forward is to cut down the volume-of-megaphone stuff by having facts instead.

Q766 Mr Sutcliffe: I agree with that, but there is flexibility in the Act, as we heard from Jenny Williams, in terms of secondary legislation and the ability to change small things that are wrong. Would it not be better—given the economic circumstances that we are in, when we are taking about growth and wanting to deploy more revenues—to have a speedier look at those obvious ones on which there is agreement within the sector, about something being an unintended consequence?

John Penrose: You are absolutely right. We can do some things. For example, we are launching a tri-annual review of stakes and prizes, which has been much called for. We have done something on B3 machines—that was a manifesto commitment—which I think looks like it has worked, and has been very well received by the industry. There are a number of things we can do. We are also hoping to issue some stuff on airside bars, for example, which is a very small issue, but one that is coming up. So yes, there are some things. The thing that I would just caution everyone about, however, is that it is not enough for us to say, “Well, it’s uncontroversial within the industry”; this has got to be something that gains acceptance from a much wider group of stakeholders. You have had evidence from many of the religious groups that are very concerned about gambling and there are many medical people out there who are very concerned about gambling addiction, for entirely legitimate reasons. So it is not just a question of the industry and politicians getting together in a cosy huddle. This has got to be something that has credibility and acceptance across a wider group of stakeholders. That cuts down very dramatically the number of things that we can do, until we have got the evidence base.

Q767 Damian Collins: Briefly, you have mentioned the B3 machines. Earlier, you said that there was a problem and the lack of research cuts both ways, but you have approved an instrument that allows up to 3,000 new B3 machines in bingo clubs and adult gaming centres. You weren’t concerned about the lack of evidence there.

John Penrose: There are two things. First, it was a manifesto commitment made before the election, which I picked up, and it was common, so it was something that we promised to do, and I thought that
I would be unusual and actually be a politician who delivered on some promises. So I was quite proud to do it. Secondly, on that rather narrow basis you can advance an argument that most people will accept, namely that the problem with B3s was that they had become far less attractive compared with B2 machines. There are more B2 machines on the high street, as your Chairman pointed out. Therefore, by restating or reinventing B3 machines to be a little bit more attractive, and because they are slightly less about hard gambling and slightly less risky than B2 machines, you can argue that B3 machines will attract people away from B2 machines. We wait and see. I do not want to push the analogy too far, because you are exactly right—I did this mainly because it was a manifesto commitment and I do not want to push it further, because we do not have solid ground beyond that.

Q 768 Damian Collins: If, for example, the casino industry came along and said, “Could we have another 3,000 machines with the same £2 stake?” would you be minded to give the industry those machines as well?

John Penrose: I do not think that the stakeholders that I was just talking about would wear it; it was not in the manifesto; and I am afraid that, at that point, I have to retreat very rapidly inside the notion that we do not have solid ground beyond that. I do not think that I would accept that, and that is the message is, “Get it in the manifesto if you want to see it done?”

Q 769 Damian Collins: So the message is, “Get it in the manifesto if you want to see it done?”

John Penrose: I am afraid so, yes. You need to have got it past your colleagues.

Q 770 Philip Davies: The two words that have not yet cropped up that seem to me to be particularly relevant in all this are Daily Mail. You were saying that we all need evidence, and evidence on either side. There is a sort of belief among many people that what is mainly driving the Government’s policy— their reluctance to do anything in terms of liberalising the restrictions—is the Daily Mail, and that Ministers are petrified of the Daily Mail. So, while that is in play, they are not going to do anything because they do not want to incur the wrath of the Daily Mail, and that is the end of the story. What would you say to that?

John Penrose: I do not think that I would accept that, for a start. I would use a different analogy. Because the 2005 Act was so ghastly for everybody involved, just saying, “Let’s go back and do it again” is rather like charging the guns at Balaclava and then the few survivors getting back to base camp and saying, “You know what? That was so much fun, I want to do it all again and I’m not going to change a thing.” The Daily Mail was part of it—absolutely right—and so were many other newspapers and stakeholders, some with very powerful groups behind them. But at the end of the day, just as a matter of practical common sense, we cannot start moving forward unless we have got some sensible facts to justify changing what is there.

Q 771 Philip Davies: But if you are satisfied with the evidence, you are prepared to take on the Daily Mail, because it is not going to propose any extra liberalisation of gambling? You are prepared to take the Daily Mail on, if there is no evidence to suggest that there is a problem?

John Penrose: If the evidence is there, I will take on anybody, but I would hope that I would not have to take them on head to head, because they have been convinced by the evidence, too. But, yes, we will need the evidence first and then we can move.

Q 772 Philip Davies: Finally on this point, if you haven’t got the evidence, may I appeal to your logic about the number of machines? I asked the previous Administration, “What evidence is there that the number of machines has any impact at all on problem gambling, either in casinos or betting shops?” The answer that came out was, “None.” There is absolutely no evidence that there is any impact. And there is a logic behind that, isn’t there? Four machines are allowed in betting shops and you can play only one at a time. If you are particularly proficient, you might be able to play two at a time. So, whether there are four, five or six in there, you don’t really need a great deal of evidence. Logic dictates that you cannot make any difference to an individual’s problem gambling, because as long as there is one in there, they might have a problem. Whether there are four, five or six in there makes no difference to any particular individual’s problem gambling. That is obvious, isn’t it? You do not need a great deal of research to tell you that.

John Penrose: It is an internally logical statement—you are absolutely right. The question is whether your analogy is the correct one in fact; whether gambling addiction works in the same way that you are describing it. That is the bit that we do not know. Accessibility is certainly a factor in problem gambling and addiction. It could be that you walk in and find two people, both of them highly skilled and both playing two machines. They are all in use in that betting shop, so you cannot play and you have to queue. That might cool you down. It might calm you down and mean that you are less likely to go on the machines. You cannot physically get on them for a while, because you have to wait, and therefore you cool off and do not feed your addiction quite as readily.

Now, it may also be that you then walk down the road to find another betting shop and go into that one, but the point is: we do not know. You are right—your analogy is internally logically consistent. I am just not sure if it is objectively and externally factually correct.

Q 773 Dr Coffey: Moving on to tax. The issue of bingo has been going around for some time. I believe that the Treasury says that it is historical that it pays different tax. Why is bingo taxed at 20% when most of the rest of the gambling industry pays tax at 15%?

Miss Smith: First, good morning to the Committee and thank you for having us here.

The basic answer is that that rate was set by the previous Government. It changed a number of times in the final phase of that Government. You would
perhaps have wished to direct that question elsewhere, and no doubt you did when you had Tessa Jowell and co. in front of you here.

To offer a few reflections on it, as the choice faces the current Government, to put the facts to it, a reduction in bingo duty to, for example, 15% would cost the Government around £25 million to £30 million per annum. That is the price tag of the decision. But I would also note that the rate at which bingo tax currently sits puts it within the same effective tax rates as the National lottery and casinos.

Q774 Dr Coffey: Why have one rate for one type of gambling as opposed to another? It does not seem very fair.
Miss Smith: There are seven different rates in operation at the moment across all gambling. Unfortunately, almost no Government start with a blank sheet of paper; perhaps South Sudan did, I don’t know. We certainly are not in a position to do so. So it is a historical question, unfortunately, as to why there are seven different rates.

The decision of harmonisation is incredibly complex across all seven. There are lots of aspects to it. Perhaps the Committee appreciates that I would not be able to promise anything for Budgets coming up—I make that as a general statement across any questions that might be asked of me. Rates would, of course, remain a question for the Chancellor at Budgets.

Q775 Dr Coffey: Without trying to trample on the Chairman’s question, is the Treasury looking at harmonising tax rates and levies between different forms of gambling, whether they are onshore, offshore, bingo or betting? Are you doing a study at the moment to look into that?
Miss Smith: No, not actively. As I say, the Chancellor certainly keeps all tax rates under review, and would do for any Budget. I would be very happy to go into discussion in more detail of online, offshore and so on. I would also note that we have recently undertaken some sizeable reform in the area of machine gaming duty, so there is reform occurring. But are we going to be in a position to harmonise the whole lot? That is certainly a fairly major piece of work.
Dr Coffey: So bingo is staying at 20%. Thank you.

Q776 Chair: The Minister has referred to our experience with the Gambling Act, and a number of us were involved. One of the great ambitions of the Act was that we were going to make Britain the centre for online gambling. Afterwards, almost every online operator moved offshore. It is widely believed that the person who sabotaged our ambitions in this area was the Chancellor, who brought in punitive tax rates that made sure that nobody wanted to stay in this country. In the long term, without going into what might or might not be in the Budget, do you see an opportunity, perhaps particularly with these new proposals for licensing all the operators who have UK customers, to achieve really quite significant reform in gambling taxation and perhaps bring down the overall rate?
Miss Smith: I would certainly say—indeed, my predecessor announced last summer—that the Treasury wishes to review remote gambling taxation in the same way, so there is certainly a parallel piece of work there.

Q777 Chair: If you decide that you can widen the tax base as a result of these new proposals, would you accept that that should allow you to reduce the rate and still achieve the same revenue?
Miss Smith: It would be mathematically possible and internally logical, as my colleague has already tried to set out this morning. There are two separate questions here: there is the question of regulation, as John has gone into—or will go into—and, separately, there is the question of the tax base of that. I would note that, of course, there is a revenue-raising reason behind gambling taxation. We can go into detail on the particular ones among the seven, by all means, but overall, of course, revenue is welcomed into the Exchequer for many good public spending purposes.

Q778 Chair: As a reforming Economic Secretary, would you hope in the long term to be able to achieve a much more harmonised and, hopefully, lower tax rate across the whole of the gambling industry?
Miss Smith: I am afraid, as I say, that much of that decision would go to the Budget and to the Chancellor. Specifically in the context of remote gambling taxation, there are two very good reasons for looking at that: first, as we say, it encourages legitimate activity taking place in the UK to contribute to the Exchequer of the UK and, secondly, for consumers, it clarifies or assists in the clarification of where their activity links to taxation. Those are certainly two things I am looking for in that review.

Q779 Chair: While I understand the sensitivity, with the proximity of the Budget, are you also concerned at the evidence that has been produced by the industry about the difficulties facing particularly bingo clubs?
Miss Smith: I am well aware of those views. Indeed, as John will do in his Department, I meet various stakeholders in the course of my role, and I am certainly well aware of the arguments made.

Q780 Mr Sanders: Does the current 15% upper duty rate for UK land-based casinos put them at a competitive disadvantage?
Miss Smith: Compared with non-UK casinos, are you asking?
Mr Sanders: Yes.
Miss Smith: Right. I am not going to get drawn into international tax codes. I am not fully equipped to do that this morning. The point I would make about casino taxation is that it is linked to profitability. I think that is a fair basis on which to do it. I certainly recognise some of the arguments made around casinos’ level of regulation and supervision, which no doubt we will jointly talk about, but I think that that is a fair basis on which to tax.
Q781 Mr Sanders: We learned on a recent fact-finding mission that 70% of the income of casinos in other parts of the world can come from the high rollers, who tend not to be domestic players. The tax rate in those casinos is rather important, in terms of being able to attract high rollers who are the main funders of those casinos. It is actually an important issue, and perhaps one that the Treasury might look into. What assessment, if any, has the Treasury made of the commercial viability of the UK casino sector?

Miss Smith: That is not an assessment I am presently making in terms of the work I am doing in that area. The overall rates of taxation go into the Budget, as I keep saying. I am aware of the broad issues that you raise. Could you clarify whether in your question you are referring to high-rolling customers, as it were, or high-rolling suppliers?

Mr Sanders: High-rolling customers.

Miss Smith: I am not sure that I would wish to be an Economic Secretary who gave them more tax breaks than others.

Q782 Chair: There are jurisdictions that do. We are talking about people who will lose £2 million or £3 million in a night. They are highly mobile, and we have been told that they will go. Why they should worry too much about the amount of tax they are paying, given the amount of money they have, is not clear. They are, nevertheless, influenced by tax rates, and there are jurisdictions that have more competitive tax rates deliberately for those groups. That is not something that you would find particularly persuasive, then?

Miss Smith: I must say that the economic objective of the Government at present is deficit reduction, and everybody must play their part in that. High rollers perhaps have a particular part in that.

Q783 Mr Sanders: Overseas high rollers?

Chair: I think the argument would be that they would help to reduce the deficit if we could get them to come here.

Miss Smith: Indeed. No doubt they look across the globe at many, many different choices. The tax status of casinos is but one of the elements that I am sure they look at when they decide where to take their yacht next.

Q784 Mr Sanders: May I come on to something quite parochial? Obviously this will be of interest to the Minister, Mr Penrose and me. Why do amusement arcades seem to be of that opinion that this Government have it in for them in the proposed tax changes? Why do you think that is?

Miss Smith: This Government do not have it in for amusement arcades, absolutely not. We are, as I briefly referred to earlier, in the process of reforming what used to be AMLD, which will, plus the VAT, become machine games duty as of 1 February 2013. The Government recently published our consultation response, of which I am sure you will be well aware, and there are a number of measures in there that we are trying to take in order to assist businesses in seaside towns such as Torbay and others, but it must be said that our aim is to put the tax revenues from machines on a sustainable footing.

Q785 Mr Sanders: What sort of representations have you had from seaside resort areas on these changes?

Miss Smith: As I say, I have met a range of stakeholders in my relatively brief tenure in this role, as did my predecessor when she began the exercise of reform, and I am aware of the arguments they put. I have tried to explain to them and, indeed, in much of my correspondence, perhaps with some of your constituents, that this is by no means an attempt to make life more difficult for them but it is, instead, an effort to put the UK’s revenue from machines on a more sustainable footing, and to do so in a way that ensures fair payment of taxation into that.

Q786 Mr Sanders: They are not yet convinced. Is it possible that the consultation process could lead to what would need to be fundamental changes to these proposals? Is it feasible that there would be a change?

Miss Smith: As I say, we have set out the response as a Government to that consultation, and we have been very clear with them about what we intend to do. Talking purely procedurally, if that is what you are after, the remaining part is the setting of rates, which of course would be for the Budget, but the characteristics of what we are planning to do with machine games duty has been set out fairly clearly. I would reiterate, and I ask you to reassure your constituents of this, that it is intended to be revenue neutral. We are not aiming to raise additional revenue from the exercise. The tax will be linked to takings so, again, it almost refers back to the point about profitability. It is our intention to try to be fair within that. I have mentioned sustainability, specifically with reference to the VAT treatment of different machines. It is important to make that clear, both for operators and the UK Government. There will also be some measure of predictability. There will be technological changes in future, which will come down the line, and this measure is intended to place that on a footing that can be easily understood.

Q787 Mr Sanders: There is always a great fear that when any Government say “revenue-neutral”, they are looking at it as a whole. What is actually happening here is that there is a specific sector of the entire industry that tends to be in seaside resorts where the revenues will go up if they are able to stay in business. It is possible it might be revenue-neutral because they go out of business and revenues go down. That is the fear—that some of them will cut back on the amount of business they do, or indeed could well look at going out of business altogether. It is a very serious issue in the seaside resorts, as Mr Penrose should know.

Miss Smith: I do recognise that. As I say, I have engaged particularly with the representative bodies for many of those resorts, and my predecessor did plenty more as well. One example that I hope would be helpful to such resorts would be the treatment of category D machines under the design of the future tax, which would benefit from a lower rate. We have said there would be a two-rate structure. Obviously, I
cannot tell you what that rate would be in this session. We have specifically put category D machines within that, which coincides at present with those that have stakes of up to 10p and prizes of up to £8. Benefiting from that lower rate is a way we have endeavoured to make clear to seaside resorts and others who may, as you say, fear this change, that we are aware of the need for treatment at that end of the scale.

Q788 Philip Davies: Given that nobody actually believes—apart from you, perhaps—that this will be revenue-neutral, and that this is just an attempt to raise taxes in a rather stealthy manner, will you make a promise that if it proves that it is generating more revenue than before, you will cut the rate to make sure that it is no more than revenue-neutral?

Miss Smith: I will personally give a transcript of this session to the Chancellor for his consideration on that point.

Q789 Philip Davies: I want you to go further than that. You are saying to me that the intention is to be revenue-neutral. If that is genuinely the Government’s intention, why can you not give a commitment that, if we find out that it has raised more, you will cut the tax to make sure it is? Why will you not do that if that is the Government’s intention? While you are not prepared to do that, we will all be left with the impression that this has got nothing to do with being revenue-neutral at all.

Miss Smith: All I can do is reassure you of the intention to be revenue-neutral. As I say, much of this decision verges on Budget territory, so I am unable to give a commitment to make sure that it is revenue-neutral, so why will you not do that if that is the case? I assure you it is not our intention to be revenue-neutral at all.

Q790 Philip Davies: You are the one who was going on about being revenue-neutral.

Miss Smith: Which I am assuring you it is.

Q791 Philip Davies: You did not say, “It is revenue-neutral, but of course if we get a bit more, that will be great because we can put it into public services or paying off the deficit.” You were the one who said it is going to be revenue-neutral, so why will you not give a commitment to make sure that it is revenue-neutral?

Miss Smith: It is my intention that the tax is revenue-neutral.

Q792 Philip Davies: On bingo tax, you said it was going to cost the Treasury money to reduce the burden of taxation on the bingo industry. Ernst and Young produced a report that said exactly the opposite. They said that revenue that the Exchequer was getting from bingo has been falling massively over recent years, largely because of the increase in tax, and that, rather than costing money, a reduction in tax on the bingo industry from 20% to 15% would actually lead to an increase in receipts for the Exchequer by a total of over £65 million from the period 2011 to 2014. Why are Ernst and Young wrong in that?

Miss Smith: Clearly, they have put forward analysis. Clearly, the Treasury—indeed HMRC—undertake significant analysis for the decisions they take. We are happy to receive all such data.

Q793 Philip Davies: Will you look at that? It seems to me that the Treasury is saying, “This is what we are getting now. Based on exactly the same behaviour, with a lower tax rate, we’re going to get in less.” That doesn’t seem to be a great analysis; it seems a rather simplistic one. I hope that, as a Conservative, you would accept the premise that lower tax rates can often lead to increased tax revenues, and that what the Treasury and HMRC should be interested in, in terms of getting the deficit down, is increased tax revenues but not necessarily increased tax rates. Do you not accept that?

Miss Smith: I accept that that principle can often come into the world. Indeed, as a perfectly good Conservative I do share your desire to see people freed up in many possible ways, but the point here is that there is an extremely complex landscape around all the different gambling taxes, and the decisions across all of them need to be taken with reference to many other factors. As I say, this Government’s overriding priority at present is deficit reduction, and we would have to take any such decision on gambling rates with reference to that.

Q794 Philip Davies: On that basis, if there was a tax rate for remote gambling of about 5%, the likelihood—the indication that the industry has given—is that the companies would all come back to the UK, that they prefer to be back in the UK and it is the tax rate that is preventing them. Given your keen interest in reducing the deficit, can you just tell us in general principles whether the Treasury’s official policy is that it prefers 15% of nothing or 5% of something? In your own personal view, which option would you choose if you were offered those two?

Miss Smith: Natural though it would be to be able to answer that question for you, I am afraid to say that there are other factors involved in companies’ decisions to locate in place A or place B. I am aware that the Committee has heard evidence from a number of them in the course of this inquiry. The Treasury believes that there are many factors at stake. Of course, taxation rates do send signals to business—naturally that is the case. But, as you will have heard in response to an earlier question—perhaps we will both deal with this in terms of remote gambling and what we are hoping to achieve with the reviews we are doing—I have set out why I want to encourage a place-of-consumption tax. Let me deal with that first, and then let’s go on to the onshore points.

Taking remote duty to a place of consumption is so significant analysis for the decisions they take. We are happy to receive all such data.
revenue that rightly links to activities that take place on our shores. In terms of onshore, it is absolutely desirable to have businesses here, with the jobs that that entails, and that is something that we absolutely have regard to throughout the place-of-consumption-based review and other Treasury activity.

Q795 Philip Davies: That’s a neat dodge, but just humour me for a minute. If the industry, or a large swathe of it, committed to coming back onshore for a 5% tax rate— you say there are other factors at play— and said, “If you reduce the tax to 5%, we, as an industry, or a large swathe of the industry, would come back onshore, pay the tax and create those jobs back in this country,” would the Treasury do it?

Miss Smith: We would consider their evidence, as in fact my colleague set out. There are cases to be made, and there are cases, clearly, that Departments listen to on an evidence-based approach.

Q796 Philip Davies: You used to work for Deloitte, didn’t you?

Miss Smith: I did indeed.

Q797 Philip Davies: Is it a highly regarded company, in your eyes?

Miss Smith: I can’t answer on behalf of the Government, but certainly I enjoyed my time there as an employee.

Q798 Philip Davies: Can I encourage you to read Deloitte’s report of the impact of a point-of-consumption tax on the remote gambling industry?

Miss Smith: It has not yet sent me a copy, but perhaps it will now, after this.

Q799 Philip Davies: I hope you will read it, and will bear it in mind.

Q800 Dr Coffey: Moving on to some of the impact of the 2005 Act with regards to remote gambling, I will cut to the chase on the Health lottery: what exchanges have the DCM S had with the Gambling Commission on how the legal situation is such that it has been allowed to operate?

John Penrose: We have had some exchanges. We have to be careful here, because clearly it would be wrong and inappropriate for politicians to act as policemen— that is a very dangerous place for any Government to go. The Gambling Commission is the official policeman and regulator of the industry, and has to take the regulatory decisions independently of any political interference. As you would expect, we have asked to be kept informed, but we cannot pry too deeply into individual cases, because that would be wrong. If there were problems with any lottery or anyone else, we would expect to be notified of them, but only as the Gambling Commission was acting to fix them.

Q801 Dr Coffey: We heard earlier from Ms Williams that its view—I hope we will see the legal advice at some point— was that, under the terms of the law, it had no choice but to allow it. I cannot believe that that was the intention of the 2005 Gambling Act. Are the Government going to seek to address that and other unintended consequences, through primary legislation?

John Penrose: You will have to ask other people whether or not that was the original intention behind the Act. I think you have heard evidence to say that the original intentions behind the Act got rather twisted and pushed around during the course of its passage, so divining its eventual intention is an advanced and difficult art. The point that I would make is that there are people who are worried about the Health lottery in particular. We have to be really careful, though, because there are really good examples of other kinds of lotteries that are similar in structure—not identical, but similar—which I think we would all regard as sensible. External lottery managers—ELMs—are growing. They are increasingly large-scale and common, from quite a small base. They are collecting together groups of small, local society lotteries for your local hospice, this or that good cause or whatever it may be, and saying, “If you let us run your lottery, we can cut your back-office costs and there will therefore be more and more money available to go to the good cause you are raising money for.” There are other examples of ELMs out there that are doing legally the same thing as the Health lottery, which I think we would all be thoroughly in favour of. We would need to be really careful to make sure that we were not hamstringing them, and we would need to have really strong proof that the Health lottery was doing something bad before we started to move ahead.
Q803 Chair: Do you not accept that it looks a bit strange that you are setting these caps on individual society lotteries, particularly those benefiting hospices, which we would generally recognise as being a good thing, and that the justification of those caps was to protect the National lottery? At the same time, you now have the Health lottery, which is yielding rather less money for good causes than the National lottery, and which is apparently able to go ahead without any legal impediment.

John Penrose: We are watching very closely. The Health lottery is still fairly young. It has only been going for a couple of months. So we are watching very closely to see whether it has an impact on the National lottery or other society lotteries. We need to let it settle down. By being innovative, they may have shown opportunities to other existing society lotteries which they were not aware of before and which they may now want to copy. If they decide that they do, they might then also get very annoyed if I start closing stable doors on them just as they are about to walk through them.

Q804 Chair: So your view is that it may turn out that the protection afforded to the National lottery originally is no longer necessary?

John Penrose: If I said that, that was not what I meant. What I am trying to say is that we need to tread very carefully here. We need to see how the Health lottery grows. It is still relatively early days. We don’t know whether it is having any impact at all, if it is cannibalistic or additive, on either the National lottery or other society lotteries at the moment. There just isn’t the fact base because it has not been going for long enough. It also may be that the new facets that they brought to bear—this new structure that they are applying which the Gambling Commission says is within the terms of the Act—are something that others want to copy. If they decide that it is to their advantage and other good causes want to do that, we would need to have very good arguments about why we would want to stop them doing so.

Q805 Paul Farrelly: I was taken by your categorical statement that it would be dangerous for politicians to be policemen. Do you not consider yourself as a politician and a Minister as very much a day in, day out metaphorical policeman of the public interest?

John Penrose: Metaphorically, yes. Legally and regulatorily, no.

Q806 Paul Farrelly: But there is a policing role for you in a metaphorical sense?

John Penrose: Yes. The point I was trying to make is that in the same way as you do not want politicians interfering in the conduct of individual cases in front of judges in the judicial system—that would be a very dangerous thing—we do not want to have politicians interfering in the way that regulators handle individual cases in this industry or any other. That would also be dangerous. However, you are absolutely right: all of us here have a role in fulfilling the policing of the public interest.

Q807 Paul Farrelly: Irrespective of its impact, because it is early days, would you accept the common-sense view that in terms of structure and approach, the Health lottery has been set up as a competitor to the National lottery?

John Penrose: No. I don’t think I would. First, it is raising money for something which the National lottery doesn’t. It is on an entirely different part of the playing field in that respect. Secondly, the games are designed differently and so on. So I do not think it is trying to take on the National lottery. Thirdly and if it is, it will have a very difficult time of it because their relative sizes are vastly different. We have to be a bit careful as well because the 2005 Act explicitly allowed for—sensibly allowed for—society lotteries to carry on existing. They said these are sensible things and we want them to continue in existence. If you advance the argument that the Health lottery is competing against the National lottery I am not sure where you stop about arguing that your local hospital lottery is not competing against the National lottery in that area as well.

Q808 Paul Farrelly: One final question. Clearly there are protections for the National lottery. Bookmakers cannot offer bets on the outcome of the lottery because otherwise they would offer better odds. So there is a very strict protection there. You mentioned impacts and it is early days, but were there to be a significant impact on the National lottery as a result of this very clever construction taking advantage of all the loopholes in the legislation, when you say you are studying the impact, if the impact is great then you are saying effectively there may very well be a case for intervening in the future.

John Penrose: If the impact is great we would want to consider action very carefully. I cannot prejudge what that might be and we do not know whether there is any impact yet. We have some research going on. We would certainly want to look at it very carefully and we are keeping a watching brief on it for that reason.

Q809 Chair: Regarding your proposals for requiring a licence of all operators who serve UK-based customers, you are pretty much convinced that that is the way to go. What is the time scale for the introduction of that?

John Penrose: At the moment we are bidding for legislative slots in what I am sure everybody here will appreciate is an extremely crowded parliamentary timetable. That has not been announced, and we will not know until the Queen’s Speech, but we want to move forward with the legislation as fast as the parliamentary timetable allows. That said, I am acutely conscious of the fact that I am one among many people bidding for a very limited number of slots, so there is a queue. We are arguing as strongly as we can about the vital importance of this to the national interest, but there are other people with strong arguments too.

Q810 Chair: So despite what you said earlier, DCMS is bidding for a gambling Bill in the next Session?
John Penrose: We are bidding for a remote gambling Bill as soon as we can get one, to get our clauses in.

Q811 Chair: As you rightly say, there is a lot of competition. There will not necessarily be huge enthusiasm among those who have experienced previous gambling Bills to go into a Committee on the subject again. In the meantime, you have closed the white list. What about those people who would like to join the white list but have been told that because of the changes they cannot do so, who may be left in limbo for several years to come?

John Penrose: I take your point. This may be a non-issue if we manage to get a place early in the legislative queue, or it may be quite significant if we get a place but it is some way hence. There are only one or two people in the situation you are describing at the moment who are concerned, and Jersey is a good example. I have said to those people that if it turns out that we get a place further down the legislative list, we need to look at other alternative interim measures that will not disadvantage them. At the moment that is slightly premature, because we do not know where we are on the legislative timetable.

Q812 Chair: If we do move to this new position where you are licensing operators around the world to operate in the UK, at the same time will you be moving to take action—perhaps through site-blocking or financial prevention of transactions—to attack the illegal market?

John Penrose: The short answer is that all options for enforcement are on the table at the moment. There are a number of different techniques that you can use. The two you have just cited might work, but they come with some significant practical concerns. We are looking at those along with a whole raft of other bits and pieces.

Q813 Chair: But it would be your intention to take action to prevent illegal sites?

John Penrose: We will certainly take action, whether those two options specifically or other things—yes, absolutely.

Q814 Paul Farrelly: In changing the approach to the regulation, what in your mind is the main problem we are trying to fix?

John Penrose: On remote gambling?

Paul Farrelly: Yes.

John Penrose: At the moment the problem is that if you or I, as punters based in the UK, go online and start gambling on a particular gambling site, it is quite hard to tell whether it is run by a responsible and well-regulated operator based either in the UK or somewhere else that has a decent gambling operator, or by the equivalent of Arthur Daley Dodgy Gambling Inc. based in North Korea. That is a very dangerous place for punters and consumers in the UK to be. Because it is hard to tell when you log on to a gambling site where it is based and, therefore, what degree of protection you have got, I would like to make sure that people have the protection they expect. I think what people expect is that they get the same sort of protection as if they walked into their local high street bookie’s office.

Q815 Paul Farrelly: Bearing in mind Full Tilt, would you expect that what happens in the pensions industry and the financial services industry—customers’ deposits, effectively, are kept separately from the business’s funds—is a lesson learned from that saga?

John Penrose: I would put it more broadly than that. There are a whole range of precautionary things that you would expect to see in a well-regulated industry, and I do not particularly want to pick on that one. There are a whole range of other things to do with machine design, making sure that machines cannot be tampered with, the training required of staff who operate the machines and all sorts of other things. If you are going to license someone to provide either remote gambling or onshore gambling—increasingly, the line between those two things is blurring, as you have heard—you have to make sure that they are ticking a whole number of boxes. If they do not tick any of them, you start to add up the total number where they are falling short. As you say, because the industry is changing so fast, technologically as much as anything else, and because it is internationalising so fast, this is an area of consumer protection that can only get worse if we do not fix it now.

Q816 Paul Farrelly: So our current structure, as has been shown in Alderney, does not protect against people lying to you, but the protections were not there for Full Tilt. Our system is flawed in the same respect in not giving any protection.

John Penrose: I am sorry, I am not equipped to talk about Full Tilt; it is being regulated elsewhere. If you have a specific question about whether the issue of Full Tilt could happen here, I cannot tell you whether it could or could not. I am happy to write to you if that is particularly what you are after, or are you making a more general point? I am cautious about commenting on individual cases, as you can appreciate.

Q817 Paul Farrelly: No, it’s the system point. Let’s take a hypothetical case, as we have taken metaphorical policemen. I could just read you the Gambling Commission briefing: “Alderney, like the UK, does not require player funds to be protected in any particular way.” We have the same approach here, which has proved to be flawed elsewhere. That is something that you would want us to fix.

John Penrose: I don’t know, is the simple answer. I would need to go and check on that one. I am afraid I do not know whether that is likely to be duplicated again. Is Full Tilt a sad but isolated example or is it part of a wider pattern? If it is, we would want to take it very seriously. Therefore, rather than generalise from an individual but serious case, if you don’t mind, I am going to write to you on that one to ensure you have a proper answer.

Q818 Mr Sutcliffe: Returning to the 2005 Act and the casino policy, I think we all bear the scars of what happened. The Committee was fortunate enough on Tuesday to go to Aspers, the new casino at the
Westfield development, at the Olympic site. We were pleased to see that the success of that casino had exceeded expectations. It opened on 5 December and it has been doing very well; it has increased the number of staff and the training and development. I think that reinforces the argument about the regeneration opportunities that casinos could give. Those were the main arguments that we used at the time of the policy.

What happened with the 2005 Act was that the permitted area policy has stayed and there is no flexibility now in terms of the portability of casino licences. I want your comments around that and what you see as the future of the casino policy. It may now be outdated in terms of the floor space for small casinos. I understand that this is an area that, as you said earlier, people might not want to revisit. This is a sector that can grow and can help in the growth of the economy. Have you any thoughts about how you would want to pursue that?

**John Penrose:** This is a really good example of one of the points we talked about earlier about frustration within the industry. It is not the only example; there are other sources of frustration, too. This is clearly one. There are all sorts of things you could do here. You have just given a couple of classic examples. There is an overall point I would refer back to, which is our earlier conversation about evidence and knowing what is safe. That is the thing that is casting a shadow or blight over an awful lot of our ability to act in gambling at the moment. Until we have sorted that issue out—I won’t go over that argument again, we have already discussed it. That limits what we can do quite severely.

On the point about portability of licences and some of the new 2005 Act licences, the one you just mentioned, the Aspers casino, is the first large one to open. There are others that are in train, but it is a very slow and tortuous process to get to opening day for many of them. I am cautious. If you have operators who have applied in good faith for operators’ licences under the new Act in specific places and they know how that interacts with their existing casino estate, then we start changing it before they have even got through the bidding process for the new licences, and we start altering other things, an awful lot of the business cases they have for their new Act licences may well be undermined unfairly. It would be fairer to let those processes finish, grindingly slow though that is in some cases. Then we will need to look at how they have worked and go back and consider whether it is possible to address some of the issues, like portability.

Portability is one of those things that other stakeholders have really strong views on—understandably so. There are an awful lot of unused licences, and if you allow portability, an awful lot of them will come into use very quickly. At that point, effectively, portability means that people will say, “Well, we allow another 40, or however many extra licences are currently unused, to open quickly.” That is something that many people out there are very nervous about, for the reasons that we discussed.

**Q819 Mr Sutcliffe:** I understand the reasoning behind that. Could you give us a time scale for when you think is a reasonable bedding-in period? Is the first one for a long period of time? The sector believes that it does not have a level playing field, in that it is affected by issues around the number of machines, tables and so on. They are restricted in their growth in what we saw as an opportunity for creating employment and revenue for the trade.

**John Penrose:** There are a number of competitions under way. I have a list. There is Bath, Great Yarmouth, Luton and a series of other large and small-sized casinos. A number of others are expected to be launched this year. Some are delayed, and people are starting to question whether they will happen. We need to let the ones that are under way finish—manage to get built and start trading—and it would probably be unfair to exclude the ones that are launching this year.

At some point, it will become clear that that process is finished and that the ones that have not yet started are never going to, for economic reasons as much as anything else. As soon as we have a clear picture about how those work, we will be able to take stock properly, then we can start looking at some of the others, but we will still be subject to constraints about what is safe and what is not, which I was talking about before.

**Q820 Mr Sutcliffe:** A final question in relation to the Department and earlier questions to the Gambling Commission: are you confident that the Department has enough staffing resources to deal with the many issues that the gambling industry faces?

**John Penrose:** Yes, but we are having to tighten our belt as much as anyone else. Everyone in the public sector is having to make cuts; we are having to do the same. Therefore, we are having to work smarter and be nimble to make this work. You are right that we will have to keep a close eye on some parts of the gambling industry, so we will make sure that we are properly resourced in this area on an ongoing basis. I suspect that the demands that will be placed on us will partly depend on how your report comes out and what other things must be done to continue the tidying-up process after the 2005 Act. You cannot predict some of that stuff—things happen.

**Q821 Chair:** I have to take some responsibility for the fact that the Act finally emerged allowing just one regional casino licence to be issued. That remains on the statute book. It would require the Government to move secondary legislation to allow a particular licence in an area to be issued. Do you have any appetite to reconsider establishing a regional casino in the UK?

**John Penrose:** This is the “guns at Balaklava” moment that I mentioned before. I remember the last Parliament and the previous Government’s tortured process trying to work out whether Blackpool should have it. Then Manchester suddenly, magically materialised as the successful bidder and everyone said, “What?” It is not a process or experience that anyone is anxious to reopen in the short term.
Chair: The Committee had this discussion in the Venetian in Macau. I do not think we anticipated that anything on quite that scale would be likely to be built in the UK. Nonetheless, the operators suggested that, potentially, there was at least one location that was built in the UK. Nevertheless, the operators suggested that anything on quite that scale would be likely to be

John Penrose: Partly because it doesn’t pay to be naive in this area. It is so difficult and we have had recent proof about why it is so difficult. One of the reasons why it was so difficult was because people were increasingly questioning some of the balance of social costs and harm versus regeneration benefits. There is no doubt that there could be some regeneration benefits, but people were increasingly questioning the balance of the cost and the opportunities there. It is not just a question of concern about the process; it is also that people were genuinely asking whether or not this was something that was a good idea per se, which I suspect was at least part of the reason why the number of regional super-casinos was cut down to just one in the original Act in the first place.

Damian Collins: To follow up with a couple of questions about casinos as well, this is a question that I put to Richard Caborn last week: do you think it is right that a small casino needs to have more gaming tables to maximise its allowance for machines than a large casino, which is what the current Act provides for?

John Penrose: The short answer is I haven’t got a clue, nor has anyone else. We heard from Richard that an awful lot of the numbers in the Act were plucked out of the air and were altered on an unscientific basis as the Bill went along. We are where we are, but the one thing that I am sure of is that those ratios may be based in some cases on professionally educated instincts and the best available information that we have got. However, to go back to my earlier point about the lack of research and the lack of solid evidence base, they aren’t based on that.

As I think Richard said, they could have equally well have chosen a different set of ratios, and that is where they ended up. I don’t think that anyone is claiming that it has got a vast amount of science behind it. The problem is that, if you leave what Parliament has ended up. I don’t think that anyone is claiming that it has got a vast amount of science behind it. The problem is that, if you leave what Parliament has decided and move to something else, you’ve got to show that it’s better. Until we have the evidence, we cannot show that.

Damian Collins: But wouldn’t common sense dictate that—a large casino would be bigger and needs only 30 gaming tables to maximise its machine allowance, and a small casino needs 40 to do the same job—those numbers are simply the wrong way round, so the ratio should be changed?

John Penrose: A gain, my problem is simply this: if I start to alter the number of machines in a high street bookie or the number of tables in a particular kind of casino, everybody else in all other parts of the industry is going to say, “Ah, but you are benefiting that group competitively compared with us. You are making us more or less attractive to gambling punters. Now you have changed that, we want you to change all of ours, too.” It is not something that you can do just a little bit. If you open Pandora’s box, you’ve got to do the whole thing. You can’t start tweaking a bit here and a bit there. It doesn’t work that way. We got quite a lot of flak from other parts of the industry about the B3 change.

Damian Collins: You have done a bit of tweaking already. You’ve opened Pandora’s box once.

John Penrose: And my only defence there was that this is a manifesto commitment, so don’t ask me if it wasn’t in the manifesto. I can’t make that argument about anything else. The problem with it is that you can’t start twiddling at one end, without everybody else in the industry making the same argument. You’ve only got to listen to, “BACTA is concerned about B2 machines in high street bookies”, “High street bookies are concerned about BACTA’s members” and vice versa. The moment we change one thing, they will all come knocking on your door. If you have done it for one, why wouldn’t you do it for another? You’ve got to have a very good reason. At the moment, there is no good reason out there because there is not an adequate fact base.

Damian Collins: Certainly, small casinos say that there is a pretty good reason for doing it.

John Penrose: I am sure they would.

Damian Collins: Do you think that there is a strong case for having one ratio? There seems to be a perverse outcome to the ratio set by the last Government that even previous Ministers—we could ask Gerry for his view as well—accept. I appreciate the complexity, but it would be useful to know whether the Ministers feel that this is something that came out of the old Act which just doesn’t make any sense.

John Penrose: The short answer is that there are all sorts of things in the Act, which I would love to be able to consider for changes. How would you change them is a huge debate and, at the moment, it is incredibly dangerous to change. It would be naive to think you can change them and expect to end up where you were initially aiming. What happened with the last Act was that they were aiming for one place and ended up somewhere very, very different. That is what would happen again if we tried to do this. It is not that I do not want to do it; it is just that it would be naive to think that we would be treated differently if we started doing it, compared with what the previous Government did when they tried.

Damian Collins: Gerry asked about the portability of licences and, again, Tessa Jowell and Richard Caborn indicated that they felt that this could be looked at again. You mentioned that there are licences that have not been taken up. There are 37 unused licences at the moment. There are 35 local authorities that unsuccessfully bid for licences in the past. Jonathan made the reasonably compelling case that there is a market for the portability of licences. If the Gambling Commission and the individual local authorities are satisfied that this is what they want,
this is something that you, as a localist, as you said at the beginning, should support.

John Penrose: You are absolutely right, I think that there is a market for it. However, again, there is also a very large constituency of people out there who would be horrified at the thought of nearly 40 extra casinos opening up at some point in the next year or two. Therefore, unless you and I and the Department as a whole can say, "No, we have got research to show that this will not vastly or significantly increase the number of problem gamblers", we are on extremely dangerous ground.

Q829 Damian Collins: But isn't it a problem that the licences have been created, but not taken up? Perhaps the new licences have been granted to the wrong parts of the country and should therefore be reviewed. We are not asking for additional licences; we are simply asking for the quotas that are available to be used.

John Penrose: The licences granted were granted in the permitted areas, as allowed under the old Act. They knew where they could and could not be used. The suggestion is, "Perhaps deregulate this chunk of the market and significantly to allow something like 40 new casinos to start up at some point in the next 18 months." That is a pretty big thing and there are an awful lot of people out there who would be completely horrified by it and would say, "How can you show us that there will not be a very large number of extra problem gamblers as a result?" The problem that all of us would face is that we cannot prove that and the precautionary principle would be expected to be applied by an awful lot of people.

Q830 Damian Collins: But, as I have said, you can equally ask them, "How do you know that they will?", because they do not know either.

John Penrose: Yes, you could, but look what happened last time.

Q831 Damian Collins: But would you be sympathetic to saying that, if there are licences assigned to areas, which have been unused and the local authority has no appetite to take them up or there is no business case for doing it any more, on those cases the market could be completely deregulated?

John Penrose: That is illustrated a couple. My problem is: how do you do you change that? How do you move safely from what the last Government tried and failed to do?

Q832 Damian Collins: Again, our job on this Committee is to review the old legislation and how it has been implemented and how it is working. There seems to be this odd situation now whereby, because of the concern about the increasing availability of gambling through more gambling venues, the Government want to have casino licences in parts of the country where they know that casinos will never be built as a way of restricting the number of casinos, rather than saying, "We have a regime of licences. We have set those limits already by law. That can be fulfilled, but no further." John Penrose: I don't want to sit here and try to justify the 2005 Act, because it was not my Government that put it in place. We have all heard about how it got messed around and ended up in a place it was not expected to. You are right. There are all sorts of inconsistencies in it. You just clearly illustrated a couple. My problem is: how do you change that?

Q833 Damian Collins: But this could presumably go in the gambling Bill that you referred to earlier.

John Penrose: The gambling Bill is a remote gambling Bill. It is a very short Bill. For the benefit of anybody who is involved in putting the parliamentary schedule together, it is a very short piece of Government legislation which I hope is entirely uncontroversial and so would hardly take any time at all.

Q834 Damian Collins: Just for clarification, remote in that it is about remote gambling rather than remote in that it is a quite a long way off yet?

John Penrose: The former, not the latter.

Q835 Damian Collins: We discussed the prevalence study in the previous session and the fact that there is not the funding to continue that. Do you think that that sort of research should be funded by means of a levy imposed on the industry?

John Penrose: That is always a possibility. It would be far better if the industry made a series of voluntary contributions, which they have started doing and have done up until now. To do it themselves would be less of a regulatory burden, for a start. There would be less red tape, less bureaucracy if they did it voluntarily. I am hopeful, but I am not counting any chickens at this stage that the new structures and approach that are under discussion will get us to where we need to be. It would be more efficient in terms of the costliness of running the organisation, it will have the kind of independent clout that we need and it will be financed voluntarily. If not, a statutory levy is always a
Q836 Mr Sanders: Is there not a case for seaside resorts, for example, which want to improve their infrastructure, to go upmarket with their cuisine, to improve the quality of the accommodation that is available, to have all-weather facilities, to attract families— that that sort of leisure complex could fulfill that need and could be viable if it had an adult entertainment centre attached to it? Our hang-up seems to be calling these things casinos, because they are actually far more regulated than any other form of betting. I am just wondering whether there is not, even in the Act, scope for the Government to assist if there were such a proposal for that resort, be it Blackpool or Weston-super-Mare, or would the Government say, “Oh no, we’re not going to touch it”?

John Penrose: Coastal resorts and others had that opportunity quite recently. They had a chance to bid for 2005 Act licences. Some of them decided that they wanted to. Plenty decided that they didn’t and some of the others who decided that they wanted to have taken a closer look at the numbers and decided not to. But there are some that are under way. The choice was offered relatively recently. It is not currently on the table unless we manage to resolve some of the portability issues which Gerry and Damian were asking about just now. It might become so if we could resolve those issues. But even without that, there are already adult gaming centres which are part of amusement arcades predominantly in seaside towns which could be upsized and included in modern facilities. Many of them are. Many resorts are thinking in that way at the moment and I would encourage them to do so. It is the sort of thing that, under the existing legislation, is an integral part of modernising the offer and keeping seaside towns with a modern appeal.

Q837 Philip Davies: I want to ask about two final, unintended consequences of the 2005 Act and to find out what you intend to do. The first relates to snooker venues. The 2005 Act prevented them from being able to offer £500 top prizes from their machines, leading to a huge loss of revenue to them, and lots of snooker clubs have closed down as a result. The contention, which appears to have been accepted by the Minister at the time, is that this was an unintended consequence of the 2005 Act. It was not intended to affect commercial snooker venues. So, given that, are the Government sympathetic to trying to rectify what was an unintended consequence?

John Penrose: We are sympathetic up to a point. I have had conversations with Rileys, which is the largest firm in the sector and suggested that we would like to find ways in which they can work within the existing legislation. For example, they could, if they wanted to, open up AGCs—adult gaming centres—adjacent to, but not as part of, their premises. They would be technically separate, but they could be very close by, which would give them much of what they want. They are not sure about that, and they are worried about some of the ways in which they currently interact with local licensing authorities. We have encouraged them to discuss that in more detail to see whether a sensible accommodation can be reached.

I would like to encourage that as a starting point. It is not precisely what people like Rileys are proposing. The difficulty is that if you start doing precisely what people like Rileys are proposing, which is a carve-out and an additional chunk of the Act, you potentially have the thin end of a very large wedge, because if you allow cue sports clubs to have more gambling machines, pretty soon it will be hard to make a distinction between cue sports clubs and, for example, ordinary private drinking clubs of one kind or another—British Legion clubs, Conservative clubs, Liberal clubs, working men’s clubs or whatever it might be. It is hard to see why they should be treated very much differently.

I am worried about their specific proposals opening a much bigger door, but I think there may be other solutions that we can pursue, and we are trying to help them to do that within the existing legislation.

Q838 Philip Davies: But the problem of not doing it is that they have already had to close 65 clubs and lost hundreds of jobs, and that problem may well only get worse while the Government do not do anything about it.

John Penrose: I think it is not necessarily clear or proven that the problems which Rileys and others have had is just as a result of losing a few machines in their clubs. As you will know, I am sure, there has been a widespread problem with pubs closing down right the way across the country, with all sorts of associated knock-on effects. Cue sports clubs have very many similarities to pubs and clubs, and they have been suffering as well. I guess the question is whether we would be asking whether other pubs or clubs should be allowed to have additional gambling machines as a way of saving them, or whether we would expect them to do other things, like offering food and all the other things that successful pubs are doing. There is an overall piece of economic weather which they are suffering under and which is much broader than this. I am not sure whether it is necessarily fair to say that this is just due to the fact that they lost one or two particular kinds of gambling machines as a result of the 2005 Act.

Q839 Philip Davies: The final unintended consequence, which Richard Caborn helpfully made clear was a totally unintended consequence of the 2005 Act, relates to on-course bookmakers and their rights to their pitch allocations. Most of the race courses and bookmakers have come to an agreement, but some are still outstanding—Jockey Club race courses is the main one that is still outstanding to have an agreement.

The previous Minister was very helpful in the sense that he made it clear to the race courses that if they did not come to a reasonable agreement, he would consider legislating to force them to go back to the old system, if necessary, because it was an unintended consequence of the Act. Will you do something similar to make sure that Jockey Club race courses do not abuse an unintended consequence of that Act—
put on-course bookmakers, who are already struggling very badly, in a position which will make them totally unviable for the future?

**John Penrose:** On this one, I have been taking a leaf from the position that Gerry set out when he was the Minister on this one. What we have been saying, very consistently, is that we expect the courses and the bookmakers to come to an agreement. To be fair, some of them have, as you have already mentioned. Arena and Northern, and at least some of the independents that are not RMG data rights companies, either have already signed up or are on the way to signing. In total, that is about half the race-course estate. The other half, which are Racecourse Media Group clients, are still in negotiation. From what I understand, the main sticking point is the issue of data rights.

The point I am making to them repeatedly—it has got to the point where Simon Bazalgette from the Jockey Club flinches when he sees me coming, because he knows what I am going to ask him—is that we need to get this fixed. The clock is ticking: it has got to be done by September. I think that we still have time because, once we get Jockey Club race courses over the line, the remaining independents should follow because that will provide a template for them. But we have not got that much time, and they need to move along. Without going into too much detail about what options are open, because it will depend on who has already signed contracts and who has not and why not, all options remain open to me at this point. I hope not to have to use any of them.

**Q840 Philip Davies:** But will you be prepared to, if Jockey Club race courses do not come to a reasonable agreement with their bookmakers?

**John Penrose:** I do not want to start taking sides about one side or the other being the recalcitrant one until that is abundantly clear, and I want them both to reach an independent agreement. The point I have been making to both sides is that if you end up with a politician intervening to create a deal, it is almost certainly not going to be as good as one you have reached yourself.

**Chair:** Thank you for your tolerance and your attendance.
Summary

— Probability plc is a British company at the leading edge of developing gambling technology for mobile devices, and with a global audience. The company’s UK team develops and licenses gambling games and services for mobile devices (including smartphones such as the iPhone and tablets such as iPad).

— Mobile services are the future of remote gambling, and are likely to eclipse the traditional PC/on-line gambling business within a few years. The UK has the potential to be a world leader in the technology and services which will drive that market—if the shape of our gambling regulation allows it to be so.

— Our own success would not have been possible without the stability and flexibility provided by the 2005 Act. We believe that the Government should build on this success in updating the Act, particularly in the context of betting operators having largely left the country for tax reasons. While it will be difficult to attract the betting industry back onshore, the implementation of our suggested changes has the potential to foster software development as a UK-based industry and provide other reasons to keep investment and services here.

— In our submission, we are suggesting to the Committee two cost-free improvements to the Act which would, in our view, help to foster this new industry, creating valuable, skilled and sustainable jobs in the UK for long-term competitive advantage. This includes a proposed statutory responsibility for the Gambling Commission to promote both the supply and operating sides of the UK Gambling industry as a source of jobs and income to the UK in a valuable global marketplace.

— We also wish to emphasise that, in any restructuring of the current Act in relation to remote gambling, consideration should be given to the likely impact of any change on businesses which provide high-added-value technology and support to the gambling operators which create jobs, attract investment, and promote Britain abroad. The law of unintended consequences may not be one which Parliament can amend, but it can be avoided.

Submission

A. Context

1. Probability plc is listed on the London Stock Exchange and headquartered in London. The group employs 22 people in the UK and around 12 in Gibraltar. We develop all of the technology for the business in London and are registered with the Gambling Commission for this purpose. Probability Gibraltar Limited, a wholly-owned subsidiary, operates gambling services from Gibraltar under a remote gambling licence from the government of Gibraltar, using the technology developed in the UK.

2. We licence the technology globally to other gambling operators from Ireland to Mexico. There is almost noone else of any scale currently providing an equivalent system that we are aware of.

3. Probability was founded in 2004 with the intention of developing “casual” (low stakes) gambling games for the new generation of internet-enabled mobile phones. The most popular formats are simple slot games, and Bingo. Complex games, such as Poker, have been a notable failure. Consumers look to these mobile games for a short period of distraction; 83% tell us that they generally play whilst on the sofa watching TV. 80% of our registered players also tell us that they do not use online gambling services as well as our mobile services. Average spend is low compared to “hard” gambling (such as sports betting) and play sessions are typically under ten minutes long. The most successful games have a return-to-player over 95%, meaning that players get quite a lot of game-time for their money.

4. Members of the Committee are well aware of the of the smartphone’s impact in every corner of our lives, including Honorable Members using Twitter in the Chamber during debates. This phenomenon is still very new. The iPhone itself was only launched in mid-2007. Today, smartphones now account for the great majority of mobiles being sold. For the same price as a standard cameraphone circa 2009, today’s consumer can choose from a range of devices complete with an always-on fast internet connection, built-in social media and web browsing, a cornucopia of Apps, GPS-powered mapping, a ton of music storage and full-screen video. These are not phones any more; they are pocket supercomputers and their purpose is not utility but lifestyle.

5. Gambling is, like most industries, shaped by technology as much as by economics and regulation, but the industry has traditionally sought to adapt recent technologies to its product-offering, rather than creating new technology itself. For example, the technology behind FOBTs (which the Committee will know have transformed LBOs in recent years) is 10 years old.

6. While the UK has led the world’s betting market, US businesses are the most expert in slot machines and Israel has led in the technology for on-line (i.e desktop PC-based) gambling over the past decade. The

1 Consider Betfair, Orbis (now OpenBet) and IG Index.
2 For example, Scientific Games, IGT and Bally.
3 For example, companies such as Playtech and 888.
8. A key factor in sparking this renaissance of high-tech gambling technology investment has been, we believe, the stability and openness provided by the 2005 Act. With this legislation in place, technology firms, investors and entrepreneurs are free to harness the skills and experience of UK developers and designers—with the additional benefit of a large domestic market if they are successful. Furthermore, with the UK’s prospect of lower corporation tax rates and range of double taxation treaties which are supportive of IP based businesses, as well as our location within the EU mean that competitiveness is not a long-term issue.

9. The next few years will see a new and powerful wave of innovation sweep the Gambling industry as new technologies and a new regulatory paradigm in major markets. Although the 2005 Act was deemed to be future-proof, changes to it would be needed if the UK is to consolidate its position as the right home for developers and exporters of cutting-edge software and technologies.

10. Some services offered by operators licensed under the Act are already being eclipsed. In the sports betting industry, some leading operators are already achieving up to 25% of their betting volume on mobile, just months after launching the service. Probability launched its iPhone and Android games in August 2010; by March 2011, these devices represented 50% of activity. Clearly, remote gambling activity in the UK is likely to continue to move to mobile in the next few years.

11. Although the intention was to future-proof the Act, the reality is that the breed of consumer on which the remote gambling industry (like many software sectors) has been built is dying. Domestic PCs, broadband, and a sufficient attention span to play Bingo or Poker rather than watch TV are quickly becoming things of the past.

12. With two, free, changes to the Act, the UK could exploit its position as the most natural home to base a gambling technology business exploiting this opportunity. That position is founded on an advanced technology base and a gadget-crazed populous, similar to the US; and a sensible regulatory environment alongside a strong domestic and export opportunity in the EU, both of which the US lacks.

B. Proposed changes to the Act

13. The requirement for any company engaged in developing gambling software to have a licence in the UK, even if (as in our case) the company does not market that software to be operated in the UK, creates confusion amongst technology companies seeking to set up here. Such software does not need to comply in any way with UK regulations, and is not tested or verified or even reviewed by the Gambling Commission, so the permit is just to be in business. We are not aware of any other country having such a requirement. Every other sound regulatory regime approves and controls the software, not the company that builds it. We should do the same.

14. Second, the Gambling Commission operates purely as a regulator in the UK, when it could and should play a leading role in encouraging businesses to develop and promotion gambling technologies from the UK. to the Commission does not see this as being its role. In our view, a statutory responsibility to promote the British gambling industry at home and abroad would benefit everyone and should be considered. There is plenty of anecdotal evidence which suggests that the failure of the Commission to support the UK-based industry has had an impact on companies’ decisions not to base themselves in the UK, and it is notable that most other jurisdictions promote themselves actively to attract industry players.

15. We have considered what the discharge of this new responsibility might consist of in practice for the Commission. One important function might be working with other regulators in the EU, and further afield, to establish mutual recognition of technology certification or, at the very least, complementary technical standards. Certification is the result of due diligence to prove the compliance of a piece of gambling technology with a particular piece of regulation. Even where the technology meets every requirement of each jurisdiction, the testing must be done from scratch every time. It’s a waste of time and money, it is anti-competitive and counter productive. The only people guaranteed to make money are the lawyers, which is never a good thing. If the Gambling Commission were able to, more mutual recognition would mean more development in the UK and more investment here as a hub for new service creation. We are aware that the Government has been consulting on the application of the principle of cooperation between regulators, and this would be an excellent place to demonstrate the value of that principle were it to be adopted.

Israeli technology business is generally export-led and its investors and entrepreneurs in this sector tend to think of Europe in particular as their domestic market. The prohibition on remote gaming in the US has meant that there is little or no on-line technology investment by Americans in the sector.

7. Since the passage of the Act, the UK has become a much more popular place to set up and grown a business developing gambling technology and game creation. The UK has the most developed businesses worldwide in mobile gambling with companies such as Probability and mFuse. It is also now a centre for innovation in on-line gambling game design, as well as back-office systems and analysis, as well as original content derivation and licensing. This mirrors the success of the UK in, for example, video game design. Still, this flourishing of the high-tech end of the business has largely gone unnoticed.
16. Another proactive role for the Commission might be in promoting the recognition of the gambling industry as a career option for designers, developers and as an attractive place for investors and entrepreneurs to ply their trade. There are some highly specialist skills required from mathematicians, for example, which neither colleges nor universities seem to be aware of. The Gambling Commission is the natural focal point for this kind of information sharing and education, but does not do anything like this (as far as we are aware).

17. The Commission could also play a role promoting the potential and the interests of the innovation side of the industry within government. The interests of supply-side companies, such as ours, are almost completely crowded out by the operators. However, a more rounded view of the gambling industry in the UK would realise that it consists of domestic operators and potentially global suppliers. OpenBet, for example, supplies the back office systems for most UK bookmakers, as well as the Quebec state Lottery and the French PMU. That company is as much a hero of the UK gambling industry as William Hill (which uses Playtech technology from Israel for its on-line business).

18. One of the intentions of the Government in passing the Gambling Act 2005 was to make the UK a home for the gambling industry. Because of the fiscal environment, that goal was not achieved as far as betting operators are concerned. However, the UK is a leader in technology and gambling software, and small changes to the Act would ensure that it remains so.

19. Finally, whatever consideration the Committee chooses to give to our suggestions above, we would ask the Members to consider carefully the effect of any changes to the legislation on innovation and investment in these technologies in the UK. A stable regime, such as we have had under the Act, is a pre-condition of success for companies wishing to grow in the UK.

June 2011

Written submission from Alderney Gambling Control Commission

BACKGROUND

1. Alderney Gambling Control Commission (AGCC) has been regulating eGambling for the past 10 years. At the end of 2010 the AGCC had a total of 51 licensed companies holding approximately 80 different licenses.

2. AGCC’s key objective is to provide a regulatory environment which offers robust, enlightened, active regulation while also being responsive to the needs of a changing industry. In this way, AGCC aims to protect players, to ensure the continuing high reputation of Alderney as a jurisdiction and to establish a regulatory environment which attracts operators who seek a comprehensive and tightly controlled regime.

3. AGCC is established under Alderney law. However the States of Guernsey has a key interest in AGCC’s regulation of the eGambling industry. The reason being that Guernsey offers world-class telecommunication infrastructure, as a result of which the large majority of Alderney licensees are today operating their eGambling servers from Guernsey, under a 2007 Guernsey Ordinance permitting this arrangement.

4. Alderney was amongst the first jurisdictions to be white-listed by the UK, following the 2005 Gambling Act’s “White Listing” of non-EEA jurisdictions with regulatory regimes that were considered to be of a standard sufficient to allow their eGambling operators to advertise their services into the UK.

5. AGCC has always been an advocate of high standards to ensure maximum protection to customers. In this regard, it is worth mentioning the following:

(a) AGCC was one of the founding members of a Working Party within the International Association of Gaming Regulators (IAGR) which worked towards the establishment of common international standards for eGambling and AGCC is participating in similar forums within the Gaming Regulators European Forum (GREF).

(b) Alderney is one of a very limited number of jurisdictions which requires rigorous independent testing and certification of gambling equipment prior to games being released to customers.

(c) AGCC is one of only a handful of regulators that actively monitors ongoing changes to eGambling systems of licensees.

(d) AGCC inspects its licensees at least once a year, irrespective of location.

(e) AGCC’s Regulations provide extensively for rigorous customer verification; the protection of customer funds; customer complaints; the identification of problem gambling activity and self-exclusion mechanisms.

(f) Importantly, AGCC’s Regulations require licensees to contribute to research, education and treatment of problem gambling in the UK. Last year licensees facing the UK market contributed in excess of £1 million to the GRE@T fund in the UK.

(g) Depending on the direction taken by the UK Government regarding the Horse Racing and Betting Levy, AGCC is willing to require relevant licensees to contribute to the said levy.
The impact of the proliferation of off-shore online gambling operators on the UK gambling sector

6. It is our considered view that the existing Gambling Act, 2005, did not cause or result in the large scale proliferation of off-shore gambling operators, as is suggested. Significant growth coincided with the introduction of the Gambling Act in and after 2005. The industry has experienced significant growth worldwide over the last three years or more. H2 Gambling Capital, one of the most widely quoted sources of online gaming statistics, indicated in 2009 that the market for global interactive gaming will grow about 42% to US$30 billion in 2012 from US$21.2 billion in 2008. This is significantly faster than the 15% growth that H2 forecasted for the gambling industry as a whole over the same period.

7. It is estimated that 85 nations have chosen to legalise gambling and that as of 30 June 2010 there are approximately 2,680 internet gambling sites owned by 665 companies based in three groups. The first being smaller jurisdictions in the Caribbean (ie Costa Rica, Curacao, Antigua) and the Kahnawake Mohawk nation in Canada. The second group of licensing jurisdictions largely consist of, what is termed by the American Gambling Association as “small places in Europe that use online gambling as an economic tool although they have imposed substantial regulations on their licensees.” These are typically Gibraltar, Malta, the Isle of Man and Alderney. The third group of jurisdictions that have legalised online gambling includes the large, developed countries in Europe and some Canadian provinces which have liberalised their gambling markets primarily for income generating purposes.

8. To the extent that the 2005 Gambling Act had an effect on the proliferation of off-shore remote gambling, it was probably limited to the second group jurisdictions (ie Alderney, Malta, the Isle of Man and Gibraltar). That part of the industry that is currently based in this group of jurisdictions has developed expertise, brand-name recognition and popular products over the last decade, but most importantly, under well regulated conditions. In fact, there is no evidence to suggest that the standards applicable in these off-shore jurisdictions are any lower than those applicable in the UK or in some of the new remote gambling jurisdictions in the EEA. It could be argued that the recent flurry of remote gambling laws in Europe and elsewhere in the world has often been motivated by revenue generation rather than attempts to improve player protection. In Alderney, the intention was never to maximise revenue at the cost of regulation but rather to provide a regulatory environment which offers robust, enlightened and active regulation while being responsive to the needs of the industry.

Remote gaming review in the UK

9. In March 2010 the UK Government (Department of Culture, Media and Sport) issued a consultation paper on the Regulatory Future of Remote Gambling in Great Britain. The aim of the consultation paper was to assess the extent to which the current arrangements, whereby operators in overseas jurisdictions (both within the EEA and white-listed jurisdictions) can advertise into the UK, are still adequately protecting the British customer. From the consultation paper it was evident that the UK Government preferred the option of introducing a system of licensing and regulation in the UK i.e. a system of regulation at the point of consumption.

10. AGCC responded to the UK Government’s proposition, pointing out that the White List arrangement lacks only a proper verification process requiring overseas jurisdictions applying for white listing to properly demonstrate or substantiate their representations. With that addition the white list arrangement provides a no-cost means of effective regulation. In its absence there is significant risk of misrepresentation, reputational risk, reduced standards and a significant resource requirement to police overseas operations accessing UK players.

11. Apart from the no-cost means of effective regulation offered by the white list arrangement, one should not lose sight of the fact that it provided considerable other benefits, the most important of which are:

   (a) It has facilitated the development of much needed standards between the UK and white listed jurisdictions which is quite significant considering that remote gambling is a global industry that inherently crosses borders.

   (b) It has facilitated a greater level of cooperation between regulatory bodies in the UK and white listed jurisdictions to prevent crime and ensure player protection. It is worth noting that the white listed jurisdictions participated with the UK Gambling Commission in joint investigations to prevent crime and conducted joint mystery shopping exercises to prevent under-aged persons from accessing gambling sites.

12. From our experience, the white listing approach generally works well and could be further improved by, for example, recovering the costs associated with assessing applicants for white listing and by further strengthening the ties between the UK Commission and white listed and other overseas regulators. In fact, the consultation paper on the review of remote gambling acknowledges that the white listing arrangement has played a significant role in improving regulatory standards in non-EEA jurisdictions. The obvious question is therefore, if the system is not broken, why is the UK Government trying to fix it? If it is a case, as is generally suspected, that the UK lacks a similar mechanism for EEA countries, the UK Government may wish to consider the option of extending the white list concept to other overseas jurisdictions in the form of regulator to regulator agreements which will establish a basis for cooperation between the UK and foreign jurisdictions based on comparable standards of regulation.
13. However, should the UK Government decide to introduce a full licensing system at the point of consumption, as is suggested, the manner in which it is introduced could have significant implications for the remote industry and consumers alike, the reasons being that:

(a) Should the intention be to duplicate the regulatory requirements currently in place in off-shore jurisdictions such as Alderney, it will result in unnecessary bureaucracy and significant increase in regulatory cost to the industry.

(b) It is generally well known that one of the most important reasons why most UK facing remote operators have located in the mentioned off-shore jurisdictions relates to the UK’s 15% remote gaming duty, which does not apply to operators based outside the UK.

(c) Although the extension of the 15% remote gaming duty to off-shore operators may have some fiscal benefits to the UK, it is unlikely to be in the interest of player protection, which is the primary focus of DCMS, because it will drive business to unlicensed operators.

(d) In fact, it could be argued that bringing the existing off-shore operators (approximately 400) on-shore in the UK is likely to have detrimental implications for player protection in the UK, as it may encourage UK players to play with unregulated operators where they can obtain better odds.

(e) It is a well-accepted fact that the odds offered by operators are directly affected by the expenses associated with the offering which will significantly increase under the proposed regime. Under the UK’s preferred option, operators who are currently operating off-shore will be required to pay the remote gaming duty (15% of gross profits); the Horse Racing and Betting levy (10% of gross profits); and contribute to GRE@T Trust for player protection. In addition to these costs, operators who are already well regulated will be required to pay additional application and licence fees to the UK Gambling Commission.

(f) Importantly, it is impossible to effectively prevent operators that base themselves in unregulated jurisdictions, with a view to reducing their operating costs, from advertising their services into the UK, which is, as we understand, the reason why the UK does not intend to introduce blocking mechanisms. Looking at what happened in France, for example, with the recent liberalisation of their gambling industry, it inevitably results in a situation where (a) the player in the home jurisdiction is being more exposed to unscrupulous operators than before; and (b) the licensed operator in the home jurisdiction’s license has very little value.

Conclusions

14. In our view it is not apparent that the current 2005 Gambling Act resulted in large scale proliferation of off-shore remote gambling.

15. There is no evidence to support the case for abolishing the current white list arrangement provided for in the said Act, as there is no indication that UK players are less protected when playing with operators licensed in white listed jurisdictions compared to operators licensed in the UK.

16. There is clear evidence of the need to improve the existing arrangements in respect of white listing as suggested above; and

17. Depending on the manner in which the UK Government introduces a full licensing scheme which will require all foreign based operators to be licensed by the UK Gambling Commission, it could result in duplication, increased cost to the industry and ultimately less protection for the UK consumer.

June 2011

Written evidence submitted by the Gala Coral Group

1.0 Introduction

1.1 This submission is made on behalf of the Gala Coral Group.

1.2 Gala Coral is the largest fully integrated betting and gaming group in Great Britain. The Group employees over 17,000 people and trades from circa 1650 betting offices (Coral), 27 casinos (Gala Coral) and 140 bingo clubs (Gala Bingo). The Group also operates a number of online brands (coral.co.uk, galabingo.com, eurobet.com, galacasinos.com, eurobet.ie) and has opened circa 400 betting offices in Italy under the Eurobet Italia banner. With a turnover in excess of £1 billion per annum the Group serves over 3.5 million different customers each year, which is over 8% of Great Britain’s adult population. The Gala Coral Group retains an industry leading reputation for sports integrity and social responsibility.

1.3 As Chairman Emeritus of Gala Coral I sit on the Council of the Association of British Bookmakers, the Council of the National Casino Industry Forum and The Bookmakers Committee of the Levy Board. I am also Chairman of The GRE@T Foundation, which raise’s over £5 million annually from the industry in voluntary contributions to fund research, education and treatment, and to promote responsible gambling.
2.0 SUMMARY AND RECOMMENDATIONS

2.1 The CMS Select Committee should review the 175 recommendations in the 2001 Budd Report and seek to redress the current (and growing) imbalance between legitimate commercial interests and protecting the vulnerable.

2.2 There has been a very worrying over focus on the issue of problem gambling. This is wholly disproportionate to the harm caused and has caused material damage to legitimate commercial businesses which are an integral part of a modern, service based British economy. Britain is the world’s leader in socially responsible gambling with very low levels of problem gambling.

2.3 The Gambling Commission needs to continue to evolve into a more modern, risk based, regulator which also advises government on evidence based policy changes, and acts as an advocate for the industry that it regulates, thus providing improved value for money for the same, or lower, cost. This will also help to depoliticise gambling policy.

2.4 90%+ of online wagers placed by British residents are on sites which are not located, regulated or taxed in Britain. Effective regulation and compliance/enforcement in this area is very much dependent upon joined up tax and regulation. The Gala Coral Group favours a 10% GPT rate across all products on and offline for British residents and believe that this will allow effective online regulation, much needed investment in traditional Great British establishments and an increased tax take for HMT.

2.5 The financial impact of the Gambling Act 2005 (the Act) cannot be looked at in isolation and one must also consider the impact of other regulation and taxation. The Gala Coral Group has calculated that the Act (removal of machines), the 2007 smoking ban and the tax increases in the 2006/2007/2008 budgets cost the Group £120 million in cash profits (EBITDA) which was a 30% impact on cash profits at that time.

2.6 The casino sector was the single biggest loser out of the Act. Current legislation in relation to casinos is an irrational mess and hugely damaging to the established British casino industry. Urgent corrective steps need to be taken. We have outlined seven measures (7.6.1 to 7.6.7) which would help to mitigate the damage and allow the development of a high quality and sustainable casino sector, with a resultant benefit to tourism.

2.7 Category B1 machine stakes and prizes should be increased to £5/£10,000 (£2/£4000) and Category A machines trialled in casinos.

2.8 The Gambling Commission should report to DCMS annually making evidence based recommendations for changes to gambling policy and regulations. The process of change should thus be evidence based and depoliticised as possible.

2.9 The Gambling Commission annual recommendations should include an annual review of machine stakes and prizes.

2.10 There is no evidence that the Act has had any impact, either way, on levels of problem gambling.

3.0 THE GAMBLING ACT 2005/CORE OBJECTIVES

3.1 The Act was heralded as confirming Great Britain’s position as the world’s leading jurisdiction for responsible gambling, balancing legitimate commercial interests with effective regulation and protection of the vulnerable. This principle was enshrined in the (independent) Budd Report (2001) and the DCMS response “A Safe Bet For Success” (2002). Both documents saw gambling as a modern leisure pursuit which provides harmless fun for a vast majority of participants and is a valuable part of the leisure economy providing over 100,000 direct jobs (250,000 indirectly) and £1.4 billion in annual tax revenues. The Act that finally arrived in May 2005 failed to deliver on these principles and the balance between legitimate commercial interests on the one side and effective regulation/social protection on the other became hugely distorted by political in-fighting and a negative press campaign.

3.2 In the recent Prevalence Study (2010) there was no significant, or statistically relevant, increase in the incidence of problem gambling in Great Britain and the incidence remains very low by international standards. Indeed 78% of respondents stated that “fun” was their primary reason for gambling. At the same time the industry has voluntarily donated over £5 million per annum to fund research, education and treatment in respect of problem/responsible gambling (The Budd Report recommended £3 million initially).

3.3 Despite this the gambling industry remains tied by unnecessary regulation and unable to effectively compete internationally. The Gala Coral Group believes that the CMS Select Committee should revisit the 175 recommendations made in the Budd Report with a view to redressing the current growing imbalance between legitimate commercial interests and public protection.

3.4 The Act was also intended to be enabling legislation, which is capable of being updated on an on-going basis through regulation so that it is constantly kept up to date and reflects both new technologies and changes in consumer trends. Since coming into force in September 2007 (four years ago) only one such change has been made, albeit a change to B3 machine regulation is currently going through parliament. The industry can only assume that the enabling facility within the Act has not being utilised because politicians see gambling
as a “political hot potato” rather than as a modern part of the British economy, which is creating jobs and
growing tax revenues, and thus deserves to be supported by its sponsoring department.

3.5 Gala Coral believes that the time has come for a more mature debate about gambling which is evidence
based and as far as possible, depoliticised. We would like to see this achieved through an evolution of the
Gambling Commission into a more modern regulator which, as well as effectively and efficiently regulating
the industry, promotes the industry as a well regulated sector and also makes recommendations to DCMS on
policy matters. We discuss this further in section 5—The Gambling Commission.

3.6 The British gambling industry has been largely crime free for many years and the Act has had no material
impact, positive or negative, on gambling related crime. The British gambling industry deservedly has an
enviable worldwide reputation for integrity and fairness. The only area the Select Committee might wish to
review is that of sports integrity. In this context it should be noted that the vast majority of sports integrity
issues in the past few years have come from:

(a) Layers on betting exchanges.
(b) Illegal unregulated bookmakers operating outside of Great Britain.

Very few incidences involve betting operators based and regulated in Britain. Thus any review in this area
should not seek to impose further financial and regulatory burdens on domestic operators.

3.7 Again the British Gambling Industry has actively promoted responsible gambling for many years.
 GamCare, Gordon Moody (residential care) and the Soho Clinic were all founded with industry money over
the past 20 years, and the industry works closely with GamCare and others on techniques to educate and
prevent problem gambling and to identify and proactively exclude and refer those who develop and exhibit
compulsive gambling symptoms. Therefore the Act had no positive or negative impact on what was already
an industry with a highly developed infrastructure to promote responsible gambling, prevent problem gambling
and refer and provide effective treatment for the small minority who do develop problems with their gambling.

3.8 The Act has singularly failed to regulate the online gambling market in Great Britain. The vast majority
(90%+) of wagers placed online by British residents go onto sites situated, regulated and taxed offshore. This
is not to say that the sites are unregulated or that the regulation in developed offshore locations, such as
Gibraltar; Alderney and the Isle of Man, is any less effective than that in Britain. It is simply a fact that 90%+
of online wagers placed from inside Great Britain are not regulated in Britain. The belief held by legislators
that simply by setting up a regulatory regime in Britain, operators would flock to our shores was naïve in the
extreme. Indeed since 2005 more operators have actually moved offshore and the simple reason is taxation not
regulation. Recent judgements in Europe have given clarity as to the power available to domestic governments
in this area of social policy. It would now be fairly simple to pass new/amended legislation requiring any
operator trading with, or promoting to, British residents to be licensed and regulated in Great Britain. If the
regulations allow operators to still remain offshore as a company and to keep their servers offshore, we believe
the vast majority will comply. However a note of caution—if online tax is set at current domestic retail levels
(15%+) a black market will develop with a substantial number of operators staying offshore and trading into
Great Britain unregulated and untaxed. Enforcement (blocking—prosecutions) is notoriously difficult and it is
to be hoped that the forthcoming consultation will take a joined up approach to regulation and taxation. The
Gala Coral Group would prefer to see an innovative approach which creates a level playing field (on and
offline) and allows our industry to innovate, invest, grow and thrive through the promotion of responsible
gambling. A single rate of gambling GPT at 10% across all products and channels would give a much needed
break to the (over taxed, and over regulated) domestic retail market and not be seen as penal to online operators.
The government total tax take from gambling would also rise, in effective an all winner game!

4.0 The Financial Impact

4.1 The financial impact of the Act cannot be looked at in isolation. One has to look at the combined impact
of the Act, other regulation and taxation.

4.2 In particular the sector faced a smoking ban in 2007 (July), the Act enacted in 2007 (September) and
highly negative tax hikes in consecutive budgets (FOBTs in 2006, Casinos in 2007 and Bingo in 2008).

4.3 The Gala Coral Group calculated that the combined cost of the Act (removal of machines), the smoking
ban and increased taxation, cost the Group £120 million per annum in cash profit (EBITDA). This figure has
been verified by the company’s auditors (PWC) and related to a Group making cash profits of circa £400
million at the time—a 30% impact on profitability.

5.0 The Gambling Commission

5.1 The establishment of a single regulator across all sectors of the Gambling industry was a welcome move
and one of the more positive aspects of the Act.

5.2 There is no doubt that the Gambling Commission, four years in, needs to evolve and modernise. It is
not an expensive regulator per se but it can certainly provide increased value for money, as noted in their
recent “Hampton Review”.

Ev 154 Culture, Media and Sport Committee: Evidence
5.3 In this respect we would make the following recommendations:

5.3.1 The Gambling Commission evolved out of the old Gaming Board for Great Britain and it still adopts far too much of a tick box, visit based, approach rather than a more modern risk based approach. Things have improved in this area but there is still much to do.

5.3.2 There has been an unnecessary and damaging over focus on “problem gambling” which relates to one (only) of the three licensing objectives under the Act. This has no doubt been driven by political pressure. It has to be accepted that Britain had the lowest incidence of problem gambling in the developed world and it pales into social insignificance (at circa 400,000) when compared to smokers (13 million), people with drug and alcohol related problems (6 million) and obesity (16 million). This is not to say that the issue should be ignored and we have outlined above the proactive measures adopted by the industry to promote responsible gambling, prevent problem gambling and identify and treat those who develop problems. However the over focus in this area by the regulator and its sponsoring department is hardly risk based!

5.3.3 The Gambling Commission have very publically stated that their role is not to promote the industry that they regulate. We beg to differ. A modern regulator should be tough on regulation but also an advocate for what they should see as a well regulated global leading industry. This should be added to the objectives of the Gambling Commission and also to the objectives of DCMS who are conspicuously silent on gambling in their recently published business plan/strategy. Gambling is a socially responsible industry which deserves better from its regulator and its sponsoring department. Indeed we believe that consideration should be given to moving responsibility for gambling to a more business orientated department such as BIS.

5.3.4 The remit of the Gambling Commission should be extended “to report to Ministers on an annual basis with evidence based recommendations for regulatory changes to be made to the Act”. If Ministers and opposition parties accept these recommendations as “independent” and “evidence based” The Act will be used, as was originally intended, as a piece of modern flexible legislation which can evolve and change as circumstances and evidence dictates whilst remaining true to its core values. This will also serve to depoliticise gambling reform. This will not be dissimilar to recent experiences with the Low Pay Commission whose headline recommendations have been accepted and approved on 11 consecutive occasions.

5.4 Through this process the Gambling Commission will evolve into a modern risk based regulator which also advises on policy and acts as an advocate for the industry that is regulates. We believe this can be achieved through a new approach by the Gambling Commission, with no additional cost, and thus improve the value for money provided by the Commission.

6.0 Offshore/Online Gambling/Taxation

6.1 We have commented on this extensively in 3.8 above.

6.2 It was naïve of legislators to believe that a British regulatory framework for online operators would establish Britain as the leading jurisdiction for online gambling.

6.3 In effect, since 2005, more and more operators have gone offshore and 90%+ of all online wagers placed by British residents are on sites situated, regulated and taxed offshore. The reason for this is taxation set at 15%+ of GPT against a benchmark of circa 1% in Gibraltar, Alderney, M aura and the Isle of Man.

6.4 Recent European rulings give Britain a golden opportunity to establish Britain as a leading jurisdiction for online Gambling world wide.

6.5 However, this will require “joined up” policy involving social policy and tax policy. The failure to address the online taxation issue, and related issues in respect of the horserace betting levy, has placed an increased burden on the licensed and regulated domestic retail gambling sector making it less competitive, unable to invest and forced to cut costs; shed jobs and close premises. If this downward spiral in tax paid and jobs created is to be halted the issue of online taxation and regulation needs to be urgently addressed.

6.6 It is patently unfair that the “softest” of all forms of gambling (bingo) is charged the very highest base rate of Gross Profits Tax (20%).

6.7 If online tax is set at too high a level a very large “black market” will evolve with disreputable operators trading into Britain unlicensed, unregulated and untaxed. Such an “under market” could have very serious social implications.

6.8 The Gala Coral Group favours an innovative approach which creates a level playing field (on and offline) and allows the British gambling industry to innovate, invest, grow and thrive through the promotion of responsible gambling.

6.9 The move (machine tax consultation) to accelerate the trend away from charging VAT on gambling, means that VAT on capital investment is less and less recoverable thus destroying the case for investment in long term growth and job creation. If this trend (away from VAT) is to continue the Government must find
other measures (tax and regulation) which will allow operators to invest in growth, create jobs and drive up the total tax take. Gross Profit Tax should thus be off-settable against VAT on capital investment.

6.10 The Gala Coral Group believes that a single 10% rate of GPT across all gambling products and channels would give a much needed break to the (over taxed) domestic retail market, encourage compliance from offshore operators and effectively grow the tax take for HMT.

6.11 We firmly believe that social policy without a realistic and joined up tax regime will be doomed to failure with offshore non-compliance and no effective enforcement mechanisms.

7.0 The Casino Sector

7.1 The single biggest loser out of the Act, and subsequent tax policy, was the retail casino sector in Great Britain.

7.2 Casinos, especially in London and other major cities, have a huge appeal to inbound tourists.

7.3 There is little doubt that the casino sector became a political football between politicians of all parties seeking to “play to the Daily Mail agenda” and prove they had the cleanest “social credentials”, with no thought for what this would do to an industry which had invested over £700 million in 140+ high quality retail outlets employing over 7000 people.

7.4 Much of the eventual regulations flowing out of the Act which applied to casinos were irrational and ill thought through. Two examples of this are:

7.4.1 The new casino regulations mean that a “large casino” needs 30 gaming tables to get its maximum machine allowance (150 at 1 to 5) whilst a “small casino” needs 40 tables to get its maximum (80 at 1 to 2). As a consequence “small casinos” will end up being bigger than “large casinos”, as casino operators expand floor space and install live tables to maximise their machine entitlement.

7.4.2 10 of the 16 new casino licences have been granted to existing permitted areas. In such towns and cities long established casino businesses will have to compete against new, government created, operators who will be allowed to offer products and machines that the established sites cannot. How can that be fair competition? It is like allowing one pub to sell lager and banning it in other pubs.

7.5 The two new licences granted so far (Newham and Hull) have done nothing for regeneration, as was originally envisaged, and the whole concept of a “trial”, which is in effect the creation of unfair competition by the government, was fundamentally flawed and politically motivated.

7.6 Gala Coral believes that the government needs to conduct a fundamental review of casino legislation/regulation and in particular we would like to see:

7.6.1 An end to the “two tier trial” by allowing all casinos to offer the same products.

7.6.2 A simple machine to table ratio of five machines to one table with a maximum of 150 machines per casino.

7.6.3 Given that the legislation has effectively capped the number of casinos in Britain at 202 (147 operating casinos—39 dormant licences—16 new casinos) we see no reason for the continuation of permitted areas. Therefore all licences should be fully portable subject only to the local council wanting a casino in their area. Casinos are also sui generis in planning terms and thus a casino could only open with a very specific change of use on a premise, granted by the Local Authority.

7.6.4 All casinos should be allowed to offer bingo, betting and online products.

7.6.5 Virtual/random number generated products which are available online, to be allowed in casinos eg electronic blackjack and poker games.

7.6.6 Review Category B1 (casino) machines stake and prize levels. Currently they stand at £2/£4,000 (compared to the £2/£500 envisaged for B3 machines). An immediate increased to £5/£10,000 would be more appropriate for a modern casino.

7.6.7 Casinos to be allowed to offer progressive and linked jackpots within and across sites ie if 10 B1 machines are “linked” the maximum pay-out on the jackpot rises to £100,000 (from £10,000).

7.7 The above measures would go a long way to mitigating the damage caused to the casino sector by the Act, and subsequent tax policy, and allow the development of a high quality and sustainable casino sector going forward.
8.0 Machines

8.1 The categorisation and classification of gaming machines under the Act was a positive move.

8.2 However the respective levels of stakes and prizes, and machine numbers, were intended to be reviewed on a regular basis. Until the current order (now going through parliament) to increase B3 stakes to £2, and to increase the B3 machine (number) allowance, no changes have been made since July 2005.

8.3 Gala Coral does not favour a return to the old triennial review. We would prefer annual recommendations from the Gambling Commission as outlined in 5.3.4 above.

8.4 In regulatory terms machines continue to be a political hot potato. However much of the rhetoric has not been evidence based and we would urge the Gambling Commission to commission independent and effective research in this area (industry funded if necessary) and make evidence based recommendations to DCMS/government. For example, there is a valid case for allowing betting offices to have six FOBTs, which would reduce the proliferation of betting shops on the high street, which are largely driven by unsatisfied demand for FOBTs.

8.5 As stated in 7.5.6 above we would urge the government to urgently review the anomaly whereby casino machines (B1), which are at the top of Budd’s “regulatory pyramid”, have a £2/£4,000 stake and prize whilst, “soft gambling”, bingo machines (B3) will shortly be £2/£500. A 2.5x increase is recommended for casino machines to £5/£10,000.

8.6 Category A (unlimited stakes and prizes) machines are allowed for in the Act but this section has not yet been enacted. Such machines are available in most jurisdictions around the world. As Britain continues to enjoy very low levels of problem gambling based upon international comparisons, we would urge a cautious approach in this area and would recommend allowing casinos up to 10 Category A machines on a “trial basis”. A full quota of 1,470 machines would still only represent circa 1% of the total licensed slot machines in Britain. This trial, together with research, will give a good evidential base to review the retention, expansion or removal of Cat A machines in Britain.

9.0 Problem Gambling

9.1 There is no evidence to show that the Act has had any impact on levels of problem gambling, either upwards or downwards.

9.2 As was clearly stated by the Gambling Commission the headline increase in problem gambling in the 2010 Prevalence Study was “at the margin of statistical significance”.

9.3 These statistics become even less relevant when measured against participants given that participation was up from 68% of the adult population in 2007 to 73% in 2010.

9.4 Thus the possible increase is in line with the increase in participation.

9.5 As the increase in participation is largely driven by online gambling and poker in pubs and clubs one could say that any concern over the headline increase in problem gambling should be directed at the need to more effectively regulate online gambling and the proliferation of poker in pubs and clubs.

9.6 Generally speaking levels of participation and problem gambling are stable or slightly down in traditional gambling establishments.

9.7 Therefore we are confident with the statement that the Act has had little or no impact on levels of problem gambling, either negatively or positively.

9.8 Finally we would want to confirm our view that far too much focus has been placed on this issue and it is disproportionate to any perceived harm and does not balance legitimate commercial interests with protecting the vulnerable.

10.0 Conclusion

10.1 We would like to thank the CMS Committee for conducting this much needed review into the Act.

10.2 We are available to give evidence to the Committee if required.

June 2011
2. Summary

— The 2005 Act has ensured gambling remains crime free and open, and fair to the customer, but is unfair to the operators.

— It has failed to protect children and vulnerable people. The original Budd report set out clear, sensible levels of control and regulation and the strata of gambling that should be in them. The Government stated that the Act was intended to remove hard gambling off the high street and that there would not be a casino on every high street corner. However the Act has allowed £100 stake Category B2 casino gaming machines in betting shops and there is now hard gaming on every high street, with casino gaming in the LBOs significantly harder than you get in a much more highly controlled and regulated casino. Betting shops are lightly regulated with no door control, very high failure rates of stopping children and vulnerable adults gambling with them (such as self excluded people), no money laundering control and low rates of taxation. Betting shops are known to have a strong political lobby and this seems to be counterbalancing common sense and correct regulation. This cannot be right.

— It has failed to control online gambling. Other countries have effectively controlled Online Gambling. It can be done. The 2005 Act has allowed overseas companies to operate in the UK from low tax offshore countries, and promote their online casinos in the UK but pay no UK tax. It results in highly taxed and highly regulated land based businesses competing with low taxed and unregulated online businesses and the Government losing out on the taxation and the customers losing out on the protection of strong regulation.

— It has failed on the 16 2005 Act Casinos. The structure is fundamentally wrong and they are generally not commercially attractive enough to warrant the investment needed.

— The regulation of gaming machines is mixed. Category B3 and below is working well, but the Act has failed on the category A, B1 and B2 machines. These categories are fundamentally wrong and urgently need rebalancing. The regulations were intended to allow harder gaming machines in the more highly regulated and controlled environments and softer gambling where regulation was less. The Government agreed with the principle of high stake and prize Category A gaming machines being suitable for casinos, albeit initially just in the regional casino but given the regulations were the same across all casinos, the principle was established. However despite the highest regulations, casinos are restricted currently to £2 stake Category B1 gaming machines offering stakes and prizes too small for casinos. This is the same as proposed for machines in AGCs and Bingo Halls. However in betting shops, with much lower regulation than Casinos, they have £100 stake Category B2 machines, allowing them to offer casino games like roulette, but played faster and harder than you get in a real casino. It is no surprise that there are so many related problems with children, vulnerable people and problem gamblers. There are also outdated regulations that need reconsidering on the operation of machines generally.

— The last prevalence study said problem gambling numbers had risen 50%. This was said to be “at the margins of statistical significance” and “could be a result of random sampling errors”. Equally therefore it could be far worse and the statistical evidence could be wrong the other way round and it may have risen far more. I understand the political expedience of not stirring up issues if avoidable, but believe this is wrong in this instance. The evidence shows a material increase in numbers of Problem Gamblers. People are being harmed and the Government should protect them. The industry and regulators know the level of hard gambling on the high street is wrong. The numbers of people harmed by gambling has increased and it cannot be ignored just because a section of the industry has a strong political lobby. It is a problem waiting to explode and I hope the Government address it before it becomes a media led issue like the 2005 Gaming Act became.

3. The financial impact of the Act on the UK Gambling Industry

3.1 The original Budd report laid down appropriate strata of gambling and proposed appropriate regulation should be set at each level accordingly.

3.1.1 Casinos. Hardest gambling in premises with the highest regulation, control, probity and tax.
3.1.2 High Street venues (where people could just walk in off the street), eg licensed betting operators, adult gaming centres and bingo clubs, all providing softer gambling with a lower level of regulation and control, probity, and taxation, as the softer gambling justified less controls.

3.1.3 Seaside amusement centres, where families are entertained and the gambling was very restricted and regulation even lighter.

3.2 Category B2 casino gaming machines in bookmakers cut across this layering and indeed offer harder gambling than you find in real casinos. These machines are out of position in the strata and not surprisingly are financially very successful. This has had negative financial consequences to all the other gaming industries.

3.3 Taxation should follow the strata of gambling and casinos are the most highly taxed at up to 50%, but again the bookmakers are out of kilter being taxed less than everyone else at 15%. This again distorts the financial position of the industry.

4. The effectiveness of the Gambling Commission since its establishment, and whether it represents good value for money

4.1 The evolution of the Gaming Board into the Gambling Commission is welcome and generally they are doing an effective job. However the Commission was set up expecting a much bigger industry and has had to down scale to fit the actual industry and still seems somewhat over bureaucratic and costly.

4.2 The Gambling Commission is often mired in red tape and ineffective in being able to address real negative regulatory issues such as the Minmar AGC company, and outdated ones such as removing unnecessary regulation, such as casinos not being allowed to use virtual roulette wheels or cards. The Act should allow issues of red tape, unnecessary regulation and restrictions to be more easily addressed. The Gambling Commission appears weak on enforcement against illegal operations.

4.3 The Industry is generally responsible and more support from the Gambling Commission to reduce unnecessary regulation and red tape would be welcome and support to allow more freedom within the regulations to enable the companies to compete more fairly in a tough competitive marketplace.

4.4 The Gambling Commission should also be more responsible of its position on advising the Government on gambling issues and working with the sponsoring department proactively to promote positive gambling issues and deal with things that are wrong, rather than just saying they are just there to ensure we follow the regulations.

5. The impact of the proliferation of off-shore online gambling operators on the UK gambling sector and what effect the Act has had on this

5.1 The delivery mechanisms of gambling products are ever developing and the regulations and taxation system should be flexible enough to respond appropriately.

5.2 The issue is not just off-shore operators, but how the customer interacts with them and the levels of taxation and regulation. The internet is one example, but equally having the casino channels on Sky TV is equally impactful, and increasingly smart phones will be a factor.

5.3 The Internet is excellent for un-regulated products like buying a camera, where you can often get a better price online. But gambling needs to be highly regulated and is highly taxed and it cannot be right that operators are allowed to hide in low tax off-shore environments and push their unregulated gambling products with uncontrolled stake and prize levels to the same customers who would otherwise go to regulated controlled land based premises to play the same games. Either the Government should say that gambling is no longer to be regulated or taxed and customers are to be unprotected, or it should say gambling needs to be regulated and taxed and customers protected regardless of the delivery mechanism.

5.4 Other countries successfully do this, and it would be remiss of the UK Government not to face up to the challenge and its responsibilities.

6. Why the Act has not resulted in any new licences for casinos or “super” casinos

6.1 The whole idea of the 2005 Act “super” casinos has always been flawed.

6.2 The “super” casinos idea was something that the large overseas casino corporations sold to the Government under the guise of “regeneration”. To use a casino to regenerate an area is bizarre. A casino is part of the mainstream leisure market and whilst employing people and using buildings, it is there to make a profit and take money out of an area. There was a slightly better case for a large destination type casino like Blackpool, where some people would travel to that area to go to the casino and take money with them.

6.3 The original idea then got watered down following a press outcry and the “Regional casino” got dropped, leaving an “experiment” of eight “Large” and eight “Small” 2005 Act casinos. Of these 10 are in locations that already have casinos. The small ones have a 2 to 1 machines to tables ratio that make no economic sense, and the ability to have betting in the casino is now less valuable as you can do it on your smartphone anyway.
6.4 Furthermore betting shops have been allowed to erode any casino’s potential customer base as they now offer casino gaming, harder and faster than you get in a real casino, in less taxed and less controlled environments, that are more accessible and with products that are more technologically advanced, whereas casinos are limited to physical wheels, balls and paper playing cards. AGCs and Bingo will soon be able to offer slot machine gaming at £2 a game, the same as casinos, which will further erode the potential playerbase.

6.5 And in terms of the “experiment”, we are now six years on and besides no licenses operating yet, neither the Gambling Commission nor the Responsible Gambling Strategy Board have explained any plans or strategy as to how the experiment will be assessed.

6.6 The “experiment” was clearly a political expedient to allow a piece of legislation to progress. It was ill conceived, poorly executed and should be dropped as soon as possible. At the same time the imbalances in the gaming regulations should be addressed, particularly around Gaming machines. I will go into more detail below.

7. The effectiveness of the classification and regulation of gaming machines under the Act

7.1 The classification and regulation of gaming machines should logically follow the strata of regulation of the gaming environments described in 3.1 above with the hardest gambling permitted in the most highly regulated environments and softer gambling in less regulated environments.

7.2 The principle of unlimited stake and prize machines, like you find in casinos worldwide and consistent with unlimited stakes and prizes on other casino games, was established for casinos in the UK as category A machines, but none are currently allowed. The regulations however are still highest in casinos and lower in betting shops and AGCs. However you can currently stake only £2 a game on gaming machines in casinos, but £100 a game in machines in betting shops and as proposed, also £2 a game on machines in AGCs and Bingo Halls. This makes no sense.

7.3 This £100 stake on the B2 machines in bookmakers has led to the widespread growth of hard casino gambling on the high street where they have introduced casino games onto their machines and you can play casino games faster, and harder, than you can play in a real casino. There are now over 8,500 LBOs in the UK, with over 30,000 machines where customers can stake up to £18,000 an hour on casino games despite far lower levels of supervision and regulation than you get in a real UK casino. One eminent clinical psychologist involved in the treatment of problem gamblers has publically stated that she is now seeing “the worst examples of gambling addiction” which is directly associated with the gaming machines in bookmakers shops.

7.4 For clarity, a customer can walk in off the street into a bookmakers with no door control, the only staff on duty sitting behind a counter, walk up to a gaming machine and choose from a range of casino games and play up to £100 a game and up to 180 games an hour. The Casino games include Roulette, Black jack, 3 Card Poker, 5 Card Poker, plus betting and bingo games and slots at £10 for 5 “super” spins.

7.5 The regulations in the UK are supposed to control what sort of gambling is allowed at any given venue, proportionate to the level of regulation and control associated with that venue. Casino operators can only offer casino games and are other than the 2005 Act casinos, are specifically prohibited from offering betting products or bingo, and bingo operators are limited to bingo. However through their machines, bookmakers are no longer restricted to their traditional moderately paced betting products. They are now able to offer any gambling they like, including bingo and casino games. In many shops it is very questionable if they satisfy the primary purpose regulation.

7.6 The Gambling Commission has major concerns about these products and the erosion of the demarcation lines between products and/or premises but seem powerless to influence the Minister to take action (despite the 2005 Gambling Act allowing the Secretary of State to proscribe any product which it feels is flying in the face of the main tenets of the new Act). The Problem Gambling agencies are reporting a significant increase in contacts relating to problems caused by these machines, and that those callers are the most distressed. The number of people recognising they have problems and self excluding themselves from bookmakers premises has gone up over 40% in the last year alone, and there have been street protests against the bookmakers. The issues are receiving increased media coverage and the subject has been debated in Parliament, but the bookmakers companies are ignoring it all, relying on their traditionally strong lobby, and progressing with the expansion of their casino business, even brazenly advertising £20,000 roulette competitions.

7.7 These category B2 machines are also cannibalising the traditional over the counter betting income in betting shops and so reducing the levy paid to the racing industry so the bookies will be alienating part of their traditional lobby.

7.8 There is a restriction of 4 of these machines per bookmakers shop, but the operators have simply got around this restriction by opening more shops, or clustering shops into better trading areas, often poorer areas. For example there are just 23 casinos in the whole of Greater London, operating around 420 casino gaming machines between them. In the London Borough of Westminster alone there are already 120 bookmakers shops with 480 casino gaming machines. So there are now more numerous (and harder) casino gaming machines in Westminster bookies alone, than in all the much higher regulated and controlled London casinos combined. Indeed there are many hundreds more bookmakers across Greater London (there are 16 in Camden High Street alone) with up to 4 casino gaming machines in each one.
7.9 There are also outdated restrictions such as the metering methods on gaming machines that need updating. For example on a gaming machine in a casino when you put in a £50 note, it takes nine button presses to commit the value to play. This was never intended, is disproportionate and needs addressing.

7.10 The solution is an urgent review of Category A, B1 and B2 gaming machines, with a view to correcting the gaming machine entitlement to be proportional to the level of regulatory control and protection. Casinos should have higher numbers of gaming machines and Category A gaming machines or stakes and prize limits on Category B1 gaming machines raised significantly to levels suitable for casinos. Bookmakers should have lower stake limits on their machines and stopped from offering casino games altogether, or if allowed to continue in any way, they should be much slower than in a real casino, say 20 games an hour (vs casinos 50 games an hour).

8. What impact the Act has had on levels of problem gambling

8.1 The principles behind the Gambling Act were sound and if it had controlled hard gambling on the high street and off-shore gambling appropriately then the issues related to problem gambling would be less. However it has not and the last survey has recorded a 50% increase in problem gambling numbers, which could be statistically higher of lower, and the Government should take action based on the evidence and common sense. Casinos are the most highly regulated environments and customers going there know to expect hard gaming. Easily accessible and less controlled locations such as betting shops should have softer gambling, but currently do not and the related problem gambling issues are not surprising with customers being caught out.

June 2011

Written evidence submitted by Betfair

Introduction

1. This paper constitutes the written response of Betfair Group plc to the Culture, Media and Sport Select Committee ("the Committee") Inquiry into Gambling ("the Inquiry"). As well as this response, Betfair would be willing to give oral evidence before the Committee if that would be deemed useful to the Inquiry. Betfair would also be very happy to host the Committee on a site visit to see Betfair's operations at its UK-Headquarters in Hammersmith, West London or elsewhere.

2. This submission follows the structure of the seven areas on which the Committee states it wants written submissions to focus. As an online gambling company Betfair does not aim to have a view on all areas of the Inquiry, only those relevant to Betfair and the remote gambling sector.

About Betfair

3. Established in 2000, Betfair Group plc is one of the largest UK-headquartered betting companies operating purely online. The Betfair Group has three million registered customers worldwide, and processes more than five million transactions per day, more than all the European stock exchanges combined. Betfair employs over 2,300 people worldwide, with over half of those jobs being located at our UK offices in London, Stevenage and Halifax.

4. Betfair's core product is the world-leading online betting exchange, a concept which it pioneered. The exchange mechanism uses technology similar to a stock exchange allowing Betfair to offset its risk perfectly by exactly matching supply and demand in a way not possible for traditional bookmakers. Betfair has also developed casino and poker products and has used pioneering technology to extend its products beyond the internet to allow them to be accessed on a range of different platforms including TV, radio and mobile.

5. Betfair is a British internet success story, comparable with US brands such as Google, Amazon and Facebook. Betfair has twice been named the UK's "Company of the Year" by the Confederation of British Industry and is the only online betting company to have won a Queen's Award for Enterprise. It was awarded its first in 2003 for innovation and its second in 2008 for international trade.

6. Betfair currently holds licences to operate betting products in Malta, Gibraltar, Italy, Australia, the UK and the US (through it horseracing TV channel TVG).

7. Until 2011 Betfair was one of the few remaining online gambling companies licensed, and paying Betting Duty, in the UK. In March 2011 Betfair took the commercial decision to switch its betting exchange from operating under a UK licence to a Gibraltarian one. However, Betfair's headquarters remain in the UK and is committed to meeting at least the same social responsibility standards as required by the UK regulator, the Gambling Commission ("the Commission"). In addition the company has put the same amount of money back

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4 Betfair became a public company in October 2010 entering the FTSE 250: http://corporate.betfair.com/
5 Betfair retains UK licences for disaster recovery and software development but is not transacting business under them.
into British horseracing for 2011/12 that it would have been required to pay under the statutory Horseracing Levy so that sector will not suffer financially from a sound business decision on the part of Betfair.5

Issue 1: How effective has the Act been in its core objectives to (a) ensure that gambling is maintained crime-free and conducted in an open and fair manner; (b) protect children and vulnerable people from the adverse effects of gambling; and (c) update the legislative framework with regards to online gambling

8. The UK has one of the most mature gambling markets in the world. By allowing UK residents to access a wide range of betting and gaming products within a regulated market the UK government has ensured the gambling industry is able to operate in a similar manner to many other leisure industries.

9. The Commission, the industry regulator as created by the Act, has a duty to promote the licensing objectives in the 2005 statute.7 The Commission “must also permit gambling, in so far as it thinks it reasonably consistent with pursuit of the licensing objectives”.8 Betfair believes that at times the Commission has taken an unnecessarily stringent approach towards the industry, which may draw into question whether this has been effectively achieved.

10. The vast majority of gambling is crime-free and conducted in an open and fair manner while research, such as the British Prevalence survey, shows that problem gambling levels appear largely consistent since the implementation of the Act. However, it should be recognised that this is primarily because companies active on the UK market choose to operate to the highest standards rather than the Act effectively implementing and enforcing the highest standards. For example the Commission’s Licence Conditions and Code of Practice (LCCP) requires online companies age verify UK resident customers within 72 hours but does not demand any further KYC (Know-Your-Customer) checks beyond that.9 Responsible, multi-licensed companies, like Betfair, however generally attempt to KYC all customers, therefore going beyond the demands of the Act. M any other jurisdiction’s legislation require KYC and also apply Anti-Money Laundering due diligence across all products rather than just casino as in the UK.

11. The Act has proved comparatively ineffective at updating the legislative framework for online gambling specifically. This is discussed in more detail in response to issue 4.

Issue 2: The financial impact of the Act on the UK gambling industry

12. The online sector in the UK currently has a gross Gaming Yield of around €1.9 billion (c £1.7 billion) and is about a fifth the size of the offline gambling market.10

13. The tables below show how each of the sectors breaks down and how the market is set to grow in the coming years:11

UK LAND-BASED GAMBLING DATA (GROSS GAMING YIELD, €M)

<table>
<thead>
<tr>
<th>Year</th>
<th>2011e</th>
<th>2012e</th>
<th>2013e</th>
<th>2014e</th>
<th>2015e</th>
</tr>
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<tbody>
<tr>
<td>Bingo</td>
<td>744.1</td>
<td>733.2</td>
<td>723.6</td>
<td>715.0</td>
<td>707.4</td>
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<tr>
<td>Betting</td>
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<td>1,871.4</td>
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<td>Machines</td>
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<td>3,835.0</td>
<td>3,913.6</td>
<td>3,986.2</td>
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<tr>
<td>Lotteries</td>
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<td>3,313.0</td>
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<td>924.6</td>
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<td>957.7</td>
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<td>10,450.60</td>
<td>10,616.30</td>
<td>10,800.80</td>
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</table>

UK INTERNET GAMBLING DATA (GROSS GAMING YIELD, €M)

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<th>2012e</th>
<th>2013e</th>
<th>2014e</th>
<th>2015e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bingo</td>
<td>282.6</td>
<td>294.0</td>
<td>305.7</td>
<td>317.5</td>
<td>329.5</td>
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<tr>
<td>Betting</td>
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<td>525.2</td>
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<td>339.6</td>
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<td>Lotteries</td>
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<td>457.2</td>
<td>477.2</td>
<td>497.5</td>
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<tr>
<td>Casinos</td>
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<td>455.7</td>
<td>493.3</td>
<td>532.9</td>
<td>574.7</td>
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<td>2,116.90</td>
<td>2,254.80</td>
<td>2,294.20</td>
</tr>
</tbody>
</table>

6 On 14 June 2011 Betfair announced that that it would give a £6 million voluntary levy donation the Horserace Betting Levy Board. This news was “warmly welcomed” by The Rt. Hon John Penrose MP, Minister for Tourism and Heritage at the Department for Culture, Media and Sport: http://corporate.betfair.com/media/press-releases/2011/2011-06–14a.aspx
7 The Gambling Act 2005, Section 22.
9 Only offline casinos have to do full KYC checks.
10 H2GC Gambling Statistics, June 2011. Taken from the Euro Summary file at www.h2gc.com/iec_welcome.php (a login is required, but Betfair can supply the Committee with more statistics, if required).
11 All figures calculated in € and then converted to £ using the exchange rate calculator at: www.xe.com/ on 17 June 2011.
12 Ibid.
14. The UK has the largest offline and online gambling markets in Europe. The offline gambling market in Europe is considerably larger than the online industry being estimated at some €81.0 billion (£71.5 billion), as compared to about €10.2 billion (£9.0 billion) for the latter. However, over the next four years the European online industry is predicted to grow by 34% compared to 7.2% for the offline industry.

15. There has been some limited work conducted to try and measure the positive economic impact of the gambling sector on the UK using key measureables such as tax revenues, employment numbers and expenditure on advertising and sponsorship. A report published in 2010 estimated that the betting industry alone contributed £6 billion and approximately 100,000 jobs to the UK economy.

16. The Act has had a positive impact on the UK economy in terms of allowing the industry to flourish and consumers to have greater choice through a wider range of betting products. However, the Act has largely failed to secure significant gambling tax revenues from the online gambling sector due to the non-complimentary structure of the regulatory and fiscal regimes. This issue was recognised by the last Labour administration and continues to be reviewed by the Coalition Government. It is generally perceived as the most substantial flaw of the Act as it has encouraged betting operators to base their online operations offshore, thus escaping the regulatory and fiscal net, whilst allowing them to continue targeting the UK market. However, it should be noted that some online operators, such as Betfair, continue to employ a significant number of employees here, thereby significantly contributing to the UK economy via national insurance contributions, income tax and corporate taxes.

Issue 3: The effectiveness of the Gambling Commission since its establishment, and whether it represents good value for money

17. Although Betfair no longer operates its betting exchange for UK customers under a Commission licence the company maintains a close relationship with the regulator here. Betfair continues to retain UK licences for disaster recovery and shares information about unusual or suspicious betting patterns with the Commission’s Sports Betting Integrity Unit (SBIU). Betfair has a positive relationship with the Commission.

18. The Commission is well-regarded in Europe as an example of how a national regulator can effectively monitor and control a dynamic licensed gambling market. However, it must be recognised that not every country in Europe has such a mature gambling market, or indeed wants to create one.

19. With regard to the online sector, the efficacy of the Commission is clearly impaired by the current structure of the regulatory regime created by the 2005 Act, which demands companies locate equipment here if they wish to hold a UK licence. If this regime was amended in the future such that any operators targeting the UK market had to hold a licence from the Commission, regardless of where their equipment was located, the number of operators under the Commission’s jurisdiction would very likely increase. Betfair would support such a regulatory structure which would see a greater proportion of online operators taking bets from UK residents falling under the UK regulatory regime. We would expect to see greater resources provided to the Commission if this were the case in order to allow it to oversee and monitor licensed remote operators and monitor and prosecute illegal activities by unlicensed operators in the UK.

20. In the areas of responsible gambling Betfair is aware that the Commission collects data from operators on a wide range of performance indicators and compliance-related issues. Information collected from online operators includes numbers of customers who use self-exclusion tools and the numbers of under-age people who seek to gain access to an operator’s site. Betfair is not sure to what extent the Commission makes use or analyses this data currently. Betfair considers that it may be of interest for the Committee to investigate this further as part of its Inquiry, not least in light of the Government’s stated intention of making collected data more readily available as part of its transparency agenda.

21. The Committee will be aware of the plans to merge the Commission with the National Lottery Commission, in order to streamline activity and reduce regulatory costs. It is, however, important to note that these two regulatory bodies were established via different pieces of legislation and therefore any merger will require primary legislation, potentially taking several years to complete.

Issue 4: The proliferation of off-shore online gambling operators on the UK gambling sector and what effect the Act has had on this

22. One of the aims of the Act was to ensure that there was an effective regulatory framework for the emergent online gambling sector. However, by basing licensing requirements on where operators have their equipment based, rather than whether they are targeting UK residents, via advertising to and/or taking bets...
from them, the legislation has failed over time to ensure that the majority of the online operators active in the
UK hold a licence from the Commission.

23. The principal problem with the current licensing regime is that remote operators licensed in the European
Economic Area, a white-listed jurisdiction or, indeed Gibraltar can freely take bets from UK residents and
advertise into the country, without requiring a licence from the Commission or having to pay General Betting
Duty.

24. The failure of the licensing regime to capture the online market has two principal effects:

- The Commission has no regulatory control over the vast majority of online operators active on
the UK market.
- HM Treasury has seen the number of online operators contributing tax revenues dwindle to just
a handful with the take from this sector in stagnation since 2007.

25. Fortunately, however, it is Betfair’s belief that whilst often regulated in other jurisdictions the vast
majority of online companies taking bets from UK residents meet high regulatory standards.

26. The issue of online gambling regulation is one the Government has been reviewing since 2009 and
Betfair welcomes the progress, albeit relatively gradual, being made in this area. In line with Betfair’s response
to the DCMS “Consultation on the regulatory future of online gambling in Great Britain” which the company
submitted to the Department in June 2010, the operator remains of the view that it would be appropriate to
prohibit non-licensed operators from marketing their services and products in the UK. Betfair also supports the
proposal in that consultation to make it an offence for non-licensed operators to transact with UK consumers.
However, Betfair would only advocate such a step as long as the licensing system adopted is not one which
limits or restricts the ability of any gambling operator licensed in the European Union (EU) to obtain a UK
licence. Should the UK adopt any such system, Betfair would suggest that it would fail to comply with
European Internal Market rules, as it would constitute a restriction on the freedom of EU-licensed operators to
provide services within that space.

Issue 5: Why the Act has not resulted in any new licences for casinos or “super” casinos

As this is an offline sector issue Betfair does not have an opinion on it.

Issue 6: The effectiveness of the classification and regulation of gaming machines under the Act

As this is an offline sector issue Betfair does not have an opinion on it.

Issue 7: What impact the Act has had on levels of problem gambling

27. The British Gambling Prevalence Survey 2010 (“the Survey”) published in February 2011, recorded
a small increase in the number of problem gamblers to 0.9% of the adult population—or 451,000 people—up
from the 0.6% recorded in both 2007 and 1999. This increase is “at the margins of statistical significance” which
suggests that since the implementation of the Act in 2007 the level of problem gambling in the UK has
remained fairly consistent.

28. As well as measuring rates of problem gambling, the survey also records rates of “pathological
gambling” amongst the adult population. The survey found that pathological gambling rates had fallen since
2007 to 0.3% of the adult population. This compares favourably with the international norm of 1%.

29. It is important to recognise when looking at the issue that most problem or pathological gamblers have
a multitude of addiction issues in their lives. They should not be recognised simply as “problem gamblers” but
as individuals with multiple dependencies with which they need support and help. Only through recognising
this will individuals receive the multi-agency help via charitable organisations, the health service and other
agencies if they are to overcome their problems. Isolating “problem gambling” and treating it as if it were only
one issue an individual may have is to deal with a single symptom and risks leading to the overall cause
potentially being overlooked which does not help the person themselves and represents an inefficient allocation
of resources.

18 Betfair’s full response to DCMS’s “Consultation on the regulatory future of online gambling in Great Britain” can be found at:
www.culture.gov.uk/consultations/7234.aspx
19 The Gambling Prevalence Survey 2010 can be found at:
21 “Pathological gamblers” are defined as those who meet at least five out of the 10 criteria on the DSM-IV measure compared to
“problem gamblers” who are defined at those meeting at least three of the 10 criteria.
Association).
Psychology Vol. 7: 483-510, April 2011.
CONCLUSION

30. Betfair operates under the following two fundamental principles:
   
   — Paying gambling tax at the prevailing local rate, providing it is charged on a fair basis across all operators targeting consumers in a country.
   
   — Adhering to all of the relevant regulatory standards required of gambling operators licensed in a country, providing they are proportionate and consistent.

31. In due course, with regulatory and fiscal changes in the UK, Betfair is confident that the Government can establish a sustainable regime for online gambling here. Betfair believes the evidence gathered, and work done, by the Committee as part of its Inquiry will be helpful to this process and remains at the disposal of the Committee should they require any additional information from the company.

June 2011

Written evidence submitted by the GREaT Foundation

1.0 INTRODUCTION

1.1 This submission is made on behalf of the Trustees of The GREaT Foundation.

1.2 The GREaT Foundation was created in 2009 as the dual, funding raising and distribution, responsibilities of the Responsibility in Gambling Trust (RIGT) were split.

1.3 Thus GREaT became part of what is now called ‘the tripartite structure’ whereby GREaT raises voluntary donations from the gambling industry, the Responsible Gambling Strategy Board (RGSB) sets strategy in the areas of research, education and treatment and the Responsible Gambling Fund (RGF) receives and independently distributes the funds raised by GREaT.

1.4 The tripartite structure was recommended by the Gambling Commission as part of a governance structure to facilitate a three year voluntary structure as an alternative to a statutory levy to fund research, education and treatment.

1.5 As part of the voluntary structure the gambling industry guaranteed to raise a minimum of £5 million per annum for three years—2009–10, 2010–11, 2011–12. In addition aspirational targets, above the minimum, were set for 2010–11 (£6 million) and 2011–12 (£7.2 million).

1.6 GREaT has a legally binding Distribution Agreement with RGF and certain large operators agreed to underwrite the £5 million per annum commitment. This commitment was communicated to the then DCMS Minister (Gerry Sutcliffe) in writing.

1.7 The three year voluntary agreement thus had full ministerial and Gambling Commission support.

1.8 The current three year commitment to underwrite and raise a minimum of £5 million per annum, together with the GREaT/rgd Distribution Agreement, expires in March 2012.

1.9 In 2009–10 the gambling industry raised £5 million, including a small underwrite in nine months. In 2010–11 it raised £5 million+, without recourse to the underwriters, from voluntary donations, and is on track to do so again in 2011–12.

2.0 RESPONSIBLE GAMBLING

2.1 The British gambling industry (the industry) has a worldwide reputation for integrity and for remaining largely crime free.

2.2 The industry has always supported the concept of responsible gambling and through self-regulation introduced self-exclusion policies and helpline referral posters and stickers in gambling premises. Many large operators are also individually accredited by GamCare in this respect.

2.3 The GREaT Foundation has created, and continues to develop, the Gamble Aware website which gives information on responsible gambling and easy referral to counselling services if individuals feel they have a problem with their gambling and require further help.

2.4 GamCare and Gordon House (now Gordon Moody Association) (residential care) were created and developed with industry donations prior to the Gambling Act 2005 and the National Problem Gambling Clinic in Soho was established in 2008.

2.5 Thus it is fair to say that the British gambling industry is also a world leader in socially responsible gambling and has been so for many years, indeed well before the Gambling Act 2005 and the creation of the Gambling Commission.

2.6 The industry is rightly proud of its achievement of raising £5 million+ per annum in voluntary contributions in the middle of a severe recession, which has put huge pressure on consumer facing businesses.
3.0 Problem Gambling

3.1 GREaT is of the view that there is no evidence to conclude that the Gambling Act 2005 has any impact on levels of problem gambling in Britain.

3.2 In the recent (2010) Prevalence Study there was an increase in gambling participation but no clear statistically relevant, increase in the incidence of problem gambling in Great Britain. Furthermore the report’s authors were unable to say if this was an on-going trend or a temporary fluctuation.

3.3 78% of respondents to the Prevalence Study said that “fun” was their primary reason for gambling, which is now well established as a largely harmless mainstream leisure pursuit.

3.4 As stated above the gambling industry takes its (social) responsibilities very seriously indeed. As well as actively promoting responsible gambling the industry voluntarily donates £5 million to be spent on research, education and treatment in this area.

3.5 The incidence of problem gambling in Britain is very low by international standards and at circa 400,000 it pales into social insignificance when compared to smokers (13 million), those with alcohol or drug problems (6 million) and obesity (16 million). Indeed a recent Prevalence Study in Ireland showed a higher rate of problem gambling than in Britain despite the fact that Ireland has no full scale casinos and no FOBTs. The study used the same methodology as the British study. This indicates that the type of gambling allowed or the tightness of regulation is not a major determinant of the level of problem gambling.

3.6 Despite the low level of problem gambling in Britain and an industry that has proactively adopted measures and funding, to promote responsible gambling, prevent problem gambling and identify and treat those who develop problems, GREaT is of the opinion that there has been an unnecessary and damaging over focus on the issue of problem gambling.


3.8 The worrying over focus on the issue of problem gambling is wholly disproportionate to the harm caused and has materially damaged legitimate commercial businesses which are an integral part of a modern, service based, British economy. The gambling industry in Britain provides over 100,000 direct jobs (250,000 indirectly) and £1.4 billion in tax revenues.

3.9 GREaT believes that the time has come for a more mature debate about gambling which is evidence based and balances the rights of individuals to spend their leisure time and money how they wish with the legitimate commercial interests of a socially responsible gambling industry and with effective regulation/social protection. GREaT, by raising £5 million per annum, is providing funds to support such an evidence based approach to policy making. However, thus far such thinking has been conspicuous in its absence.

3.10 GREaT and its predecessors (RIGT and GICT) were formed in response to some of the 175 recommendations contained in the Budd Report. Many other recommendations have not been adopted which continues to skew the balance between commercial interests and social protection towards over caution, over regulation and over protection.

3.11 GREaT believes that the Gambling Commission has a responsibility not only to regulate effectively but also to be an advocate for what they should see as a well regulated global leading British gambling industry.

3.12 GREaT also believes that the process of regulation and deregulation should be as depoliticised as possible and that the Gambling Commission should be required to report annually to DCMS on the appropriateness of current regulations and any recommendations for new, removed or amended regulations. Such recommendations should seek to balance legitimate commercial interests with the need for public protection and should be evidence based. In this way we would hope that regulatory change will happen in a depoliticised way and allow the Gambling Act 2005 to remain current and reflect changes in both technology and society, as was originally intended.

4.0 The Tripartite Structure

4.1 There is little doubt that the current tripartite structure has not yet achieved what it was set up to do. Indeed some industry donors believe that the structure has proved to be cumbersome, bureaucratic, costly and largely ineffective. This is clearly having a negative impact on GREaTs fundraising activities. However, in a very short period of time, RGF has made good progress on the treatment and prevention front, which is aimed at minimising gambling related harm, and has put in place an on-going research programme. In particular RGF has launched pilot projects aimed at early interventions, which is both cost effective and minimises gambling related harm. GREaT welcomes and encourages such positive new initiatives from RGF.

4.2 However, whilst the RGSB has created a clear framework for research, education and treatment, GREaT has become increasingly concerned at the poor, and deteriorating, relationship between RGF and one of the large treatment providers (GamCare). GREaT fully supports RGFs desire to commission services in a structured way, and to evaluate outcomes, thus driving maximum impact and value for every £1 raised by GREaT. The current poor relationships cannot be helping this process and is extremely damaging for the image of the (RET)
sector, GREaT is keen to see a more harmonious and constructive dialogue and will continue to play an active part in trying to ensure that the RET sector operates in a joined up and cost effective way.

4.3 We urge GamCare and RGF to positively engage in the current mediation process and to arrive at a position where the original objectives of the tripartite structure are delivered—professionally commissioned treatment and prevention activity which provides true value for money and measurably reduces gambling related harm, and research which underpins social policy and treatment/prevention activities from a solid base of empirical evidence. There is no reason why the current structure cannot achieve this if all parties work together towards this end objective.

4.4 From a cost perspective the one incontrovertible fact is that RIGT raised and distributed funds for £361,000 per annum, and RGSB/RGF/GREaT collectively does the same job, and provides advice to the Gambling Commission, for £747,000. Whilst it is fair to note that RIGT said it would need £475,000 to raise £5 million per annum, and that the Gambling Commission contributes £250,000 to the cost of the RGSB, giving a like for like comparison of £475,000 (RIGT) v £500,000 (RGF/GREaT) in net cost terms, this is still a huge overhead, for what is a £5 million business for social purpose, to have to bear. This issue needs to be addressed and GREaT would like to see a degree of streamlining and a focus on greater efficiency, and de-bureaucratisation, in how the structure works. We will play our part in this process.

4.5 GREaT would like to see a very real focus on the cost effective delivery of services to those who need them and on obtaining the research evidence required to underpin proportional regulation. The end of the RGF/GREaT contract, and the 3 year underwritten voluntary arrangement, in March 2012 presents a golden opportunity to review the effectiveness of the existing structure against this objective, and to make changes and improvements where necessary.

5.0 CONCLUSIONS/RECOMMENDATIONS

5.1 GREaT recommends that the CMS Select Committee urgently addresses the current damaging imbalance between allowing legitimate and responsible gambling companies to grow and thrive as part of a modern economy and social protection. The Committee should examine why this did not happen as Budd and DCMS originally intended.

5.2 The current tripartite structure in respect of responsible/problem gambling is currently being reviewed prior to the expiry of the current three year voluntary arrangement in March 2012.

5.3 If the CMS Select Committee is planning to hold an evidence session on problem/responsible gambling GREaT would very much welcome being involved.

June 2011

Written evidence submitted by William Hill

We welcome the Culture, Media and Sport Committee’s inquiry into gambling, and in particular the implementation and operation of the Gambling Act 2005. We look forward to working with the Committee in this important and timely inquiry.

Executive Summary

— The implementation of the Gambling Act introduced significant levels of dual regulation (via the Gambling Commission and local authorities) for the betting industry and regulatory costs rose significantly.

— The idea that the Gambling Act was liberalising legislation is a fallacy. There was some market liberalisation which was balanced by the highly intrusive operating licence process, but overall a restrictive regime was created which has adopted the precautionary approach of the legislation it replaced (in other words we have more regulation, but little or no liberalisation).

— The failure to attract remote operators to the UK was not a failure of regulation, but a failure to recognise the global nature of remote gambling and to introduce proportionate levels of tax to attract online operators to the UK.

— We urge the Government to encourage the liberalisation of the EU and wider gambling market. The alternative option of a “walled garden” approach for online gambling is unworkable in today’s E-business environment and will inevitably damage UK businesses.

— Government should take account of the distorting effect that betting exchanges have had on the betting market (tax and levy leakage) and the additional risks they pose to the integrity of sport (laying to lose).

— Problem gambling is an important issue, but it should not dominate or inform the whole debate around gambling. The Government should give greater weight to policy based on a real assessment of the harm done by problem gambling and its limited scale.
— There is still an opportunity to develop policy based on the far sighted report by Sir Alan Budd which unfortunately was not properly carried through into the Gambling Act with over emphasis on the precautionary principle.
— The changing nature of betting/gaming needs to be recognised with customer preference at the heart of the debate.
— In the spirit of Budd, the gambling industry should be treated like any other, and regulated and taxed accordingly. Where people have moral objections to gambling their point of view should be respected, but other issues, such as liberalisation and problem gambling, should not be used as a disguise for fundamental opposition to gambling as an activity.
— Instead gambling should be recognised for what it is; a discretionary leisure activity pursued by many millions of people who derive pleasure and other benefits from it.
— On the evidence there is no reason why further liberalisation should not be considered.
— The betting industry business model needs to be more fully understood by Government and its tax and wider economic contribution (not least jobs) needs to be recognised. The needs of investors and the stability of the betting industry need to be considered.
— Government and sport cannot treat the private sector industry as if it were the National Lottery; continually looking to tax it excessively or to salami slice its profits to finance a variety of projects for which grant in aid can no longer be afforded.
— There is no direct link between bookmakers and grass roots sport and sport should not be allowed to use the important issue of integrity in sports betting as a Trojan horse to try and secure additional revenue streams from bookmakers.

1. Introduction

1.1 In the course of a month, William Hill’s betting shops accept around 30 million betting slips, at an average stake of £8. The average gaming machine stake across B2/B3 content is £6.50. Our online site processes around 10 to 12 million bets per month across some 10,000 pre-event and “in play” markets with an average bet size of around £13.50.

1.2 All but a handful of these wagers are settled without problem. Only a tiny proportion show any evidence of suspicious betting patterns, of under-age gambling, or of problem gambling. And we have thorough procedures in place to identify and tackle all of those issues. In our experience—and we have been in the business for over 70 years—the UK gambling industry is the cleanest it has ever been. And, broadly speaking, it remains what it has always been: a pleasurable recreational activity that millions of Britons take part in and enjoy. We are a positive part of the UK social and community scene and are proud of what we provide our customers.

1.3 That has nothing to do with the regulatory system, the Act, or the Gambling Commission. It has everything to do with the concern of the UK gambling industry to protect its own reputation and play a socially responsible role.

1.4 Yet, despite this obvious truth—not to mention the advantages to HM Treasury of the £700 million tax revenues our industry generates—politicians, regulators and the media persist in treating gambling as a dangerous and socially harmful activity per se, rather than in line with the real risks to individuals, which are genuine but very limited.

1.5 We invite the Committee to spend time in our business and with our employees to see the reality of British bookmaking, and we look forward to its recommendations.

2. About William Hill

2.1 William Hill is the UK’s largest betting operators with 2,350 betting shops and one of the best known brands in the UK. Only the Post Office has more retail premises on the UK high street.

2.2 We provide gaming (47% of revenues) and betting (53% of revenues) services through three channels: in shop, online and on the telephone. Around 75% of our revenues are derived from our UK based business with our international business which is based in Gibraltar providing the remainder. We pay UK corporation tax on the profits repatriated from our online business and many UK based jobs rely on our online business.

2.3 We employ around 16,900 people worldwide with around 13,000 employed in our UK retail business.

2.4 In 2010 the Group made £276 million of operating profit and paid £272 million in gaming, corporation, employment and local taxes. The majority of that tax is paid in the UK. The reason for the tax burden almost equalling operating profit is the very high level of tax paid in the UK in terms of a gross profits tax on over the counter business, VAT and AMLD on gaming machine profits.

2.5 The betting industry in the UK as a whole pays around £400 million per year more than an equivalent sized non gambling sector. The business is run on a high turnover low margin model with margins in the online business being often a half to a third lower than those in the retail business.

ABB economic modelling.
2.6 Betting shop numbers have not risen in the UK since the inception of the Gambling Act, in fact the number of active bookmakers has fallen (as many independents go out of business), and the Gambling Act has not led to a proliferation of betting shops.

2.7 We have been able to develop our online business and compete in the online space because we have been able to harness expertise, lower costs and invest in business development and marketing. We were forced to take our online betting business offshore because of the failure of the previous Government to level the playing field between betting exchanges and traditional sports books, and because of the high rate of UK gambling tax.

2.8 We have also had to transform a loss-making telephone business based in Yorkshire into a profitable business by moving it offshore, but also enabling us to save British call centre jobs through outsourcing arrangements: 300 jobs were retained in the UK as a result.

3. The Gambling Act 2005

3.1 As the Committee notes, the Gambling Act set out to:

- ensure that gambling is maintained crime-free and conducted in a fair and open manner;
- protect children and vulnerable people from the adverse effects of gambling; and
- update the legislative framework with regards to online gambling.

3.2 It is true that under the Act the gambling industry in the UK remains crime free, with high levels of protection for the vulnerable. These advantages, however, predate the legislation and have always been upheld by the UK gambling industry itself.

3.3 But the Act had a broader intention which has not materialised, and we believe the Committee should ask why.

3.4 As the Committee may recall, the Act was the fruit of an influential and far-sighted report by Sir Alan Budd which argued that, subject to specific protections in respect of social responsibility, crime and customer fairness, gambling should be treated as a mainstream leisure business. That vision has not materialised. Instead policy has been driven by a confusing and unhappy mixture of maximising the tax take from the industry on the one hand, responding to alarmist media coverage of problem gambling on the other; and a strong and persistent moral objection amongst some politicians and campaigners to the Gambling Act per se which does not acknowledge the right of others to enjoy a bet. The result has been continued regulatory uncertainty which discourages investment and expansion, depresses market value and restricts job creation.

Crime: betting shops

3.5 The principal way in which crime is kept out of gambling is through the Gambling Commission licensing process. With the exception of one notable failure, the entry hurdle is high and controls on operators and individuals are effective. Gambling in the UK and particularly betting is not owned or controlled by criminals, but by well run and responsible companies who value their operating licences and exhibit good levels of corporate governance and social responsibility. One only has to examine the Gambling Commission’s regulatory sanctions register to realise what a compliant industry the betting industry is.

3.6 Because of the need to protect the licence, betting shops are generally run with staff rightly being intolerant of anti-social behaviour, use of alcohol or smoking. Betting shop staff enforce self-exclusion, prevent banned customers from remaining on premises and enforce “think 21” procedures to prevent underage gambling.

3.7 Betting shop customers are a cross section of the community in which they are located and generally there are far fewer incidents in betting shops than other public establishments within the area. For example a recent enquiry by Haringey Council was informed by the Metropolitan Police that there had been fewer incidents in all betting shops in Haringey than in one local fast food restaurant.

3.8 As for the criminal damage point, gaming machines use touch screen technology and damage can result fairly easily. Operators rightly report damage to police to deter offenders who either deliberately or recklessly damage gaming machines, but this has had an adverse effect on police criminal damage statistics. The industry is focussed on reducing these incidents.

3.9 Betting shop robbery and violence in the workplace are risks that operators recognise affect the industry, albeit as in many betting operator related matters, perception and reality differ markedly. The industry has actively participated for some time now in a multi agency stakeholder group (reporting back to DWP ministers) which has developed a voluntary industry code to combat robbery and violence in the workplace. Most operators have now adopted the principles of this code which is known as “the Safebet Alliance”. Betting shop robbery had risen in the period 2007 to 2009, but in the last year betting shop robbery reduced significantly in London and nationally. The effects of the Safebet Alliance appear to be tipping through. It needs to be remembered that operators and betting shop staff are victims in incidents of robbery and violence in the workplace, but health and safety responsibilities are taken very seriously.
3.10 Metropolitan Police Flying Squad Crime Prevention Coordinator DC Mark Beale recently informed the SBA stakeholder group that during the 12 months from April 2010 to March 2011 there had been reduction of 46% in commercial betting shop robbery compared with the previous period. The number of attacks on London’s LBOs had increased in each of the five years from 2006–07 to 2009–10, from 248 to 403. However 2010–11 had seen a dramatic reversal in that long-term upward trend. The detection rate for LBO robberies during 2010–11 was 55%, compared with 50% for all commercial robbery. DC Beale made it clear that the bookmakers’ adoption of the security measures and procedures—including staff training—recommended in the Voluntary Code was a major factor in explaining the fall in attacks and rise in the detection rate.

3.11 DC Beale stated: “Quite simply, bookmakers who follow the Voluntary Code are much less likely to lose significant cash in the event of an attack.”

3.12 We suggest that the Committee refers to Gambling Commission regulatory return information on the number of incidents that occur in betting shops where police are called, but keep in mind that the majority of these calls are from staff looking for assistance to carry out their regulatory responsibilities or relate to incidents of minor criminal damage or anti-social behaviour. This evidence also needs to be weighed against transaction levels and customer numbers.

3.13 One of the key tensions that exist between local authorities and the betting industry is the inclination of some local authorities to object to all new betting shop licenses and to seek to impose onerous conditions under the guise of reducing crime. In most cases disproportionate local authority decisions have been overturned on appeal and this has fuelled the myth that local authorities have insufficient powers in this area.

Crime: sports integrity

3.14 Despite newspaper comment, levels of suspicious activity connected with sports betting (including horse-racing) in the UK are very low. Since bookmakers as the immediate victims of such activity, we have a vested interest in tackling incidents. We do so with vigour.

3.15 As we are generally the victims of match fixing and betting scams, we spend considerable resources on identifying unusual transactions and making value judgements on the basis of extensive experience, whether or not “unusual” transactions fall into the category of “suspicious” and are therefore reportable to the Gambling Commission and Sports Governing Bodies.

3.16 As there has been some comment about the possibility of integrity issues arising on the London Olympics, the Committee should note that the games will be of little or no importance to UK licensed operators as a betting medium. Betting operators like William Hill will only make a limited numbers of markets on the event and turnover and gross profits will be small. UK bookmakers already have clear reporting obligations in respect of suspicious betting transactions and if there are betting risks around the Olympics it will be in countries where there are unregulated and therefore extensive illegal markets. There has been no evidence of problems with betting in previous Olympics, and we expect that to be the same in London 2012.

3.17 Some, including the current Sports Minister, have remarked the integrity in sports betting and doping are the two biggest threats to sport. To couple these two issues is misleading. We refer the Committee to the report by the Remote Gambling Association which compares the numbers of doping and betting incidents. It is clear that doping is a considerably greater threat to sport, but that does not mean that the betting industry is complacent about integrity issues. We want the sports we make markets on to be clean and we are fully supportive of the integrity infrastructure that exists in the UK.

3.18 One area in which the Gambling Commission should be complimented is for implementing the recommendations of the Parry report and establishing the Sports Betting Integrity Unit (SBIU). It is now proactively engaged in this area to the benefit of both sport and gambling operators.

3.19 It still needs to be more robust in its application of its power to void bets and associated betting markets, but it has started to develop expertise in this area.

3.20 One growing area of integrity concern is however the operation of betting exchanges. We note the recent comments of the Director of Integrity of the British Horseracing Authority who indicated that there had been over 100 BHA enquiries into integrity issues which have resulted from individuals laying to lose on betting exchanges. Betting exchanges continue to pose the main threat in the area of betting integrity and some countries, realising the risk they pose, have denied access to them when liberalising the market. Recent developments relating to exchanges show that it is the exchange model rather than traditional bookmakers that continue to provide the biggest threat to the integrity of racing and other sports.

Consumer Fairness

3.21 Customers get a good deal from fixed odds bookmakers, but our margins have been artificially squeezed by the failure of successive Governments to level the playing field between traditional bookmakers and betting exchanges. Considerable tax and levy leakage results through exchanges.

3.22 The Independent Betting Adjudication Service provides protection for consumers and operators taking a pragmatic and customer focussed approach to the application of betting rules. Betting operators want to foster
goodwill and sustainable business. The requirement to appoint a third party to adjudicate on betting disputes works well.

3.23 It is concerning that the DCMS appears to be looking at policies that would result in a worse deal for customers (by floating the idea of a customer winnings tax) and will be granting an exclusive licence for horse race pool betting. It is a feature across the European gambling landscape that monopoly pools do not represent good value for the customer with the takeout being so large.

Problem Gambling

3.24 Problem gambling levels in the UK are low by international standards and despite a significant rise in gambling activity and turnover (much attributed to the National Lottery), the problem gambling rate in the UK has remained consistently low across three prevalence surveys.

3.25 The 2010 prevalence study suggested a possible small rise in problem gambling on one of the two tests, but equally was heavily qualified by both the authors NATCEN and the Gambling Commission as not being definitive.

3.26 B2 gaming machines have been at the forefront of the debate around problem gambling and research into gaming machines is a strategic priority for the Responsible Gambling Strategy Board. Gaming machines are an integral part of the offering in betting shops and contribute as much as 50% of revenues, helping to keep betting shops open and maintaining jobs.

3.27 Betting shops offer a mixture of B2/B3 and category C games in the same cabinet. They are popular with customers and for the majority of customers, who use them responsibly and safely, provide low stake, harm free entertainment.

Gaming machines are subject to technical standards which amongst other matters control the spin cycle (B2-20 seconds), allow customers to cash out large wins and provide help pages.

3.28 There is no evidence that gaming machines cause problem gambling and it is clear that problem gamblers use a variety of gambling products. On a small sample, the prevalence study showed that around 10% of problem gamblers (incidentally lower than the last prevalence study) played on B2 gaming machines, but this is not evidence of causation. To put that in context that is 10% of the 60 to 70 problem gamblers identified from a population of 7,000.

3.29 Gaming machines have been in the market since 2002 and have been enshrined in statute for over three years. Unless there is overwhelming evidence of harm, there is no case to reduce numbers, lower stakes or impose additional regulatory controls on gaming machines. Indeed, given the popularity of these machines with customers, and the potential for increased Treasury receipts, there is an argument for allowing an increase in the number of machines in betting shops and for other liberalising measures such as linked jackpots.

3.30 In our view problem gambling levels should continue to be monitored, but there is no evidence of a problem that is either widespread or increasing.

Support for Research, Education and Treatment of Problem Gambling

3.31 The industry provides good support for research, education and treatment in the form of an annual donation of £5million and rising. However we are concerned at the sums being swallowed in administration and consultancy costs to the detriment of an effective and focussed research agenda.

3.32 The tripartite arrangement established by DCMS and the Gambling Commission has proved inefficient and over bureaucratic. Gamcare has served the requirements of problem gamblers well whilst maintaining its objectivity, but the relationship between the Responsible Gambling Fund and Gamcare concerns us; our perception being that there is a policy at RGF of trying to marginalise Gamcare and to reinterpret problem gambling as part of the wider public health agenda which will only serve to dilute the effectiveness of the structure and prevent effective and expert intervention.

3.33 There are strong age verification processes both online and in shop which invalidates any argument that children are at risk from gaming in either medium.

4. The Gambling Commission

4.1 The Act has been represented as facilitating the liberalisation of gambling, but for betting operators that is a fallacy, other than in one respect. The Act has allowed advertising of gambling services and there has been a degree of market liberalisation in line with the objectives of the Act.

4.2 However the quid pro quo for this liberalisation was greatly increased levels of regulation over the industry. There is now a costly dual regulatory system with the national regulator, the Gambling Commission, making a thorough assessment of the suitability of operators and key personnel and being responsible for operating licence compliance. Local authorities are responsible for granting premises and premises licence compliance.
4.3 The regulatory machinery includes:
   - A highly detailed, and in the case of personal licences, intrusive operating licence approval process which assesses suitability and is designed to prevent criminals or other unsuitable persons controlling gambling businesses.
   - An overarching requirement to adhere to the three Licensing Objectives.
   - Exacting operating licensing conditions and codes of practice covering social responsibility provisions, operating processes, customer fairness etc.
   - Gaming machine technical standards.
   - A plethora of complex guidance documents.
   - Extensive reporting obligations.
   - Premises licence conditions (mainly brought forward from the 1963 Act).
   - A clear process based around the three Licensing objectives for objections to premises licences.
   - Criminal and regulatory sanctions.
   - Compliance visits from Gambling Commission and local authority enforcement officers.
   - Thematic visits e.g. age verification (including covert testing).

4.4 The Committee's attention is drawn to the BRE report on the Gambling Commission published in April 2009. That report made a number of recommendations to the Commission and a road map for it to improve its regulatory approach. Importantly it highlighted the fact that its risk-based approach to regulation was largely theoretical and it needed to put that theory into demonstrable action.

4.5 We have a sense that migration to that risk-based approach has been slow with the Commission still engaged in routine compliance visiting, not using the regulatory return information it receives effectively to assist risk assessment and not having a full appreciation of the economic concerns or the needs of the industry.

4.6 It has too higher an overhead in terms of policy and administration staff and is saddled with a great deal of public sector bureaucracy as an NDPB sponsored by DCMS. It has often seemed reluctant to exercise its independence and has a rather old fashioned regulatory approach to its work.

4.7 Our view is that the Gambling Commission needs to remain, but it also needs to introduce efficiency savings to become leaner whilst retaining important expertise.

4.8 Our suggestions would be:
   - Make more effective use of regulatory return information to target resources.
   - Make more use of audit to verify operator self-assessment.
   - Cut down the number of routine visits to operators in all sectors.
   - Reduce numbers of compliance staff and the administration overhead.
   - Retain fewer, but more highly skilled and experienced staff.
   - Look carefully at the senior management headcount and overhead.
   - Reduce license fees which are essentially founded on effort (compliance visit) assumptions.

5. Offshore On-line Gambling

5.1 The structure of the Gambling Act cannot be held responsible for the UK's failure to attract remote gambling operators to the UK. This failure is the direct result of a rate of remote gaming and betting duty at 15%. Remote gambling operators need to be competitive in a challenging world market and cannot compete on price when there is no level playing field with betting exchanges and the UK gambling tax regime mitigates against growth.

5.2 There is little or no evidence that the offshore operators based primarily in Malta and Gibraltar pose any public protection risk to UK Citizens.

5.3 The recent DCMS consultation document on the future regulation of remote gambling failed to prove the case for any regulatory change and appeared to have been motivated by a desire to secure tax revenues through regulatory intervention:
   - It failed to identify areas of public protection that are unaddressed by the existing regime.
   - It proposed change without evidence as to why a change is necessary.
   - It proposed the imposition of unnecessary costs and regulatory burdens on otherwise compliant operators on the basis of theoretical risk.
   - It failed to provide evidence why the proposed solutions would have any impact on the achievement of the licensing objectives under the Gambling Act.

5.4 We are very disappointed in that instead of supporting the industry in Europe in its effort to achieve a liberalised gambling market, DCMS is now reverting to a regressive approach to remote gambling. It is our view that this is driven by concerns about levels of tax yield, rather than the regulatory issues covered by the
DCMS consultation paper. This is not a good way to develop public policy, and it will have a damaging effect on inwards investment and company value.

6. Conclusions

6.1 Whilst the operation of the Act and the Gambling Commission could be improved, as we have indicated, the main failing in UK gambling policy has been the inability of politicians of all parties to follow the lead set in the Budd Report.

6.2 That would require gambling to be treated as an industry much like any other: requiring proportionate regulation; encouragement to grow; a settled policy approach which is not driven by alarmist headlines; and an understanding that for the vast majority of our customers, a visit to a betting shop or an online betting site is a recreational activity from which they derive a great deal of harmless pleasure.

6.3 What the industry needs is commercial stability, the opportunity to grow and a proper risk based approach informed by evidence; not the disproportionate and over politicised approach to the gambling industry that we currently suffer.

6.4 The Gambling Act has failed to change polarised attitudes to gambling, despite evidence that the industry is primarily controlled by socially responsible companies with good levels of governance who pay high levels of tax.

6.5 The industry and its relationship with Government is now at a cross roads. Government can either create the right conditions for economic survival and growth or introduce policies which damage the industry and ultimately result in fewer jobs, less vibrant high streets, and a falling tax yield.

July 2011

Written evidence submitted by GamCare

Summary

1. Our paper reviews the nature and extent of problem gambling and the factors likely to influence the gambling environment. We identify what we see as the priorities for a coherent strategy and programme to protect vulnerable people from gambling harm and assess how well these priorities are being delivered. We recommend that the Committee should pay particular regard to the effectiveness of the mechanisms put in place in 2008–09 for raising and distributing industry funding for research, education, prevention and treatment. We also recommend that the Committee should explore the issues around the number, location and accessibility of high stake/high prize machines, and support the adoption of GamCare certification by gambling operators, particularly those online sites operating from other jurisdictions, as a significant contribution to consumer protection.

Introduction

2. GamCare is the pre-eminent national responsible gambling charity in Great Britain. Founded in 1997, the GamCare helpline receives nearly 1,000 calls per week with 85% of clients rating the service as “very good” or “excellent”. GamCare counselling services helped more than 2,600 clients in 2010–11. Around two thirds of the problem gamblers we help no longer score as problem gamblers at the end of treatment. We advise, train and support the industry, regulators and others on prevention, player protection and responsible gambling. We are largely funded through voluntary contributions from the gambling industry collected by the GREaT Foundation and distributed by the Responsible Gambling Fund, which we supplement with other donations, grants and trading income. GamCare receives no government funding. For more information on GamCare’s work visit http://www.gamcare.org.uk/pages/faqs.html

3. GamCare is not anti-gambling. We recognise that for many people gambling is an enjoyable leisure activity, and that most gamblers suffer no ill effects from it. Our main concern is the protection of vulnerable people, including children and young people, from the adverse effects of gambling, through education, prevention, treatment and relevant research. Our submission concentrates on these issues, though we also comment on other aspects of the Committee’s inquiry, particularly where they touch upon our main objectives.

The nature of problem gambling

4. Gambling becomes a problem for individuals when it ceases to be enjoyable and becomes a necessity. Winning is no longer pleasurable. The money gained is immediately reinvested in gambling. The life of a problem gambler revolves around gambling. They are constantly preoccupied with the next bet, the next game, to the exclusion of relationships, family, job and other things in their lives. They often report that they have stopped caring about themselves, their personal hygiene, appearance and health.

5. Gambling performs a multitude of functions in their lives. It is a way of managing intolerable feelings—sadness, frustration, lack of self-esteem. It gives the person a temporary sense of control and power when otherwise they feel helpless facing life’s problems. It may also be a form of self-harm, with losses representing
the extent of problem gambling requires close liaison between all the agencies to ensure effective and coordinated interventions. Treatment or support from other agencies, the criminal justice system, social services or the NHS. This therefore substance addiction to diagnosed mental health issues. They may also be receiving (or should be receiving) saving money and being risk averse.

Who gambled (parent, grandparent, uncle) or conversely have had a parent whose injunctions were all about been gambling for many years, starting from an early age; they may have had a significant figure in their life with a deficiency in expressing and containing their feelings. By the time they seek help this group has usually had been gambling for many years, starting from an early age; they may have had a significant figure in their life who gambled (parent, grandparent, uncle) or conversely have had a parent whose injunctions were all about saving money and being risk averse.

Although gambling can be a form of physiological dependence, insofar as gambling provides excitement and produces a "high" in the form of adrenalin, serotonin and endorphin rushes, there are marked differences from alcohol and substance addiction. In terms of treatment there is no need for detoxification prior to therapy and also no need for medication to substitute the substance.

Many problem gamblers have experienced some form of trauma, abuse or loss in their past, leaving them with a deficiency in expressing and containing their feelings. By the time they seek help this group has usually been gambling for many years, starting from an early age; they may have had a significant figure in their life who gambled (parent, grandparent, uncle) or conversely have had a parent whose injunctions were all about saving money and being risk averse.

Many gamblers are co-morbid. This might range from anxiety and depression through alcohol or substance addiction to diagnosed mental health issues. They may also be receiving (or should be receiving) treatment or support from other agencies, the criminal justice system, social services or the NHS. This therefore requires close liaison between all the agencies to ensure effective and coordinated interventions.

The extent of problem gambling

11. The latest evidence from the 2011 British Gambling Prevalence Survey showed that:
- 73% of the adult population (c35.5 million) had gambled within the past year (cf 68% in 2007).
- Problem gambling prevalence using a measure that was statistically significant was higher in 2010 (0.9%) than in 2007 and 1999 (0.6% for both years). This equates to around 450,000 adults aged 16 and over in Britain.
- Problem gambling is more prevalent among men and younger age groups; and significantly associated with being of Asian/Asian British or Black/Black British origin.
- Problem gambling prevalence rates observed in Great Britain were similar to rates observed in other European countries, notably Germany (0.6%), Norway (0.8%) and Switzerland (0.8%); lower than countries like the USA (3.5%), South Africa (1.4%) and Hong Kong (5.3%); and higher than Sweden (0.3%), Canada (0.5%) and New Zealand (0.4%).

12. The Survey is a snapshot at a particular moment—problem gambling is dynamic, with people moving in and out all the time. Most problem gamblers participate in several types of gambling. Problem gambling affects partners, families and friends— if every gambler has an impact on just 4 others (a conservative estimate) that means over 1.8 million people are affected. The Survey also found that a further 1.8% of the population—over 900,000 people— were at “moderate risk” of becoming problem gamblers, and 5.5%—over 2.7 million people— displayed some risk factors.

13. The Prevalence Survey does not collect data on some specific groups—eg prisoners, students, the homeless—who are at significant risk in respect of gambling. Some estimates suggest that the prevalence of problem gambling amongst prison populations may be as high as 10%, with another 17% at high or medium risk. Students are particularly vulnerable: away from home and perhaps managing money for the first time, immediately in debt through the loan system and so under pressure to find income, and very possibly encountering peers who gamble successfully (because they have developed the necessary skills for certain activities) yet poorly informed themselves about the risks.

14. The Prevalence Survey also excludes data on gambling amongst under-16s. The most recent source of information on this group comes from a 2009 IPSOS Mori survey which found that 2% (c60,000) 12-15 year olds were problem gamblers; whilst a reduction from previous surveys, this is still a higher prevalence rate than for adults.

15. There has been no research in Great Britain specifically designed to estimate the costs of gambling-related harm to society and the economy. We have assessed the costs of problem gambling to the economy at
NHS and associated anti-social behaviour. £3.6 billion per annum, based on an estimated average annual social cost per problem gambler to society of £8,000 pa (Grinols & Mustard, 2001) and using the 2011 prevalence figure of 450,000. This compares with an estimated annual cost of £15 billion for problem drug use and £9 billion for drink-related costs to the NHS and associated anti-social behaviour.

16. At present, using assessments at the beginning and end of treatment, our latest figures show that of the gamblers we treat, c90% are classifiable as problem gamblers at the start of treatment and this reduces to c30% at the end of treatment—a two-thirds success rate. In 2010–11 we anticipate spending £1.75 million in total on helping c2,650 clients—£660 per client. 95%—2,520—are likely to be gamblers, and 90% of these—2,270—problem gamblers. If two thirds (1,520) of these are no longer problem gamblers at the end of treatment, the annual saving to society is £12 million (150 x £8k), representing a cost: benefit ratio of 7:1. This compares with a cost: benefit ratio of 2.5:1 for the treatment of problem drug users, where the mean cost of treatment is £4,900 for a mean benefit of £12,000 (NAO, 2010).

Research, education, prevention and treatment (REPT)

17. The Government’s policy on REPT, predating the 2005 Act, has effectively been based on the “polluter pays” principle, ie that the gambling industry should fund research into and measures to prevent and address gambling-related harm. Operators licensed by the Gambling Commission (which excludes those operating from other jurisdictions) are required to have and put into effect policies and procedures to promote socially responsible gambling, and to demonstrate that they are contributing to REPT. The Act makes provision for the introduction of a statutory levy on operators licensed by the Gambling Commission, but both before the Act and after it, following a review by the Commission and DCMS in 2008–09, this policy has been pursued through a voluntary arrangement with the industry to raise and distribute funds. We return to the effectiveness of arrangements for this below.

18. Industry funding rose from just over £2 million in 2005–06 to £3.5 million in 2008–09 and is now running at £5 million per annum. It is raised by the GREaT Foundation which provides the collective funding mechanism for the industry. Historically, industry funds have been focused on treatment, largely through GamCare to provide a national helpline and counselling (£2.5 million in 2010–11). Funds have also been used to provide residential treatment through Gordon Moody Association and to support treatment provided by the NHS through the National Problem Gambling Clinic in London. Very little has been spent on prevention and education. The remainder has been invested in research.

19. GamCare has worked closely with the industry throughout this period to create a coherent and effective infrastructure to deliver the national helpline and treatment. Counselling is now available in c70% of Great Britain, through a network of charitable partners commissioned and managed by GamCare, as well as online. We have welcomed the increased, voluntary funding commitment from the industry in the last two years and believe it represents a real commitment across the majority of industry operators to player protection and social responsibility. This is reinforced by our work with individual operators on the development of their social responsibility policies and procedures, the training of their staff and the certification of their operations, providing an important kitemark for consumers; we provide all of these services on a cost-recovery basis, and so they represent an industry investment over and above their voluntary contributions to GREaT.

Factors affecting the gambling environment

20. It is clear that in recent years awareness of gambling opportunities has become much more prevalent and gambling products much more accessible, due in particular to:

— the growth in advertising, sponsorship and media endorsement (facilitated by the Gambling Act);
— the expansion of gambling opportunities available in land-based premises;
— the availability of gambling products via new channels: online, mobile technology, digital television etc;
— the accelerating development of and innovation in gambling products by the industry, both land-based and online; and
— the increase in licensing of remote operators by other jurisdictions who target the UK market, facilitated by “white listing” arrangements under the Act.

21. At the same time, the growth of the National Lottery such that it might now be described almost as a “national institution” must also have contributed to a more general acceptance by society that gambling is a perfectly acceptable leisure pastime. We have no objection to this, but it is another factor that needs to be taken into account. Whilst playing the National Lottery on its own figures hardly at all as a factor amongst those contacting us for help, it would be useful to research whether there is any evidence that Lottery playing leads vulnerable people into other forms of gambling.

Priorities

22. In our view, all of these factors are likely to lead to an increasing number of people gambling, and so reinforce the need in the short term to ensure that adequate and effective support and treatment mechanisms are in place for those affected by gambling, and in the longer term to develop effective education and prevention measures. Our priorities for REPT are therefore to:

— provide help and support for those in need by maintaining, expanding and developing the existing delivery infrastructure, and by continuing to innovate in the provision of treatment. In particular, we should seek to ensure that counselling is available in every part of the country by completing the network of partners we have been putting in place over the last few years;

— encourage collaboration rather than competition between providers, and so ensure that very limited resources are used to best effect;

— make sure that gamblers, non-gamblers, other helping agencies, GPs etc are much better informed about the risks of gambling and that help is available. A cost-free way to do this would be for the industry to agree to carry the Helpline phone number on their advertising;

— develop an effective education and prevention strategy, with a particular focus on young people, their teachers and parents to be able properly to assess the risks of gambling and so equip them to be able to gamble responsibly and enjoyably if they choose to do so; and

— focussing research, other than prevalence work, on establishing what works in respect of treatment, education and prevention, and feeding this back into policies and practice. This should encompass developing effective evaluation for existing provision and drawing on research in other jurisdictions.

How well are these priorities being delivered?

23. Very few—perhaps less than 1%—who might benefit from treatment actually receive it. Problem gambling is widely referred to as “the hidden addiction” since it shows few or no outward signs. Based on our experience over the years, we know that a wider public education campaign would significantly increase the numbers of people coming forward for help. GamCare restricts promotion of its services in line with funding available for treatment. In an ideal world, there would be more funds available. It is therefore vital that all the funding that is available is used to best effect, on the frontline.

24. We have therefore welcomed the increase in funding being provided by the industry since 2005. It is likely that this was influenced by the licensing requirements of the 2005 Act, though we note that funding was increasing anyway before it was implemented. Although, arguably, the DCMS’s levy consultation in 2008–09 gave further impetus to the industry’s fundraising, we remain convinced that a voluntary system is preferable to a statutory one, and hope that an effective voluntary system can be made to work.

25. Unfortunately, we have found the mechanisms which were put in place in 2008–09 for determining priorities for REPT and distributing funds to be less satisfactory, and we know these concerns are shared by other service providers and by many in the industry—so much so that GREaT’s fundraising is being severely constrained by question marks over the effectiveness of strategy-making and distribution.

26. The Responsible Gambling Strategy Board (RGSB) was created at the end of 2008 by the Gambling Commission its purpose is to advise the Commission on a national strategy for REPT. The Responsible Gambling Fund (RGF), an independent charity, came into being in spring 2009; its purpose is to distribute the funds raised by GREaT to deliver the RGSB’s strategy. The Gambling Commission’s review (October 2008), which proposed the new structure, set out four key objectives for the new system:

— Separation of the three functions of fundraising, strategy and distribution.

— An effective framework for developing a strategy and priorities.

— Improved distribution delivering cost-effective and evaluated programmes.

— Sustainable, three-year funding.29

27. It does not seem to us that any of these objectives has been fully realised:

— whilst fundraising is now handled separately by GREaT, by dint of having the same Chair, CEO and executive, and with considerable overlap of Board members, there is not a clear separation between the RGSB and the RGF;

— although the RGSB has published two strategy documents (October 2009 and October 2010), neither attempted an assessment of need either in respect of treatment or education and prevention, or provided evidence for, or cost/benefit analyses of, their recommendations;

— the RGF has yet to produce a forward plan or budget for its use of GREaT’s funds. To the external observer their approach has therefore been characterised by a number of incremental decisions which have left existing providers uncertain about their futures. Their strategy can only be inferred from their major funding decisions, which included making commitments to research and three new regional pilot projects (costing £1.6 million) ahead of providing funding for existing treatment providers. Their approach to tendering has appeared inconsistent, with several new and significant opportunities not being opened up to competitive tendering. There is no clear data available on the overall costs of the new system; and

— whilst three year funding has been made available for some new projects, existing treatment providers were only offered 18 month contracts from April 2011. The commissioning process has been extremely protracted such that at the time of writing GamCare still does not have agreed funding for 2011–12, either for the national HelpLine or treatment, and we have had to ask for provisional arrangements to be put in place to prevent insolvency.

28. All this has meant that the funding of research, three experimental, and costly, treatment pilots, and some other one-off projects have apparently been prioritised above the delivery and expansion of existing treatment services, including the helpline. We and other treatment providers have been unable to plan properly even to maintain existing services, let alone to expand them, and at present our planning is month by month rather than on the three year basis envisaged. There has been very little progress on the development of an education and prevention strategy, despite the priority the Commission’s review recommended this be given. The costs of the new system are unclear, as are the benefits for the proposed beneficiaries: players, problem gamblers and their families. We recommend that the Committee should give these issues their particular attention.

Other Issues

Casinos and machines

29. The casino issue dominated the passage of the 2005 Act, sadly characterised by much poorly-informed opinion. The social responsibility argument for the casino licences allowed under the 2005 Act, simply put, is that they are destination gambling and entertainment venues which can therefore be more easily managed and controlled—people make a specific decision to go there, probably plan an evening out around the trip and so can also plan their expenditure carefully as well. They are therefore, it is argued, potentially “safer” gambling venues than high-street gambling premises, which can provide players with spontaneous and therefore unplanned and so potentially riskier gambling opportunities. What is certainly true is that in recent years the opportunities for high-street gambling have increased, including the number and nature of products available. Whether faster development of large or small casinos would have affected this is debatable. We suggest that the Committee could usefully explore these issues and particularly the regulations governing the number, location and accessibility of high stake/high prize machines.

Off-shore online operators

30. It is very clear that the objective of the Act to bring on-line operators within the regulatory reach of the Gambling Commission was undermined from the outset by the Government’s tax decisions. The inevitable result is that the vast majority of on-line sites available to UK players are licensed overseas. Yet we suspect that players on these sites, if they consider these issues at all, might well assume that the sites are being regulated by the British regulator and so could be misled into believing there is a level of player protection available to them which is not actually present. We have found that more and more remote operators who are not licensed by the Gambling Commission are approaching us to certificate their sites. The GamCare brand and kitemark is becomingly increasingly well-known to players and so provides a considerable service to consumers. We would welcome the Committee’s support for the further development and adoption of this valuable aid to players, the costs of which are met by the operators themselves.

June 2011

Written evidence submitted by the Remote Gambling Association

1. I am writing on behalf of the Remote Gambling Association following the Committee’s call for evidence in relation to the above inquiry.

Executive Summary

2. The following is a summary of the main points that we would like to make to the Committee:

— The regulatory integrity of the British gambling industry has at least been maintained by the Gambling Act. Levels of problem gambling remain relatively low and the public can pursue this recreational activity in a fair and crime free environment.

— Unfortunately, the Act has not led to any significant commercial benefits for the UK gambling industry.
— The Act dramatically increased regulatory costs following the establishment of the Gambling Commission. It remains unclear whether that change represents good value for money.

— Online gambling still represents a small part of the overall UK gambling market. It is true that the companies servicing that market are predominantly based in Gibraltar, Alderney and the Isle of Man, but that has not been to the detriment of UK consumers or other parts of the UK gambling industry.

REQUEST TO GIVE ORAL EVIDENCE

3. It is to be expected that a high proportion of respondents will ask for the chance to provide oral evidence and the RGA is no different in that regard.

4. We are fully aware that there will be a strict limitation on the number of organisations and individuals who may be called, but as online gambling appears to be prominent in the Committee's thinking we would suggest that the trade association representing that sector should have the opportunity to discuss the issues with Committee members in person.

INTRODUCTION

5. The RGA is the largest trade association for the global online gambling industry. It represents over 30 of the most of the world's largest licensed and stock market-listed remote gambling companies. Our current membership and further information about the RGA can be found at www.rga.eu.com.

6. RGA membership is restricted to operators and software suppliers. The operators must be licensed for gambling purposes within the European Economic Area (EEA), the Isle of Man, or the Channel Islands and must adhere to our code of practice on social responsibility.

7. The members of the RGA have substantial experience in engaging with regulators and other stakeholders to ensure remote gambling is conducted in a fair, safe, and crime-free environment. This experience is based on operating in fully regulated jurisdictions where it is possible for private sector operators to obtain licences on a non-discriminatory basis.

RESPONSES TO SPECIFIC ISSUES RAISED BY THE COMMITTEE

How effective the Act has been in its core objectives to:
— ensure that gambling is maintained crime-free and conducted in an open and fair manner;
— protect children and vulnerable people from the adverse effects of gambling;
— update the legislative framework with regards to online gambling

— The British gambling industry has an excellent track record in combating crime and protecting the vulnerable. It compares well with any regulated jurisdiction in the world. The Act has perhaps brought a greater level of consistency to how these threats are addressed, but for the most part the situation is little changed from that which existed pre-2005.

— The legislative framework with regard to online gambling was an improvement because prior to the Act it was only online betting that was permitted under a bookmaker’s licence and there was no provision for other forms of online gambling, such as casinos, poker, and bingo.

— However, because of the uncompetitive fiscal regime in the UK most companies have chosen to be licensed in other jurisdictions (see below).

The financial impact of the Act on the UK gambling industry

— The costs of licensing and compliance have increased significantly. This includes both direct licence fees to the Gambling Commission (£13.3 million in 2009-10) and the internal compliance costs for each company.

— While these costs have gone up, HMRC returns show that revenues have remained almost static. There are other factors that may have affected this, but overall the Act has had little positive financial impact.

— This is disappointing as there had been a reasonable expectation that increased levels of regulation and the establishment of a sizeable new regulator would provide sufficient assurance that new commercial opportunities might be offered, but they have not.

The effectiveness of the Gambling Commission since its establishment, and whether it represents good value for money

— The regulation of gambling raises a number of complex challenges and we welcome the Commission’s efforts to engage with the industry to address those through its risk-based approach.
— Nevertheless it is difficult to take an objective view of its effectiveness because its performance criteria are vague. It took over what was already a generally well regulated and responsible industry and, consequently, it is difficult to argue that it has led to a widespread improvement in standards or even that there was much room to make such an improvement.

— Against that background, and taking into account the much lower regulatory costs pre-2005, there must be a serious doubt about whether it does represent good value for money.

The impact of the proliferation of off-shore online gambling operators on the UK gambling sector and what effect the Act has had on this.

— If anything because of the fierce competition in the online market, there are probably fewer companies now with a significant share of the British online gambling market than there were in 2005, so it may be misleading to refer to a ‘proliferation’ of operators licensed in other jurisdictions.

— It is, however, true to say that, with very few notable exceptions, the British online betting and gaming market is dominated by companies licensed and operating out of Gibraltar, Alderney & the Isle of Man.

— Without exception, they are operating out of those jurisdictions for fiscal reasons rather than to avoid regulation. In fact, as recognized by the British Government under its “white list” criteria, Alderney and the Isle of Man already have comparable regulatory regimes. Provision was specifically made in the Gambling Act 2005 for Gibraltar so that its licenses could to advertise to, and therefore transact with, British customers. It is reasonable to assume at the time that Parliament must have been satisfied that its regulatory standards were equally acceptable.

— In that respect nothing has changed since 2005, although the Government has brought into question the future of the “white list” system. From the relevant DCMS consultation paper this is apparently because of a desire to compel all operators, irrespective of their location, to hold British licences rather than any suggestion that the ‘white list’ jurisdictions do not continue to compare well to UK standards. If they had failed in that regard then no doubt the Government would have removed the relevant jurisdiction from the “white list” and addressed the problem in that way.

— There is no hard evidence that the development of this sector outside of the UK has been to the detriment of the wider UK gambling sector. While there may be some overlap between online and land-based gamblers there is nothing to indicate a widespread cannibalization of the market that existed pre-2005. With regard to this, HMRC figures for receipts from betting, gaming and lottery duties, show that in 2006–07 they collected £1.39 billion and in 2009–10 they collected £1.44 billion.

— There is also no evidence of harm to UK consumers (this was acknowledged in the DCMS consultation paper in 2010 about the regulation of remote gambling, which referred instead to “potential” risk). The so-called offshore sector, which is predominantly made up of companies that have a substantial UK base anyway, is still responsible for the creation of thousands of jobs, contributes to the economy through a whole range of commercial arrangements, for example advertising and sports’ sponsorships, and is a major contributor to the GREaT Foundation.

— The Act has not been a factor in the development of the British online gambling market, which as with all businesses, has been commercially driven.

Why the Act has not resulted in any new licences for casinos or “super” casinos

— We would leave this for the casino sector to comment on.

The effectiveness of the classification and regulation of gaming machines under the Act

— We would leave this for those sectors with an interest in gaming machines to comment on.

What impact the Act has had on levels of problem gambling

— It is very difficult to know what contributes to the prevalence of problem gambling and how factors weigh against one another. It is therefore difficult to assess the impact of the Act on levels of problem gambling.

— What we do know is that levels of problem gambling in the UK remain low by international standards. The three national prevalence studies that have been conducted since 1999 show a very steady and relatively low level of problem gambling over a protracted period of time and one which does not appear to have been affected greatly by the increased availability of, for instance, gaming machines or online gambling.

— Although the most recent study has been depicted by some as showing a significant rise in problem gambling the truth is very different. It highlighted the serious discrepancies thrown up by the different problem gambling screens that were used, but crucially in the words of the authors, the Gambling Commission, and the Minister the differences between the two most recent studies were “in the margins of statistical significance”.

— Nevertheless it is difficult to take an objective view of its effectiveness because its performance criteria are vague. It took over what was already a generally well regulated and responsible industry and, consequently, it is difficult to argue that it has led to a widespread improvement in standards or even that there was much room to make such an improvement.
8. There are clearly a number of additional issues that might be raised in relation to the inquiry, but we would like to focus on two that might well be raised by other interested parties.

9. The first of these is advertising. The Gambling Act 2005 brought in a number of new advertising freedoms, most notably in relation to broadcast advertising. Our view is that advertising in the UK is well regulated by the various provisions and codes that have been introduced by the Gambling Commission, the Advertising Standards Authority, and the gambling industry itself. These various measures are complementary and have achieved a high level of compliance across a whole range of marketing, advertising and sponsorship.

10. This is to the credit of all concerned and has been beneficial to the gambling industry, the advertising industry and to consumers. It has been one of the successes of the Gambling Act 2005 and properly reflects the position of gambling as a mainstream leisure activity albeit one that requires appropriate regulatory safeguards.

11. The second issue is sports’ betting and, in particular, concerns that have been raised about match fixing. This is clearly an issue of huge importance to both the betting and sporting sectors, even though direct links with the Gambling Act are not immediately apparent. The key point we would like to make is that the European regulated betting sector faces a potential threat from corruption in sport, and not just that related to betting, but it is in no way responsible for any corruption that may occur. The responsibility for that rests with participants in those sports, individuals who might be seeking to defraud licensed betting operators, or illegal betting operators who primarily are based in the Far East.

12. Notwithstanding that, the betting industry is anxious to work in partnership with sports to combat problems of this kind. Examples of this are the role played by the European Sports Security Association (ESSA) in the provision of an early warning system; and player education programmes such as the one provided by the UK Professional Players Federation (PPF). The PPF’s work in this area is funded jointly by the Remote Gambling Association and three of its members (Ladbrokes, Bet365 and Betfair). In its first year this enabled 2,400 professional sportsmen to be given the required training about betting and integrity. It is planned that this scheme will be developed further in coming years.

Conclusion

13. We are mindful that the Select Committee will receive a significant amount of written evidence and because of this we have sought to concentrate on a number of key issues and, of course, to comment on those areas that the Committee has already expressed an interest in. However, we would be happy to supply further details if that might be of help.

June 2011

Written evidence submitted by The Rank Group Plc

Rank is one of the leading gaming-based entertainment businesses in Britain, serving more than two million customers every year. The Group’s UK operations comprise 135 licensed gaming venues (casinos and bingo clubs) and online and mobile gaming channels under its Mecca Bingo, Grosvenor Casinos and Blue Square brands. The Group employs more than 8,000 people in Britain as well as another 780 in its Spanish and Belgian operations.

Executive Summary

We believe that the Select Committee needs to look beyond the legislation of the Act itself and instead address the question of whether the core aims of the Act have been achieved and if not, why not. This necessarily involves the extension of the inquiry into all facets of government policies towards the gambling industry and critically the role of HM Treasury. To ignore this responsibility would, in our view, serve only to replicate the failings of government policies over the past six years.

We summarise our submission to the Committee’s inquiry as follows:

— Government’s vision for the gambling industry has been largely unfulfilled due to confused and contradictory policy-making, for example, off-shore tax and regulatory policy versus on-shore tax and regulatory policies.
— Government departments concerned with gambling policies have failed to work together towards a common aim, and/or failed to enable and sponsor the industry.
— Government policies have served to undermine the core aims and the spirit of the Act through an absence of fairness and openness. For example, by penalising those forms of gambling with the highest levels of supervision and player protection in favour of those forms with lesser levels.
— The Gambling Act 2005 (the “Act”) is an important piece of enabling legislation that improved the regulation of the British gambling industry in a number of ways, for example devolving licensing decisions to Local Authorities.
The Government has failed to provide an adequate regulatory framework to accommodate online gambling and its consequences for land-based gambling.

We summarise our key recommendations to the Committee's inquiry as follows:

- Bingo and Casino games to be taxed at flat rate of duty (circa 15%) in line with other activities governed by the 2005 Gambling Act [See Appendix A: Responsible taxation: Fairness, Simplicity, Sustainability—published by The Rank Group Plc, February 2010].
- The immediate re-introduction of the triennial Stake and Prizes review for gaming machines.
- A comprehensive review of gaming machine entitlements (numbers and categories).
- Parity of taxation and regulation for off-shore/onshore on-line providers.
- Portability of existing casino licences, subject to agreement by individual Local Authorities.

**Rank’s Response to The Culture, Media and Sport Select Committee Inquiry into Gambling**

1.0 How effective has the Act been in its core objectives to:

- ensure that gambling is maintained crime-free and conducted in an open and fair manner;
- protect children and vulnerable people from the adverse effects of gambling;
- update the legislative framework with regards to online gambling

By way of background, the GA 2005 replaced long-standing gambling and gaming legislation which had variously been in place since 1963. The GA 2005 consolidated "The Betting, Gaming and Lotteries Act 1963", "The Gaming Act 1968" and "The Lotteries and Amusements Act 1976".

The National Lottery remains outside the scope and remit of the GA 2005, and is governed by separate legislation—principally "The National Lottery Act 1993".

Spread betting remains outside the scope and remit of the GA 2005 and is regulated by the FSA under the Financial Services and Markets Act 2000.

Excise duties on the various forms of gambling are imposed under separate revenue statutes and currently there are seven types of gambling duty: General Betting, Pool Betting, Gaming, Remote, Bingo, Lottery and Amusement Machine Licence. Each duty has its own rate regime and all fall within the direct remit of HM Revenue and Customs.

1.1 Ensure that gambling is maintained crime-free and conducted in an open and fair manner

1.1.1 As the Government noted in “A safe bet for success”, Britain’s “record in keeping [criminals] out [of gambling] stands comparison with anywhere in the world”.

1.1.2 Since 2005, Britain’s regulated gaming and betting industry has maintained its reputation in this respect. Companies and trade bodies have continued to work closely with the regulator, the Police and other government agencies. To this extent, it may be argued that the Act has changed very little—a “clean” industry has been kept “clean”. The credit for high levels of probity associated with licensed gambling in Britain must be shared by the Gambling Commission, the Government and the considerable efforts of the companies themselves.

1.2 Protect children and vulnerable people from the adverse effects of gambling

1.2.1 We believe that Government policies have not done enough to promote the protection of children and vulnerable people. In certain instances, policies have actually served to undermine this aim by penalising those sectors of the industry providing the highest degree of supervision and player protection, in favour of those providing lower levels. [See Appendix B: Gaming and Betting 2010: “Fairness, Responsibility and Sustainability”—published by the Rank Group Plc, March 2010].

1.2.2 Based upon available evidence, the prevalence of pathological gambling in Britain is relatively low (c 0.9% of adults according to the British Gambling Prevalence Survey 2010). There appears to have been some increase between 2007 (when the prevalence survey showed a rate of 0.6%) and 2010 but given the limited sample sizes involved, we believe it is right to exercise a degree of caution in drawing hard conclusions from this data.

1.2.3 In addition, we note that GamCare, the problem gambling counselling and research organisation has recorded sustained increases in clients over recent years. However, we consider it likely that this is due in part to the organisation’s enhanced accessibility (eg the launch of its NetLine advice service) as well as the efforts of licensed operators to promote GamCare’s services to customers (via both promotion and intervention).

1.2.4 With respect to underage gambling, the available data is frustratingly inconsistent and as a consequence, it is difficult to gauge either the extent or the trend in underage gambling.
1.2.5 What we do know is that underage gambling does exist—and at unacceptably high levels. Moreover, there does appear to be an entirely logical correlation between levels of supervision provided and the incidence of underage gambling. Thus, licensed bingo clubs and casinos (which provide high levels of supervision, including regulated entry) jointly accounted for just 0.09% of all recorded incidents of underage gambling in 2008–09 (compared with adult participation rates of 8% and 5% respectively).

1.2.6 The 2009 report “Qualitative Study Into Machine Gamblers” by GfK NOP Social Research, commissioned by the Gambling Commission, highlights the importance of sociability in combating problem gambling:

“For many regular gamblers machine gambling was seen as a social activity while for problem gamblers it tended to be more solitary; bingo halls, casinos and betting shops were all seen to facilitate social gambling …”

1.2.7 Yet, despite clear evidence of the importance of supervision and sociability in preventing problem gambling, government policy appears to have been to penalise those operators who do most to promote these aspects. The table below illustrates this approach with regard to taxation.

<table>
<thead>
<tr>
<th>Supervision</th>
<th>Sociability</th>
<th>Duty rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bingo (in a licensed bingo club)</td>
<td>High</td>
<td>Very high</td>
</tr>
<tr>
<td>Bingo (online; off-shore)</td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>Casino games (in a licensed casino)</td>
<td>Very high</td>
<td>High</td>
</tr>
<tr>
<td>Casino games (online; off-shore)</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Casino games (licensed bookmaking office)</td>
<td>Medium</td>
<td>Medium</td>
</tr>
</tbody>
</table>

1.2.8 Regulation has followed a similar path with Government policies placing some of the heaviest restrictions on the industry sectors that provide the greatest degree of customer protection. For example:

(a) casinos are restricted to just 20 gaming machines irrespective of the size of the casino or the level of demand for machines, representing just 1% of gaming machines in Britain; and

(b) according to the Gambling Commission, only 20,300 of Britain’s total number of 248,000 gaming machines (or just 8%) are located in bingo clubs and casinos. The remaining 92% are located in venues such as pubs, betting shops and arcades where supervision may be present but where entry controls are absent.

As the author of “A Qualitative Study into Machine Gamblers” states:

“If gamblers were deterred from playing machines in one venue, there was likely to be another venue where they could play in the vicinity.”

1.2.9 The level of supervision is tied directly to an operator’s ability to provide the key protection noted in “A Safe Bet for Success”—the “provision for players to bar themselves from gambling”. Once again, the Government’s approach to regulation and taxation has been inversely correlated to customer protection. Put simply, the Government has shown itself to be least supportive to those who perform best on self-exclusion measures.

1.2.10 According to the Gambling Commission there were 65,719 instances of customer self-exclusion in 2009–10. Of these customers, 16,578—or one quarter—were subsequently permitted to breach this exclusion. While there is more to be done to tighten up self-exclusion measures in licensed bingo clubs and casinos, these sectors accounted for just 0.1% and 3.6% of the total breaches.

1.3 Update the legislative framework with regards to online gambling

1.3.1 An original objective of the GA 2005 was to create a flexible system of regulation so that policy makers and regulators could react swiftly to technological and commercial developments in the UK gambling industry.

1.3.2 The GA 2005 was therefore much heralded as a “framework” Act enshrining broad ‘principles’ with the detailed regulation of gambling contained in Codes of Practice, licence conditions (operating and premises) and statutory instruments (regulations).

1.3.3 Whilst the Gambling Act did—by definition—update legislation with regard to online gambling, it failed in its hope that “Britain can establish a reputation for itself as a world leader in the field of online gambling.”

1.3.4 Instead, as a consequence of misaligned policy from DCMS and HM Treasury, there has been an exodus of online operators from Britain. Today, the vast majority of online gambling activity participated in by British citizens takes place with companies that are based outside the United Kingdom where they are not licensed by the Gambling Commission, provide little in the way of employment for British citizens and do not pay UK remote gaming duty. The list of companies that are so placed include Rank Interactive (Rank’s online and mobile gaming business) and Totesport.com, which until this year was owned by the State.

This is in stark contrast with much of the rest of Western Europe, which after a late start has gradually got to grips with the regulation and taxation of online gambling.
1.3.5 The consequence of the Government’s approach has been to place licensed land-based gaming and betting operators (paying British taxes and providing British jobs) at a commercial disadvantage to unlicensed remote gaming and betting operators.

2.0 The financial impact of the Act on the UK gambling industry

2.1 There have undoubtedly been winners and losers from Government policies towards the British gambling industry in the six years since the Act received Royal Assent. However, establishing causality between the Act and commercial success is problematic. A number of factors have determined the commercial success of different sectors of the betting and gaming industry, including Government policies (taxation and regulation), technological innovation, shifts in societal attitudes, macro-economic and demographic changes, levels of operational excellence and financial prudence (debt levels, capital investment etc).

2.2 We make the following general observations regarding the fortunes of different sectors of the industry:

— Betting shops— sustained growth in revenue and profits as a result of the continued shift away from traditional over-the-counter betting to machine gaming via Fixed Odds Betting Terminals ("FOBTs" or "B2 machines"); and the removal of the demand test.

— Bingo clubs— significant decline between 2006 and 2009 as a consequence of negative regulatory change (machines), increases in taxation and failure to adapt to the smoking ban.

— Casinos— growth in revenue but decline in profits due to successive tax increases in 2007 and 2009.

— Adult gaming centres— decline due to negative regulatory change (machines) and failure to adapt to the smoking ban.

— Online— reliable revenue data is limited but offshore exodus has led to increased profits due to non-payment of UK remote gaming duty.

3.0 The effectiveness of the Gambling Commission since its establishment, and whether it represents good value for money

3.1 Since the introduction of 'The Gaming Act 1968', which established The Gaming Board for Great Britain in 1969, UK gaming has been continuously, robustly and effectively regulated by The Gaming Board (for c 36 years) and by The Gambling Commission since 1 October 2005. The Gambling Commission became fully operational in Autumn 2007 when all the provisions of the GA 2005 came into effect. The Gambling Commission additionally took on the responsibility for the regulation of betting and pool betting.

3.2 The Gambling Commission has been highly effective in their maintenance of the three primary licensing objectives (preventing crime, ensuring fair/open gambling and protection of the vulnerable). The Commission has been less effective and less concerned with promoting the industry, through timely and forward-looking deregulatory measures.

This is not solely the fault or responsibility of the Gambling Commission, as the GA 2005 did not expressly place an obligation on the regulator to either sponsor or protect the UK’s economic gambling base from international competition, by promoting innovation.

Additionally the GA 2005, although claiming to be a “framework”, or “enabling” piece of legislation, does not allow the regulator and industry to respond rapidly to innovation as so much prescriptive detail and definition is contained in accompanying regulation, requiring parliamentary time.

3.3 The Gambling Commission is funded by the levy of licensing fees on the gambling industry. Fees are levied on Operator (company) licence applications, personal licence applications, changes/variations to licences and annual licence renewals. Circa 90% of the Commissions total income is received from annual licence fees.

We do not resile from supporting a well-funded regulator, which ensures that the UK’s world-wide, pre-eminent reputation for fair and responsible gambling is maintained.

We ask in return that the Commission’s use of internal resources, now that the 2005 Act has bedded in, becomes less about policy development and more about industry promotion and enabling the industry to remain globally competitive, through sensible de-regulation.

4.0 The impact of the proliferation of off-shore online gambling operators on the UK gambling sector and what effect the Act has had on this

4.1 We reiterate our belief that the policies of the Government (particularly HM Treasury’s illogical and highly unpredictable approach to the taxation of the industry) have encouraged an exodus of online gambling operators to offshore locations.

4.2 In addition, we believe that the development of mobile gaming technologies needs to be considered within this question. As the usage of smartphones and tablets (such as Apple’s iphone and ipad) grows in Britain, so we are starting to experience a significant increase in the use of these devices for the purposes of gambling.
4.3 In our view, this development makes a mockery of some of the “irrelevant” controls on land-based gaming that have been preserved despite being highlighted in “A Safe Bet for Success”. As an example, it is perfectly legal for a customer in a British casino (licensed and regulated by the Gambling Commission) to place a sports bet via his or her iphone with an unlicensed offshore betting provider (with little tax or economic benefits for the UK); but it is illegal for the casino itself to provide a taxed, regulated betting facility.

4.4 While the regulation and taxation of mobile gambling is not without its difficulties, a policy that presides in favour of offshore unlicensed operators and against licensed onshore operators does not seem to be in the interests of either the UK consumer, the UK tax-payer or H M Treasury.

5.0 Why the Act has not resulted in any new licences for casinos or “Super” casinos

5.1 Technically, the Act did result in the creation of 17 new casino licences, including one for a Regional (or “Super”) casino. Of these, 16 have been allocated to specific licensing authorities some of whom have awarded or are in the process of awarding their licence. To date only three licences have been “awarded”, and one of these awards (Newham) is now subject to Judicial Review.

5.2 The Regional Casino has not been allocated to any licensing authority following the Government’s decision not to include it in the final regulations.

5.3 However, progress has been slow in awarding the licences and it is likely to be some time before any are in commercial operation.

5.4 We believe that this retarded progress is the result of:

- an onerous and flawed tendering process and confusing technical standards;
- a heavy cost burden for tenderers and Local Authorities alike; and
- successive increases in the taxation of casino games which have served to divert any anticipated economic benefit away from the regions and towards Exchequer.

5.5 Dealing with the final point, in both 2007 and 2009, HM Treasury increased taxation on casino games played in licensed casinos (as opposed to casino games played online, in pubs and bars or via Fixed Odds Betting Terminals). The effect of these changes was not simply to undermine the existing land-based casino industry (with potentially negative effects on consumers as highlighted in 1.2) but also to change the economic model of the 2005 Act casino, thus making it less attractive to operators and less attractive to local authorities.

6.0 The effectiveness of the classification and regulation of gaming machines under the Act

6.1 The Gaming Act 1968 provided a mechanism for reviewing stakes and prizes on a triennial basis which regrettably disappeared when the GA 2005 was introduced. Every three years the industry was able to make representations to The Gaming Board with the final decision for any changes to stakes and prizes resting with the Secretary of State.

This three year cycle, which ceased (for Casinos) in 2005, allowed the industry to more easily determine their investment strategy for purchasing/leasing machines and gave suppliers the confidence in planning for the on-going developments to their products. We would advocate an immediate return to a Stake and Prizes triennial review, given the inflationary pressures over time.

6.2 A move towards some relaxation of the existing technical standards to allow for commercial testing of new gaming products, (without prejudicing the licensing objectives), will help to stimulate investment and encourage innovation. Ultimately this can only improve the customer experience. For example, Category A machines (Casinos) could be tested in limited numbers to judge their customer approval.

6.3 The imminent Category B3 changes, subject to parliamentary approval, to offer up to 20% of the total number of gaming machines available for use on Bingo and AGC premises is seen as a step in the right direction. However, the GA 2005 still does not allow for similarly regulated adult only premises (eg casinos) to site sufficient numbers of gaming machines, and the sectors of the industry that provide the greatest degree of public protection continue to have the heaviest restrictions. We have already made reference to this in paragraphs 1.2.8, 1.2.9 and 2.2.

We believe that regulated establishments offering the highest levels of customer protection (Casinos and Bingo Clubs), should be allowed to satisfy their customer demand and compete on a level playing field with on-line gaming machine offers. We urge the Committee to examine the current machine entitlements (numbers and categories) with a view to recommending to government a more appropriate gaming machine hierarchy.

7.0 What impact the Act has had on levels of problem gambling

7.1 We have addressed this matter in 1.2.

June 2011
Written evidence submitted by and on behalf of the Jersey Gambling Commission (JGC)

The Commission is an independent statutory body entrusted with the licensing and regulation of gambling in the Bailiwick of Jersey.

This submission may be made public.

Key Points

— The JGC wishes to specifically comment in respect of online gambling and social responsibility.
— The current inability of Jersey-based businesses to access the UK market because of whitelisting restrictions is seriously damaging the Island’s reputation and economy.
— The JGC strongly supports efforts by the (UK) Gambling Commission to enhance regulatory cooperation both at a bilateral and international level.
— The JGC is custodian of a Social Responsibility Fund that licensees are expected to contribute to. There is a mechanism for a compulsory levy if funding levels are not maintained. The purposes of the fund are education, treatment and research.

1. Jersey has spent a number of years updating its gambling legislation and the States Assembly approved a full online licensing regime in March of this year. In developing policy, the Insular Authorities took cognisance of the UK Act (as well as legislation in other first tier jurisdictions) and has developed a regime that broadly follows the key objectives. Jersey legislation and published Ministerial policy therefore mandates the JGC to follow the key guiding principles of keeping gambling crime free, promoting fair, transparent and responsible gambling and to ensure that the young and vulnerable are protected. The application of these key requirements in respect of e-gaming, including duties of suspicious activity reporting, software testing, age verification, self exclusion, technical standards and social responsibility requirements were all included within the new licensing regime. The key objectives in the Gambling Commission (Jersey) Law thus mirror those of the Gambling Act and show the close relationship between the objectives of the UK regulatory framework and our own.

2. These core licensing principles were incorporated into the articles of the Gambling Commission (Jersey) Law that the States approved in 2009. That law created an independent regulator fully separated from government along established international practice and which came into being in October 2010. It also created a Social Responsibility Fund for the provision of education, prevention of problem gambling and research. Any e-gambling company seeking to become licensed in Jersey will be expected to provide the Commission with a detailed plan of its social responsibility programme and how it intends to put it into effect. While the Gambling Commission (Jersey) Law provides for a social responsibility levy, it is expected that companies should voluntarily agree to make a donation to the Fund and the Commission will make review of this core licensing objective one of its premier tasks. The Commission receives advice on the use of the Fund from its Social Responsibility Panel, with representatives of the industry, together with health professionals and an Independent Chair.

3. In developing this policy the Jersey Government was of course mindful that the Island’s regulatory regime had to be one that had equivalency with that in the UK in order to benefit from approval as a third country to advertise, the system generally known as “Whitelisting”. This was a cornerstone of Jersey Government policy in changing and updating the Island’s regulatory regime. The decision of the previous UK administration to reassess the operation of that policy and to effectively suspend applications to the Whitelist has been problematic, but the Insular Authorities understood that changes in policy needed to be considered. The present Government has continued this policy.

4. While recognising that the UK Government should have adequate time to reconsider policy, the drawn-out nature of change (now over two years) is placing Jersey at a distinct disadvantage compared to our neighbours in Alderney and the Isle of Man who were able to be whitelisted before the review. The current impasse now poses a risk for the Island as an internationally well-regarded regulatory centre. Given that the other Crown Dependencies have been accepted, if Jersey is not even allowed to apply for whitelisting, there is a growing risk that Jersey standards of governance and regulation will be perceived as inadequate. As the Island’s economy is in large measure dependent upon its international reputation for integrity and strong regulation, this risk is taken extremely seriously.

5. Although Whitelisting is only relevant for the UK market, it is nevertheless accepted as a standard by the international community and international business. It is a matter of public record that potential licensees have been dissuaded from applying for a Jersey licence because it was perceived not only that the Island was not whitelisted, but that the impasse regarding a change in policy in the UK was such that it was unlikely that this would change in any kind of timeframe acceptable to business. There is no doubt, therefore, that the current application of that part of the Act, or rather its non application, is causing the Island economic harm that runs into hundreds of thousands if not potentially millions of pounds of lost revenues from worldwide business.

6. The Insular Authorities would like to put on record that the Minister, the Rt Hon John Penrose, MP and his officials at the DCMS have been accommodating with their time and have engaged in a number of meetings with Jersey Ministers and officials. The Insular Authorities recognise that the way forward may take legislative change, but have offered as a means of meeting both jurisdictions objectives that Jersey could form part of a
test bed for a new regime, given that the Island has not been influenced by past practice and does not have vested interests from seeking to retain existing operators.

7. Turning to international co-operation, the JGC has an excellent working relationship with the UK Commission and is party to a number of international bodies where both organisations participate. Both the UK Commission and the JGC are members of the Gaming Regulators European Forum, or GREF and participate in working groups on technical standards, e-gaming and problem gambling. This work is further developed at the international level in the International Association of Gaming Regulators where the UK Commission has chaired a remote gambling group that has made significant progress in developing common principles leading to common standards. Jersey has played a strong supporting role in this work and fully supports further development and integration of regulatory co-operation to mirror the international diversity of the industry we regulate.

8. Turning to social responsibility, Jersey has closely observed the licensing principles of the Act and the implementation of these by the Gambling Commission. Gambling in the UK is a mature industry and Jersey shares many of the same high street betting operators; it is evident that industry does take responsible gambling very seriously, conscious that not to do so would not only impact on regulatory compliance, but also operational reputation and integrity. However, as in all sectors some firms are more conscientious than others and this does lead to certain unevenness in regard to funding. The Committee will be aware that major UK operators will all make large donations centrally to the GREaT Foundation and funds are then distributed to gambling charities.

9. The problem is the reliance on goodwill through donation rather than deploying a mandatory levy. We note that the Act makes provision for the drafting of regulations to create a levy and the mechanisms to exact a levy, but to date this has not been undertaken. Cognizant of the concerns raised by the Labour Administration note that the Act makes provision for the drafting of regulations to create a levy and the mechanisms to exact a levy, but to date this has not been undertaken. Cognizant of the concerns raised by the Labour Administration, Jersey established a social responsibility levy through the Gambling Commission (Jersey) Law 2010 which can be exacted to 1% of gross win, and founded a Social Responsibility Panel in 2011 to manage the distribution of sums from the social responsibility fund.

10. Establishing a levy is by no means a panacea to securing greater donation. Exact a levy on those operators who are already compliant could be interpreted as unfair, not only on fiscal grounds, as a percentage brings with it unevenness, but also damaging to the reputation of the industry. The fact that a levy had to be deployed suggests non-compliance across the sector. To date Jersey has not exacted a levy; instead it has requested donation based on market share, being premises across the betting estate. Conscious that some operators are struggling during the economic down turn, provision has been made to allow these firms to donate quarterly. The Commission Law does, however, give flexibility in that the levy can be targeted on particular licence types, so while we may retain the donation route for one sector of the industry, we can focus a levy on other less compliant operations.

11. In our opinion the UK Gambling Commission has made great strides in relation to responsible gambling, but it has to be proportionate to avoid charges of creating “cottage industries” out of the funding for research, education and treatment of problem gambling.

June 2011

Written evidence submitted by the Association of British Bookmakers (ABB)

SUMMARY

1. Key points:
   - Economic contribution— Licensed Betting Offices (LBOs) make a substantial contribution to the economy, employ about 40,000 people, help to support the vibrancy and footfall of the high street and pay a higher level of tax than any other comparable retail sector. We urge the Select Committee for Culture, Media and Sport (the Committee) to acknowledge our strong economic contribution and endorse our recommendations to mitigate against the heavy tax and regulatory burden which LBOs face.
   - Responsibility— Our members take their responsibilities to protect children and vulnerable people very seriously. Whilst we do not accept that there is any widespread problem with minors attempting to gain access to and gamble within LBOs, our industry’s major efforts to improve their compliance results have been publicly commended.
   - We clearly offer a mainstream leisure option that is enjoyed responsibly and safely by the overwhelming majority of betting customers. It is right that concern is expressed about problem gambling, but this should be kept in proportion. Our industry is committed to tackling this issue and to that end has pro-actively and voluntarily donated £5 million per annum in helping to fund the education, research and treatment of problem gambling— even though problem gambling remains low compared to international standards. We therefore feel it is justified to invite the Committee to review the positive aspects of betting.
— Regulation—The betting industry is already heavily and disproportionately regulated—a strenuous dual licensing process is in place which we believe could be improved significantly. Electronic Gaming Machines are also tightly regulated even though there is no evidence to link them to problem gambling. We would welcome a reasonable measure of liberalisation in the maximum permitted number of gaming machines in LBOs. The ABB would encourage the Committee to be evidence-led and thoughtful in its analysis when considering the betting industry.

Introduction

2. The Association of British Bookmakers (ABB) is the leading trade association for operators of Licensed Betting Offices (LBOs). Our members include Gala Coral, Ladbrokes, the Tote, William Hill and around 130 smaller operators. Together they manage nearly 7,200 shops, equivalent to about 85% of the UK’s 8,500 LBOs. Further information about the ABB can be found at www.abb.uk.com.

Key Recommendations

3. The betting industry recently celebrated the 50th anniversary of the legalisation of its shops on the high street. It is fair to say that the betting experience has changed beyond all recognition since 1 May 1961. Gone are the smoky backrooms and blacked out windows. Today customers walk into a smoke-free environment with state-of-the-art entertainment systems, comfortable furniture, non-alcoholic refreshments and friendly staff. And betting has become part of the fabric of British life as we offer a mainstream leisure option that is enjoyed responsibly and safely by the overwhelming majority of customers.

4. Quite evidently betting remains a popular pastime in the UK. In 2009–10 just over 1.5 billion bets were placed with off-course bookmakers (average value about £4.50). Why is betting so popular? Betting delivers significant personal and social benefits that deserve to be much more widely recognised. Foremost among these is the entertainment and diversion that betting provides. Additionally LBOs are an integral part of the local community and offer a social opportunity as well as an intellectual challenge (both of which can be especially valuable to older people).

5. In consequence, LBOs tend to improve the physical and mental health of their customers, helping them live longer and happier lives. British, American and Swedish government studies have all found that our customers tend to be more sociable, more neighbourly, and more involved in community activities than their non-betting peers. We feel it is justified to invite the Committee to review the positive aspects of betting and discuss this with us in the oral session.

6. In economic terms, it is important to note that our members run high turnover but low margin businesses which contribute £3 billion annually to the UK economy and provide jobs for around 100,000 people (40,000 directly and 60,000 indirectly through the supply chain), many of whom have few or no formal qualifications. The shops also contribute to the vibrancy and footfall of the high street.

7. The 2005 Gambling Act created dual regulation for the betting industry and significant regulatory obligations. The betting industry is also heavily taxed, paying as much in tax as it generates in profit (£700 million). And this is £400 million more than any other comparable retail sector. No other retailer faces these regulatory challenges and this burden should not be increased. We urge the Committee to acknowledge our strong economic contribution and endorse our recommendations to mitigate against the heavy tax and regulatory burden which LBOs face.

8. The ABB also recommends that the Committee encourages the Government to provide the industry with more support to help grow the business, in the UK and internationally, which in turn is likely to generate more tax yield. As pointed out elsewhere in this submission, we would welcome a reasonable measure of liberalisation in the maximum permitted number of gaming machines in LBOs.

9. The betting industry should be explicitly included in the Government’s growth policies which seek to diminish regulatory pressures and uncertainty as well as increase the sector’s profitability performance.

10. We would encourage the Committee to be evidence-led and thoughtful in its analysis when considering the betting industry on other issues as outlined below.

Request to give Oral Evidence

11. Turning to the Inquiry’s specific questions, the ABB will highlight our industry’s contributions to those areas of the Inquiry which fall under our remit and in this process we will aim to offer the Committee fact-based evidence and recommendations related to the implementation and operation of the Gambling Act. The ABB would be pleased to submit oral evidence to the Committee on issues raised in this submission and any other areas of policy it wishes to discuss in person.
The Act’s Key Objectives

Betting-related corruption in sport

12. The ABB works closely with the Gambling Commission (GC) and the European Sports Security Association (ESSA) to monitor for and investigate unusual betting patterns, which might be related to corruption in sport. We believe the GC’s Betting Integrity Unit is an effective mechanism in this regard. When an unusual betting pattern is drawn to the ABB’s attention by a member, we notify other members, ESSA and the GC and confirm that the relevant Sport’s Governing Body has been notified. Equally, we notify ABB members when advised by ESSA or the GC.

13. The industry is well-regulated and our members already operate at the highest levels of probity and integrity. Bookmakers will always have a vested interest in sports integrity, because it is they who are likely to suffer financial loss from betting related corruption. We refer for further details to the RGA’s submission.

Betting shop safety and security

14. Our members also work very hard to ensure that their shops are a safe and secure environment. For example, in May 2010 the Safe Bet Alliance, a collaborative initiative which includes ABB, Metropolitan Police, Community Union and the Institute of Conflict Management, launched its Voluntary Code of Safety & Security National Standards for Bookmakers which provides a single national standard for betting shop safety and security.

15. One year later the Metropolitan Police announced that the number of betting shop robberies in London had declined by 46% in 2010–11. They confirmed that our members’ adoption of the security measures and procedures—including staff training—recommended in the Voluntary Code was a major factor in explaining the fall in attacks and rise in detection rate. Testimony to the quality of the Code is that it has been adopted as a template by other retail sectors, including mobile phones and jewellery.

Protecting children

16. ABB members take their responsibilities to protect children and young people very seriously. Whilst we have never accepted and do not accept that there has been any widespread problem with minors attempting to gain access to and gamble within LBOs, our industry’s major and sustained efforts to improve their compliance results in the GC’s programmes of “test purchasing” since 2009 have been publicly commended by the GC.

17. For example, in September 2009 the five largest LBO operators committed to the High Street Betting Industry Action Plan and Supplementary Code of Practice on Age Verification. This means each of these companies has a board-level “champion” to protect children and young people, deliver appropriate training to LBO staff, post relevant signage in LBOs, commission test purchasing exercises and assess the results in managers’ performance appraisals. The champions also seek to inculcate a “culture of expectation” on both sides of the counter that young-looking people coming into betting shops would be asked to provide proof-of-age.

18. In addition, the ABB convened its first Social Responsibility Forum—Protecting Children and Young People in April 2010. At this all-day event representatives of the GC, Metropolitan Police, Local Authorities, GamCare, LBO operators, other age-restricted retailers and suppliers of relevant products and services shared perspectives and best practice on customer age verification. As a result, representatives of the five largest LBO operators meet quarterly to review performance, identify any potential challenges and share best practice.

19. The ABB and its members are also active supporters of proof-of-age scheme Citizen Card and are represented on the board of the Proof of Age Standards Scheme (PASS) which oversees third-party providers of proof-of-age schemes. In 2011 the ABB made a voluntary donation of £5,000 to help fund PASS.

20. Recent results of independent test purchasing exercises prove that betting shop staff are just as vigilant about asking young-looking customers to provide proof-of-age as staff selling other age-restricted products and services. In October 2010 independent testing services supplier Serve Legal reported a 74% success rate for LBOs in age-related compliance testing (off-trade alcohol 80%, on-trade alcohol 71%), and with all three sectors showing a significant improvement on the previous year.

Protecting vulnerable people—customer self exclusion

21. Under the Act, the Ordinary Code of Practice and Social Responsibility Code set out the GC’s requirements concerning Customer Self Exclusion (CSE) and our members therefore manage a scheme under which any customer may request that he or she be declined service.

22. During 2010, the ABB proposed and obtained the GC’s agreement for measures that would improve the protection that they provide to problem gamblers, specifically:

— offering a standard CSE period of 12 months;
— requiring the self-excluding customer to provide a photograph of himself or herself that enables shop staff to recognise him or her; and
— allowing the operator to destroy old CSE forms any time after 6 months have expired after the last date of exclusion—this enables staff to focus on current and recent self-excluders.

Further information on how the betting industry protects vulnerable people by signposting and advertising responsibly can be found in Annex A.32

Protecting vulnerable people—"clustering" of LBOs

23. We note that “clustering” of LBOs in certain urban areas is sometimes cited as an example of the betting industry targeting vulnerable people. In fact, there has been no net increase in the number of UK betting shops since the Act came into effect in September 2007.

24. Whilst the number of betting shops in the UK has actually remained stable over the past 10 years (around 8,500), it is widely recognised that their geographical distribution has been changing. When the Act abolished the “demand test”, bookmakers were given more freedom to compete with one another in the high street. On the other hand, as one would expect in any commercial sector, there has also been a decline in the number of shops in other areas. The ABB’s most recent figures show 110 shops closed in the UK overall (with an estimated loss of around 500 jobs) between March 2010 and March 2011.

25. However, we believe that if local residents and other stakeholders have objections to the opening of new LBOs, they are already sufficiently empowered to object to them under the Gambling Act and separately under the Planning Act. This is evidenced by several examples of LBO openings being blocked in a number of London boroughs over the last 12 months. The ABB strongly believes that the existing legislation offers enough protection to local communities through the licensing process and our recommendation to the Committee is that additional action or legislation is neither necessary nor desirable.

Further information can be found in Annex A.33

Online gambling

We refer to the RGA’s submission.

The Financial Impact of the Act

26. As outlined above, the GC has worked effectively in a number of areas. Nevertheless, the regulatory burden and associated costs are clearly still too high, especially as far as smaller operators are concerned. We draw the Committee’s attention to the following issues and recommendations:

— The new dual licensing system is more expensive and not a lot better. For example, the cost of betting licences has now become a major issue. Under the previous legislation licences and permits were granted by local magistrates for three years, priced at about £150 with £25 being paid to renew it. Under the Act a single shop operator might now have to pay the GC £1,600 plus a further £600 to the local council annually.

— The GC’s fee structure is particularly onerous for our smaller operators. For example, it discourages operators from expanding their businesses above the “50 shop limit”. One of our members could have saved £22,000 by staying under this threshold.

— We recommend that the GC urgently reviews the licensing compliance framework. As part of this review the GC should consider allocating shop visits on an intelligence-led basis and pass on any savings to licence fee payers.

— In addition, many local authorities charge the maximum permitted premise license fees, generating extra income rather than merely covering costs. And as far as the customer is concerned there is no noticeable benefit. The fees appear to be charged on the basis of probable costs involved for local authorities irrespective of whether annual compliance visits are carried out. We have evidence that some authorities do not carry out these visits at all and suggest that their fees be reduced accordingly.

— Part of the costs incurred by local authorities is the preparation of a Statement of Gambling Licensing Policy. Rather than have a single national Statement issued by the relevant authority the Act has multiplied costs enormously by requiring each local authority to prepare their own local statements. In practice most of these statements are identical to each other. It would have involved less bureaucracy for national operators if a single national policy document had been implemented.

— The ABB recommends that the Committee asks the authorities involved to consult on the option of asking one Primary Authority to deal with our industry’s licensing compliance issues, including protecting children and young people.

32 Ev not printed.
33 Ev not printed.
The Effectiveness of the Gambling Commission

27. In terms of value for money and regulatory burden, we would like to raise the following issues:

— In our view, the GC is too heavily focused on its core objectives, rather than pro-actively considering how it might help the industry and provide value for money. We recommend that the GC adds another objective to its remit: providing better industry regulation, which strikes the right balance between consumer protection and business growth.

— Premises Licences now expire on the anniversary of when they were granted. Under the old system all LBO licences were renewed in April. The new system adds unnecessary administrative burdens on both the operators and local authorities who both need additional procedures in place to monitor year round renewals.

— The process of selling a betting shop is very onerous unless the buyer is already licenced. The fact that a new entrant has to have a wide range of policy documents in place is obviously discouraging for new entrepreneurs, to the detriment of both the industry and consumers.

— When a single trader dies the business must close until an alternative person can obtain GC approval. This can take three to six months in which time the business might not recover and, as this is a very competitive market, finds that customers have gone elsewhere.

— The compliance regulations in the Act assume the “guilt” of operators and require our members to prove they are “not guilty”. This creates considerable cost for our members as they have to put in procedures to prove their “innocence”. For example, maintaining records of “Think 21” challenges to prove that they are doing them when other licensing procedures mentioned earlier would be sufficient.

Casinos

We refer to the casino industry sector in this regard.

The Effectiveness of the Classification and Regulation of Gaming Machines under the Act

28. We will limit our response to Electronic Gaming Machines (EGMs), which were first introduced to LBOs in 2002. Since then, successive gambling surveys commissioned by the regulator have not demonstrated any causal link between problem gambling and electronic gaming machines. Whilst the 2010 Prevalence Survey showed that many more people are gambling, the prevalence of problem gambling appeared to be linked much more closely to the number of different gambling products used rather than to specific usage of machines or any other betting medium, and with the overall reported increase at the very margin of statistical significance (also see Annex C).34

29. EGMs are already heavily regulated, Annex B refers.35 Based on the existing evidence as outlined above, the ABB recommends that the Committee calls for a reasonable measure of liberalisation in the maximum permitted number of gaming machines, as well as maximum stakes and prizes, which will enable our businesses to continue to compete and prosper in a responsible manner.

Impact the Act has had on Levels of Problem Gambling

30. It is right that concern is expressed about problem gambling, but this should be kept in proportion. Three prevalence studies commissioned by regulators over the last ten years have shown that levels of problem gambling in the UK remain low by international standards. The small reported increase between 2007 and 2010 was found to be at the margin of statistical significance, Annex C refers.

31. The fact is that a bet is enjoyed responsibly and safely by the overwhelming majority of betting customers. The ABB accepts that for a very small minority of people gambling has become and remains a problem. Our industry is without question committed to tackling this issue and to that end has pro-actively and voluntarily donated £5 million per annum in helping to fund the education, research and treatment of problem gambling. Funds are allocated to specific projects by the Responsible Gambling Fund in the context of a strategy devised and overseen by the Responsible Gambling Strategy Board (RGSB), which includes industry representation. We recommend that this structure and process continue with a focus on value-for-money initiatives, with an increased emphasis on education and treatment.

Other Issues

32. The Government recently launched pre-consultation on the Future of the Levy and our response will be made public after 4 July 2011. However, we can state in general that whatever the options Government consults on, we believe proportionality and certainty should be the main goals. We would want to see any change achieved through simplification and, in this context, the choice is either a regulated monopoly (such as a modified version of the Levy) or a free-market, non-statutory commercial arrangement, which would be our preferred solution.

34 Ev not printed.
35 Ev not printed.
We would be happy to explain our positions on the above issues further in the oral session.

June 2011

Written evidence from the National Centre for Social Research

Key Points

- Assessing the impact of the Gambling Act upon problem gambling rates should be based on sound empirical evidence.
- The main source of data about gambling behaviour in Britain is provided by the British Gambling Prevalence Survey (BGPS) series.
- In 2010, this study demonstrated that there were some changes in gambling behaviour: more people were gambling regularly, people were taking part in a greater range of activities, attitudes to gambling were changing and becoming more positive than previously and there was some evidence that the prevalence of problem gambling was increasing, although this was at the margins of statistical significance.
- While the observed change in problem gambling prevalence should be approached with caution, other changes are clearer, such as the increase in the number of regular gamblers. This is important to monitor going forward as increased levels of gambling involvement are associated with problem gambling.
- The BGPS series is a nationally-representative survey that has been conducted in 1999, 2007 and 2010. However, it was not designed to measure the impact of the Gambling Act and can not provide evidence about why changes have occurred. It was not an impact study; it simply compares behaviour pre and post implementation of the Act and we do not have sufficient evidence to adequately measure counterfactual change (i.e. the changes that would have been observed if the Act was not introduced).
- There is insufficient evidence to robustly measure the impact of the Act upon problem gambling rates. Further research is needed to assess whether the changes observed in 2010 are a short-term fluctuation or a longer-term trend.

Introduction

1. We welcome the opportunity to contribute evidence to the Culture, Media and Sports Committee Inquiry about Gambling in Britain, with specific focus on the implementation and operation of the Gambling Act 2005. We believe that policy and regulatory decisions should be informed by robust empirical evidence. Ongoing research and evaluation based on sound scientific principles is critical to providing such evidence.

2. The National Centre for Social Research is Britain's leading independent social research institute in the UK. We are experts in gambling research having designed, conducted and analysed all three studies in the British Gambling Prevalence Survey series and conducted a number of important related studies focusing on exploring gambling behaviour in Britain in depth. We therefore have a great deal of expertise and knowledge about gambling in Britain today and are keen to share our insight based on this.

3. This response focuses on the inquiry question to which our experience is most pertinent; the impact of the Act on levels of problem gambling. Our response specifically raises the challenges of answering this question with the current evidence base.

Our Response

4. Any assessment of the impact of the Gambling Act on levels of problem gambling should draw on robust empirical evidence. The British Gambling Prevalence Survey (BGPS) Series provides national data about gambling behaviour. It was conducted 1999, 2007 (prior to the full implementation of the Act) and again 2010. The aims and objectives of the 2010 study were to:
   - Measure the prevalence of participation in all forms of commercial and private gambling.
   - Estimate the prevalence of problem gambling.
   - Investigate socio-demographic and other factors associated with gambling and with problem gambling.
   - Explore attitudes towards gambling.
   - Where appropriate, provide comparisons pre and post implementation of the Gambling Act 2005.

5. The study is a large scale survey of the adult population in Great Britain living in private households. To date, more than 23,000 adults aged 16 and over have taken part in it. Despite the rich data the study provides about gambling behaviour in Britain, it was not designed to measure the impact of specific terms of the Act upon problem gambling rates and, as a repeat, cross-sectional survey, it can not say why any changes have occurred.
6. The picture is further complicated because the study has only been conducted on three occasions, meaning that it is difficult to detect underlying trends and patterns in gambling behaviour and that any changes observed between survey years have to be carefully interpreted.

7. The BGPS 2010 included two instruments designed to measure problem gambling prevalence rates: the Problem Gambling Severity Index (PGSI) and an instrument based on the American Psychiatric Association Diagnostic and Statistical Manual of Mental Disorders (version four: DSM-IV). The instruments were developed and designed for different purposes. The PGSI was developed to measure levels of gambling related harm at a population level and included more focus on the harms associated with gambling (such as ill health). The DSM-IV was initially designed as a list of criteria to be used by clinicians in diagnosis. Each instrument therefore uses different questions and thresholds to categorise problem gamblers. As such, two different problem gambling prevalence rates are available in each survey year: one based on the PGSI and one based on the DSM-IV.36

8. The 2010 results showed the there was no statistically significant change in the prevalence of problem gambling when measured using the PGSI criteria. However, when problem gambling was defined using the DSM-IV, rates in 2010 were significantly higher than 2007 and 2010, rising from 0.6% in the earlier studies to 0.9% in 2010. As noted in point 6, the interpretation of this result needs careful consideration. This finding was at the margins of statistical significance. The p-value was 0.049, the threshold for significance being 0.05. A number of further statistical tests were performed to assess whether changes in the underlying profile of respondents affected this result. The difference remained significant.

9. There is some debate about how to interpret this finding. While we recommend caution for the reasons outlined above, when viewed in the context of other findings within the survey, the increase seems plausible. For example, BPGS 2010 showed that a greater number of people than ever before were gambling on activities other than the National Lottery. There was a significant increase in the proportion of people who reported gambling regularly, that is once a month or more often, and those who were gambling regularly were taking part in a greater range of activities. The 2010 data also showed that attitudes towards gambling were more positive in 2010 than in 2007 and that people, by and large, reported that they gambled for fun and for the chance of winning money.

10. This evidence shows indications of a potential shift in gambling behaviour with more people taking part more often and diversifying the types of gambling they engage in. What this evidence does not show and cannot say is:

(a) whether these observed differences are a direct result of changes introduced by the Gambling Act 2005; and

(b) whether the results observed in 2010 are a short term fluctuation or part of a broader trend.

11. To illustrate point (a), we can use the example of betting on sports and other events. Changes in the restrictions of advertising were arguably, for the general public, one of the most visible changes introduced by the Act, with the sports betting sector in particular embracing new forms of advertising permitted since 2007. Between 2007 and 2010, the prevalence of betting on sports and other events increased significantly from 6% to 9%.

12. However, increases in the prevalence of sports and other betting were evident prior to the implementation of the new advertising laws in 2007, rising from 3% in 1999. Therefore, it is not possible to say whether the increase observed in 2010 is the direct result of the Act as there is evidence of a pre-existing trend. Likewise, we do not know what the result would have been if advertising had not been introduced and we do not have a sufficient evidence to be able to estimate what proportion of the increase is attributable to advertising (if any) and what proportion is a reflection of the pre-existing trend. Much of the evidence presented in the 2010 suffers from these problems and any evidence drawn from the BGPS series should consider this.

13. Turning to point (b), what the BGPS series does show is that in 2010 gambling behaviour in Britain was different compared with gambling behaviour previously. We see more women and older people becoming involved with gambling and an increase in the proportion of people who gamble regularly. The latter is particularly important as higher levels of gambling involvement are associated with problem gambling. It will be important to continue to monitor this going forward as this has the potential to effect problem gambling rates observed in Britain.

14. This is not to assume that increased involvement automatically means increased problem gambling prevalence, as there are a number of factors which may mitigate or extenuate the experience of gambling-related harm among a population. It is possible that estimates observed in 2010 are a short-term fluctuation and that over time the population will adapt to changes and rates will return to those observed previously (adaptation theory). It is also possible that changes in 2010 represent a broader shift in gambling behaviour and attitudes which may signal the turning point of a new trend. With just three surveys conducted to date and the BGPS series unlikely to continue, we do not have the evidence to confirm which of these forces are at work. We believe it is important to continue to monitor the direction of travel and to assess the ongoing

36 This is true for BGPS 2010 and 2007. In BGPS 1999 pre-dated development of the PGSI and that survey used an alternative instrument called the South Oaks Gambling Screen along with the DSM-IV.
relationship between levels of gambling involvement, problem gambling rates and regulatory actions and principles which may influence both.

**How We can Help**

15. NatCen conducts a wealth of research into gambling issues. Our response is based on evidence from the BGPS series but our expertise extends beyond this. We have completed three high-quality in-depth studies of gambling behaviour (including a focus on the gambling careers of problem gamblers), produced methodological advice relating to the implementation of a longitudinal study of gambling, conducted evidence reviews on many topics varying from the effectiveness of gambling regulation, the impact of advertising, motivations for gambling and triggers for changing gambling behaviour and we work closely with, and are highly regarded by, many leading international scholars in the field. NatCen is therefore delighted to have the opportunity to contribute to this assessment and would be very happy to expand upon this written submission if that would be helpful.

June 2011

**Written evidence submitted by Quaker Action on Alcohol and Drugs (QAAD)**

Quaker Action on Alcohol and Drugs (QAAD) is a listed group of the Religious Society of Friends (Quakers). QAAD is an independent national charity that has a concern with the use and misuse of alcohol and other drugs, legal, illegal and prescribed—and with gambling. QAAD offers prevention and information services for Quakers and contribute to public policy discussions. Trustees give their time to QAAD freely, and bring voluntary and statutory experience from settings that include prevention, a variety of treatment and support interventions, medical services, and criminal justice.

QAAD does not represent the Religious Society of Friends as a whole, but the views we express are grounded in our Quaker principles. The Religious Society of Friends issued statements against the state-sponsored gambling involved in the National Lottery in 1994 and 2004. Quaker advices counsel us against gambling and speculation on the grounds that it involves gain at the expense of another’s loss, works against equality and our spiritual connectedness to others, and encourages an unsatisfying stress on material wealth. However, Quakers are not prohibitionist. Quaker traditions are based on a respect for the different perspectives of others, and we have always worked from the position that sensible regulation is the best approach.

QAAD was one of the interfaith groups that gave oral evidence to the Joint Parliamentary Select Committee that considered the Gambling Act of 2005, and we have continued to be actively involved as a stakeholder since that time. We work with our partners in the Methodist Church, the Salvation Army, the Evangelical Alliance, CARE, and the Church of England.

1. **Foreword and Executive Summary**

1.1 The Gambling Act of 2005 has failed to achieve its third objective of protecting children and vulnerable people from the adverse effects of gambling. The impact of the Act has been a significant rise in problem gambling in the three years since it came into force, from a rate of around 0.6% to 0.9% of the population.

1.2 The Gambling Act contained some welcome measures that limited ambient gambling, and some necessary modernisation. However, evidence from many jurisdictions has consistently shown that an increase in gambling availability and participation is followed by an increase in gambling problems. The level of deregulation that the Act enabled was always inconsistent with its third objective.

1.3 Parliament was promised that the national Gambling Prevalence Study would be the indicator of the Act’s impact, and that corrective action would be taken if problems with gambling were to increase. “If evidence of harm emerges through the research and monitoring that is undertaken, we will act swiftly to toughen the controls. We have powers throughout the Bill to withdraw or move back from the liberalisation if there is evidence of harm.” (Tessa Jowell Hansard, 1 November 2004, cols. 31–32). That evidence is now before us.

1.4 Research indicates that problem rises of three or four fold tend to occur in liberalized markets before some stabilization occurs.37 A problem gambling rate somewhere in the region of 1% to 2%—or even more—is likely in the UK in the foreseeable future unless determined action is taken quickly.

1.5 A common pattern has been for countries with liberalized markets to develop more vigorous and effective problem gambling strategies when harms escalate. There is much to learn from these. The New Zealand Gambling Act of 2003, for example, recognizes the connection between gambling and problem gambling; its first two aims are “to control the growth of gambling” and “prevent and minimize the harm caused by gambling and problem gambling.” Its strategy38 is precautionary, local, and risk-led—for example, local authorities are

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encouraged to consider the resilience of their communities before issuing licences for gaming machines. The situation brought about by the UK Gambling Act is precisely the reverse: there is a presumption to licence, Local Authorities have no powers to address numbers or balances of gambling premises, nor to consider the impact of gambling on their communities. This needs to change.

1.6 Other approaches from which we can learn are an assumption of responsibility for a problem gambling strategy by the Department of Health, and a levy that takes account of the social harms related to the gambling product.

1.7 Problem gambling involves ill-health, debt, and severe stress for the individual and for their close others. For the children involved it means a greater propensity to develop a gambling problem themselves. Problems tend to be more intractable for disadvantaged individuals and community costs of all kinds are higher in deprived areas. The social effects of gambling are often to redistribute money from poorer people to a rich industry.

1.8 The moral and practical question for legislators—which was not squarely faced when the Gambling Act was passed—is whether profit for the industry, and an increase in gambling opportunities for the consumer are worth these human costs. The Prevalence Study result is a reminder of the trajectory on which the Gambling Act has put us, and offers the chance to take action before problems become larger and more entrenched.

1.9 The Prevalence Study asked helpful questions about public attitudes that could help inform these decisions. They reveal that most people agree gambling should be a legal right, but also think that “there are too many opportunities for gambling nowadays.” A more precautionary approach to gambling in general, and the tightening of regulation in risky areas is in the public interest, and likely to be welcomed.

1.10 We welcome this timely Parliamentary review, hope it will consider widely, and commend the New Zealand Strategy to its attention. We set out our own specific recommendations below. The supporting evidence and a discussion of developments since the Act follow in the main body of the document.

2. **WE RECOMMEND THE FOLLOWING ACTIONS**

**Children**

2.1 A UK ban on slot machine gambling by children, as is the case in the rest of Europe.

2.2 A gambling and problem gambling Prevalence Study for children.

**Localism and Planning**

2.3 Full powers for Local Authorities to refuse or amend gambling licences in their areas.

2.4 Gambling businesses to be taken out of their current planning class and considered “sui generis”, like casinos (as outlined by the Evangelical Alliance).

**Gaming machines**

2.5 B2 gaming machines (Fixed Odds Betting Terminals) to be removed from betting shops, or have their maximum stake reduced to £2.

2.6 Withdrawal of the statutory instrument to increase the reach and stakes of B3 machines.

2.7 Gaming machine stakes and prizes to be reviewed three yearly, with an assumption that rises should only occur in line with inflation.

2.8 Impact assessment of machine gambling in relation to distribution and problem patterns, including the machines in pubs and other entitled venues.

**Casinos and internet gambling**

2.9 Impact research on the casinos enabled under the 2005 Act be conducted before any further licences are considered.

2.10 The recommendations of CARE be adopted in relation to internet gambling

**Advertising/marketing/public information**

2.11 A review and reformulation of advertising codes and practice within a public health framework, with particular reference to protecting children.

2.12 An immediate ban on promotional marketing/inducements that allow “free” gambles.

2.13 Public education should include the information that fast continuous forms of gambling are more likely to be problematic, and that the incidence of problems is greater amongst frequent and multiple gamblers.

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A strategic response to the rise in problem gambling

2.14 A directly comparable National Prevalence Study in three years in order to track trends at this critical time—with industry funding if government resources are not made available.

2.15 The DCMS to work with the Gambling Commission and the Responsible Gambling Fund to consider what level and type of evidence is needed to assess harms and trigger recommendations for regulatory action.

2.16 Data from treatment agencies about numbers and proportions experiencing problems with different types of gambling to be fed into judgments about regulation.

2.17 A scoping of the funds that would be needed for an effective public health campaign and associated services.

2.18 An activation of the powers of levy within the next year unless substantially greater sums are available from GreAT.

2.19 The Responsible Gambling Fund to be an entirely free-standing body, and explore transitional ways of relating to the Department of Health, in order to reflect its public health brief and its quasi-governmental functions of education and treatment.

2.20 An assumption of responsibility by the Department of Health for a problem gambling strategy, which would work from a public health perspective i.e. that problem gambling and gambling are related and policies need to be holistic.

2.21 A clear policy statement that further rises in problem gambling would result in tighter regulatory responses, thus giving the industry an opportunity to draw back from its strategy of relying on lucrative higher-risk products.

3. The effectiveness of the Gambling Act in achieving its core objective to protect children from the harms of gambling

3.1 The Gambling Act did not take the opportunity to address the anomaly that the UK is the only jurisdiction to allow children to play slot machines and to gamble for prizes. There is already sufficient evidence for a ban: early gambling is a predictor of later problems, and 30% of under-age calls to Gamcare seek advice about fruit machines.40

3.2 In other areas of risk-taking behaviour such as substance use, the strategy is to delay the age of onset. There is a large evidence-base for this and it is inconsistent that we do not adopt this approach to gambling. There is evidence of higher levels of problem gambling among adolescents than adults, which we should be working to reduce.

3.3 Adult problem gambling constitutes a risk to children both in terms of present harms and future risk. The current Prevalence Study shows 5% of those whose parents had a gambling problem have a problem themselves, as opposed to 1% in the rest of the sample.41 Effective action on adult problem gambling is the key to protecting children, now and in the future.

4. The effectiveness of the Act in achieving its core objective to protect vulnerable people from the adverse effects of gambling/ what impact the Act has had on levels of problem gambling

4.1 The Gambling Act has manifestly failed in protecting vulnerable people from the adverse effects of gambling. Problem rates have risen. At a conservative estimate, there are now 400,000 or more problem gamblers—nearly a 50% increase in numbers from the previous figure of a quarter of a million. A further 879,000 people were assessed at moderate risk of problem gambling, and a further two and a half million were at low risk.

4.2 Problem gamblers are more likely to suffer a range of health-related harms, while “high-time, high-spend” gamblers were found to be “more likely to live in areas of greatest deprivation…have no educations qualifications…and were much more likely to be unemployed.” (BGPS p 66). The most vulnerable in society are most at risk from the harms of gambling.

4.3 A rise of statistical significance within three years is a high bar against which to assess the Prevalence Study results. It is notable that little change was found between the 1999 and the 2007 findings, despite the lengthy gap. The 2007 study was intended as a baseline to assess the impact of the Act, and the evidence is clear from both methods used that there has been a rise in problems since it came into force. The study reports that in 2010: “The odds of being a problem gambler were 1.5 times higher than in 2007.” (BGPS p 85) An increase in problem gambling is consistent with international evidence from other liberalised jurisdictions.42

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40 Gamcare statistics, 2009–10 page 9
www.gamcare.org.uk/data/files/GamCare_statistics_0910.pdf
4.4 Some researchers suggest that mature liberalized markets adapt to higher levels of gambling, and that harms level off or even decrease. However, harms tend to rise three or four fold before this occurs, and it does not seem to be suggested that rates reduce to original levels—simply that they may stabilize at some level below the peak increase.43 In any event, the problems while this happens would still cause suffering.

4.5 The measures that are needed to minimize the damage involve local empowerment, controls on advertising, public education, high-profile and responsive services for problem gamblers, and active harm reduction measures, particularly as regards higher risk forms of gambling. Little of this is in place in the UK, and the funding raised so far via the voluntary arrangement is wholly inadequate to meet the extent of the need. Unless swift and substantial change is forthcoming, the levy power should be activated.

4.6 The British Gambling Prevalence Study provides a vital benchmarking of the effects of policy, but funding has recently been withdrawn by the DCMS. This is worryingly careless of public health at a time when problem gambling is on the increase, though the need for government stringency is understood. If government resources are not to be devoted, funds need to be required from the industry.

5. The effectiveness of the classification and regulation of gaming machines under the Act, and the financial impact of the Act on the UK gambling industry

Evidence of risk and harm

5.1 A large body of research shows that gaming machines are one of the riskier forms of gaming. Dickerson, Haw and Shepherd (2003)44 found that one in five regular machine gamblers were problem gamblers. Shinogle et al (2011) report that “...while it is generally estimated that between two percent and five percent of the adult population are problem or pathological gamblers in jurisdictions with mature gambling markets, prevalence rates among regular machine players and track bettors can be as high as 25%.” Griffiths reports that literature reviews have concluded that “it is widely held in the available research that gaming machines are more likely to lead to problem gambling than other forms of gambling.”45

5.2 Research indicates that in general a significant proportion of gambling revenue comes from problem gamblers, though figures vary by jurisdiction and product. Revenue from problem gamblers was highest for slot machines in Williams and Wood’s Ontario study46 (2004) and second in an American study, where a quarter of revenue was thought to derive from those with some form of problem.

5.3 In the UK no such research exists, but data is consistent with it. Problems with slot machine gambling is cited by 18% of the callers to Gamcare (2009–10 figures), while slot machine play is by far the most frequently cited form of problem gambling for women (36%).

The classification system

5.4 With the exception of B2 machines, the classification system in the 2005 Act is somewhat rough and ready, but has some basis. The expert panel convened by the Gambling Commission agreed that stake size is a risk factor for problem gambling and limits on prize size would help minimize problems.47 However, all machines are inherently high-risk products because of their strongly reinforcing features.

5.5 Limiting machine numbers via premises entitlements was a valid approach, but it has not had the effect of limiting overall numbers. Businesses have split premises to gain more machine entitlements, and competing businesses have proliferated in a way that results in large numbers of machines in small areas, particularly in deprived localities. This applies most acutely to B2 machines and density of betting shops.

Local powers to limit total machine numbers are urgently needed to tackle these problems.

5.6 B2 machines are dangerously anomalous within the classification system. They have fast speeds of play, and £100 can be bet in £10 multiples (compared with £2 for B1 machines). It is possible to lose large sums quickly, which no doubt explains their profitability. Placing higher stakes is strongly associated with problem gambling.48 B2 machines are of such a high-risk nature that they should have been confined to casinos if they were to be licensed at all, but prior to the Gambling Act four had been allowed in betting shops. Unsurprisingly,
evidence of problems emerged soon after they were introduced, and problem indicators have overtaken other classes of machine.

5.7 The Prevalence Study shows that 6% of those who gambled used B2 machines in the last year, but they are cited in 22% of calls to Gamcare, second only to betting and exceeding all other types of machine play combined—a clear disproportion that provides a prima facie case for tighter regulatory action.

The Financial impact of the Act on the industry

5.8 The financial impact of the Act on terrestrial businesses seems to have been an increasing reliance on gaming machines for larger proportions of their profits.

5.9 In the betting industry, overall profits remained similar during 2008–09 and 2010, but the proportion of revenue derived from machines is now over three quarters of that derived from counter betting, significantly up from a proportion of 0.6% the year before. The vast majority of this profit is gained from B2s. This is perhaps the clearest example of the subordination of personal and community harm to industry profit. B2 numbers continue to rise—by approximately 5,000 last year. 49

5.10 The reliance on machine gambling is echoed in other sectors. In 2009–10 there was a 7% increase in profit from machines for bingo clubs, while gross profits from B3 machines were £87 million in Adult Gaming Centres—by far the biggest single income source. In casinos 18% of income is derived from machines; gross profit from gaming machines increased by 19% during 2009–10 compared to the previous 12 months, whilst income from some other sources fell.

5.11 The profits from machine gambling have become the driver for further de-regulatory measures since the Act. Industry pressure has resulted in progressive relaxations on stakes, prizes, and numbers of C, D and B3 machines in various locations, while three yearly reviews have been brought forward in response to claims of falling revenues.

5.12 This process culminated in the recent DCMS decision to increase stakes and allow B3 machines in much greater numbers in arcades and bingo halls—moving the latter into more profitable but harder gambling environments. In the light of the increase in problem gambling and the evidence of problem slot machine play amongst women, this change is reckless and should not proceed.

5.13 Throughout this period it has been claimed that there is insufficient evidence to disallow these expansions. However, evidence of risk abounds, whilst evidence of harm has not been sought. There has been an emphasis on unraveling complex chains of causation rather than seeking or acting on empirical evidence of harm. No impact assessments on problem gambling were carried out before or after any of these changes. No specific research seems to have focused on investigating problem rates among consumers of particular products or investigating impacts on vulnerable communities.

General points

5.14 There has been a lack of clarity about, or even a focus on, establishing criteria for what kind of evidence is sufficient to tighten regulation or resist industry calls for loosening. The dispersal of responsibility among the DCMS, the Gambling Commission and the Responsible Gambling Strategy Board, coupled with the influence of the industry in all quarters has allowed this vagueness to continue.

5.15 This failure of purpose applies to all areas of higher-risk gambling. At a national level this must change if the current increase in problem gambling is to be halted. A strategy needs to be evolved to consider the level and type of evidence needed to (a) monitor harms and (b) trigger thresholds for regulatory action. The national problem gambling rate would be part of this. We recommend that the principle three bodies convene an expert committee independent of the industry to address this task. The Department of Health could begin a stronger involvement by contributing.

5.16 Parts of the gambling industry have an honourable history of voluntarily funding treatment providers. However, in the new landscape the Responsible Gambling Fund has a quasi-governmental role in commissioning research aimed at public health and education, and disbursing treatment funds. It should be a free-standing body in all its structures and form links to the Department of Health, which should eventually assume responsibility for devising a problem gambling strategy.

5.17 The relaxations on stakes, prizes and reach of machines urgently needs to be balanced by local powers to address issues of density, proliferation or population vulnerability. These could be readily addressed under current localism initiatives, which we strongly welcome. We support the approaches commended in the submission of the Evangelical Alliance.

6. Why the Act has not resulted in any new licences for casinos or “super” casinos

6.1 There is evidence from other jurisdictions that the proximity of a casino is associated with higher incidences of problem gambling\(^\text{50}\) and we welcomed the decision not to proceed with the supercasino. As regards the others, some of the new licences are in urban settings highly accessible to the local population, which is a risk factor. Another is the “family friendly” complexes that casinos may offer; potentially risky for the children of problem gamblers. We understand that the RGF has funded some local treatment providers in casino areas to offer early interventions for problem gamblers (eg Aquarius in Birmingham). Since these casinos will proceed, this is positive and we hope schemes like this will be fully evaluated and form part of impact assessments.

6.2 We are not aware of the reasons that more casino licences have not proceeded, but think this should not be stimulated until local impacts on problem gambling have been assessed. All of the new casinos are large by existing standards, and there will be sufficient numbers for evaluations to occur.

7. The impact of the proliferation of off-shore online gambling operators on the UK gambling sector and what effect the Act has had on this

7.1 Internet gambling has perhaps the heaviest concentration of high-risk features—24 hour access from any location, rapid ability to stake and re-stake, including on several games at once, credit card play, and potentially uninterrupted gambling. Regulation is genuinely difficult given the international dimension and we appreciate that some efforts have been made. Our concern is that risk should lead the agenda rather than economics.

7.2 We support the recommendations that CARE has made in its submission. We also believe that attention should be given to ways of limiting or preventing access to onshore markets if businesses decide to locate elsewhere, either for profit reasons or to avoid standards of social responsibility.

8. The effectiveness of the Gambling Commission

8.1 The Gambling Commission has been effective in addressing many of its regulatory tasks, and has commissioned some useful research. Its organization and approach seems timely and efficient. We have appreciated consultation and liaison meetings.

8.2 However, its interpretation and management of the latest Prevalence Study focused attention away from the rise in problem gambling, and from the significance of this result in the wake of the Act. This falls short of the independent standards that could be expected of a body advising government and regulating in the public interest.

8.3 The Gambling Commission also appears to have adopted a paradigm of problem gambling that stresses that problem gamblers undertake many forms of gaming, and de-stresses the risks associated with particular forms of gambling, particularly the fast continuous forms. It may be that if the question were fully investigated this approach would be warranted, but there seems to have been a reluctance to examine the different risk profiles. Whilst we have concerns about the acceptance of gambling generally is not a positive influence in society, it is important that the regulator takes a risk-led approach.

8.4 The Gambling Commission’s approach could also take a fuller account of the proportions of participants to problem gamblers, and of treatment agency figures about numbers presenting with problems with particular activities. Since regulation is the principle form of controlling accessibility/availability the connection between the two needs to be made more actively if the Commission is to be effective in its key task.

9. Advertising and marketing

9.1 We hope that the Committee will consider advertising and promotions and support the points made by the Evangelical Alliance in their submission. There is evidence that advertising has a particular impact on vulnerable young people "... advertisements appear to serve the function of maintaining established gambling habits and were particularly problematic to youth with gambling problems\(^\text{51}\). More careful codes should be developed that safeguard children and adults more effectively.

9.2 “Free” gambles of substantial sums are now commonplace, but the risks of “hooking” are evident. Free inducements should not continue.

**Concluding Comments**

We have suggested that this is a critical juncture as regards problem gambling and that immediate action is needed to increase local powers. We have also suggested that a serious change of approach is needed, which

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\(^{50}\)Welte et al, 2004; Gerstein et al, 1999. However, these are American studies and the distances at which the increase in risk becomes critical (10 miles and 50, respectively) may be different in a UK context. The concentration of machines and table games (both higher risk activities) are of particular concern, though the evidence is that “destination gambling” out of town, and on dedicated trips, is less likely to be problematic.

June 2011

Written evidence submitted by the Casino Network

I am writing to you on behalf of the Casino Network, which is a forum of the 16 local authorities permitted by Parliament under the Gambling Act 2005 to grant premises licences for large and small casinos as detailed below. It is not, however, a decision making body for those authorities.

Our primary concern relates to the Question in the committee’s terms of reference “Why the Act has not resulted in any new licences for casinos or ‘super casinos’.”

A. Introduction

1. This submission is made on behalf of the 16 licensing authorities authorised by the Gambling (Geographical Distribution of Large and Small Casino Premises Licences) Order 2008 to issue large and small casino premises licences under the Act. The submission is by the Casino Network, which is a forum of licensing and legal officers from the 16 authorities. The Network itself has no formal legal status but was established to share knowledge, good practice and expertise.

2. The submission focuses on the fifth area of the inquiry, namely “why the Act has not resulted in any new licences for casinos or ‘super casinos’.” At the outset, it is pointed out that Parliament has not passed secondary legislation to enable any regional casinos, which were commonly known as “super casinos”, to be licensed. This submission therefore deals with large and small casinos.

3. The submission will be ordered as follows. First, we shall deal briefly with the history of casino licensing, both law and policy. Second, we shall outline the progress of the large and small casino licensing process. Third, we shall deal with a proposal by the National Casino Industry Forum to enable a large number of dormant casino licences to be transferred and operated in other local authority areas.

B. The History of Casino Licensing

4. In 1968, Parliament passed the Gaming Act, which created 53 permitted areas in which casino licences might be granted. These were the former County Boroughs with populations exceeding 125,000, together with a number of seaside towns. Before a licence could be granted, it was necessary to obtain a Certificate of Consent from the former Gaming Board, which considered whether the applicant was likely to operate the premises in a compliant manner, to which end it was under a duty to take into account the character, reputation and financial standing of the applicant and the managers and beneficiaries of the business. The gaming licence was granted by the justices, who had a discretion to refuse a licence where there was not a substantial unmet demand, and also on grounds including the fitness of the premises and the applicant.

5. The process of evolution to the current law and policy was lengthy and detailed. In 2001, the Gambling Review Body established by the Department of Culture Media and Sport and chaired by Sir Alan Budd, published the Gambling Review Report (Cm 5206: 2001). This was followed by the Department for Culture, Media and Sport’s policy paper A Safe Bet for Success (Cm 5397, March 2002); the Culture, Media and Sport Committee’s report The Government’s Proposals for Gambling: Nothing to Lose? (2002); the publication of a draft Gambling Bill in July 2003 under the title Modernising Britain’s Gambling Laws (Cm 5878: 2003); the Report of the Joint Committee on the Draft Gambling Bill in 2004 (HL 63-I; HC 139-I), and the Government response to that report (Cm 6253: 2004).

6. The Gambling Bill was introduced to the House in October 2004. As originally drafted, the Bill did not contemplate a numerical cap on casino gambling, although it did contemplate the possibility of local authorities passing “no casino resolutions”.

7. There followed public, political and press disquiet regarding the perceived liberalisation of casino gambling. Therefore, in December 2004, the Government published Casinos: Statement of National Policy. The material provisions are set out below (with emphasis added):

4. The Government recognises, however, that the casino proposals in the Bill represent a significant change and we need to take a cautious approach in order to assess whether their introduction leads to an increase in problem gambling. The Government has taken the view that the risk of an increase in problem gambling will be reduced if a limit is imposed on the number of casinos. We have therefore decided to set an initial limit on the number of Regional, Large and Small casinos of eight each. The identification of operators and locations for the new casinos will be subject to broadly the same arrangements in each case.

5. The Government believes that, in order properly to assess the impact of these new casinos, there needs to be a sufficient number of casinos in each category to allow the impacts to be assessed in a range of areas and types of location that might be suitable (including, for example, urban centres and seaside resorts across different parts of the Britain). A limit on Regional, Large and Small

should be reflected in central structures in the medium term. We appreciate the opportunity to put these points and would be glad to discuss them in oral evidence.
casinos of 8 each is consistent with this aim while at the same time ensuring that any risk of problem gambling is minimised. The Government has decided to appoint an independent Advisory Panel to recommend the areas for the Regional, Large and Small casinos. Following the Panel’s advice the Government will decide the areas where each of the new casinos may be licensed.

6. Once an assessment has been made of the impact on problem gambling of the limited number of new casinos, it will be easier to judge the continuing need for a limit. No earlier than three years after the award of the first premises licence, the Government will ask the Gambling Commission to advise on whether the introduction of the new types of casinos has led to an increase in problem gambling or is increasing that risk. We believe such a period is necessary to ensure a full assessment can be made of the impact of the new casinos. If the Government, on the basis of the Gambling Commission’s advice decides to propose that more casinos may be licensed then the Order providing for this will need to be approved by Parliament. We will also want to assess, with the help of regional bodies, what the regeneration and other economic outcomes have been.

7. This policy statement sets out our policy on casinos in more detail below, including the role of the Advisory Panel in recommending areas for the new casinos and arrangements for casinos which already have a licence under the Gaming Act 1968. The proposals for casinos outlined here are for England, Scotland and Wales. Responsibility for the planning system in Scotland and Wales is for their respective devolved administrations. None of the proposals here will affect the ability of local authorities to refuse to have a new casino of any size category in their area.

The Advisory Panel on new casino locations

8. The Secretary of State for Culture, Media and Sport will appoint an independent Advisory Panel to advise her on the areas in which the new casinos should be located. The Panel will collectively have knowledge and expertise in a range of matters including planning, securing regeneration, tourism and addressing the social impacts of gambling. Clearly, all Panel members must be able to demonstrate independence from any potential interested parties and must have an appreciation of the need for impartiality.

9. In order to ensure that the impact of the new casinos can be assessed on the basis of a broad range of information and experience, the Advisory Panel will be asked to identify areas for the new casinos which will provide:
   - a good range of types of areas; and
   - a good geographical spread of areas across Britain.

The Panel will also want to ensure that those areas selected are willing to license a new casino. Subject to these criteria, the Panel will be asked to choose areas in need of economic development and regeneration (as measured by employment and other social deprivation factors) and likely to benefit in regeneration terms from a casino.

The premises licence

19. A local licensing authority will only be able to award a casino premises licence if one has been identified for its area. The process for awarding a premises licence will be open to all operators. It will have two stages. The first stage will be a regulatory test to ensure that all proposals satisfy the regulatory premises licensing requirements already in the Bill. The second stage will be triggered where there are more applications for casino premises licences than the local licensing authority is permitted to grant.

20. The second stage of the process will be a competition held by the local authority on the wider casino proposal. We will consult with the Local Government Association and others on how the competition should be conducted. The competition could be judged on a wide range of issues, reflecting the issues that are important in the local area, local concerns and priorities. These may include, for example, employment and regeneration potential, the design of the proposed development, financial commitments by the developer to local projects, location, range of facilities and other matters. The local authority may wish to provide an opportunity for consultation with local people. The local authority would set out its priorities and concerns in a set of objective key considerations and it will then invite operators to submit entries to the competition. The eventual winner of the competition will be eligible for a full premises licence once he has obtained planning permission and the casino has been built.

Casinos which already have a licence under the Gaming Act 1968

23. The arrangements described above for Regional, Large and Small casinos are aimed at minimising the risk of problem gambling from an increase in the number of casinos, particularly from a proliferation of high stake and high prize gaming machines. Existing casinos will be allowed to continue to operate, and to have the opportunity to compete for the new licences. But the Government does not believe it would be appropriate to allow them to have all the new casino entitlements in circumstances where a limit is imposed on the establishment of new casinos.

24. Accordingly, we propose that there will be no size requirements on existing casinos and they will not be subject to the ban on advertising and the 24-hour rule. They will, however, be restricted
to their current gaming machine entitlement of 10 gaming machines of up to Category B and they will not be allowed to provide bingo or betting on real or virtual events.

25. Arrangements will be made to ensure that existing casino businesses can in the future be transferred to new owners and to new premises if the current premises for some reason become unavailable (such as end of lease or fire), so long as it is within the existing licensing area. A company operating a casino which already had a licence under the 1968 Act may apply for a Regional, Large or Small casino premises licence. If it is awarded one of them for an existing casino, then it will be able to operate it with all the new entitlements authorised by the new licence.

8. The Gambling Act was eventually passed during the Parliamentary wash in May 2005, just before the election. Pressed by shadow Ministers, the Government of the day agreed to take an even stricter view of expansion in numbers and entitlements of casinos, reducing the proposals for regional casinos from eight to one and so the number of new casinos overall from 24 to 17.

9. The scheme of the legislation for casinos was that there would be a two stage test. At stage 1, a regulatory test was to be applied, following the principles in section 153 applicable to all other forms of premises licences, namely betting offices, bingo clubs, tracks, adult gaming centres and higher order family entertainment centres. Assuming that more than one party succeeded at Stage 1, there was to be a Stage 2 competition, whereby the licence would be awarded to the party whose application, if granted, was likely to result in the greatest benefit to the area of the authority. Neither the term "benefit" nor the mode of determination was prescribed, although Schedule 9 of the Act did provide for publication of a Code of Practice, with which authorities would be bound to comply.

10. Following the passing of the Act, the Casino Advisory Panel was duly established. It described its terms of reference as follows:

   "... the Advisory Panel has been asked to identify areas for the new casinos which will provide:
   — a good range of types of areas; and
   — a good geographical spread of areas across Britain."

   The Panel will also ensure that those areas selected are willing to license a new casino. Subject to these criteria, the Panel has been asked to choose areas in need of economic development and regeneration (as measured by employment and other social deprivation factors) and likely to benefit in regeneration terms from a casino.

11. An exhaustive procedure was thus implemented to determine the location of the 17 (now 16) casino licences. The Panel issued a call for proposals on 31 January 2006.

12. All of the authorities within the network devoted a huge amount of resources—both human and financial—to winning through that process. The results of the process were announced by the Casino Advisory Panel on 30 January 2007 in its report: Recommendations to the Secretary of State for Culture Media and Sport on locations for one regional, eight large and eight small casinos allowed under section 175 of the Gambling Act 2005.

13. Consequently, the Secretary of State issued a draft statutory instrument carrying forward the Panel’s recommendations, The Gambling (Geographical Distribution of Casino Premises Licences) Order 2007. However, this was narrowly defeated in the House of Lords on 28 March 2007 (HL 28 March 2007 Col 1693).

14. Following further consideration, the Government brought forward a further statutory instrument, in which the proposal for the regional casino was dropped but the 8 large and 8 small casinos as proposed by the Casino Advisory Panel was repeated. The successful licensing authorities were eventually named in the Gambling (Geographical Distribution of Large and Small Casino Premises Licences) Order 2008 (SI 2008/1327) which was dated 19 May 2008. On the same date, Parliament approved the Categories of Casino Regulations 2008 (SI 2008/1330) which defined the size criteria for large and small casinos.

15. At the same time as passing the Gambling Act 2005, Parliament implemented some “early freedoms” for the benefit of existing casinos. These consisted of an increase in gaming machine prizes for Category B1 machines from £2,000 to £4,000 and stakes from 50p to £2; an increase in the numbers of machines per casino from 10 to 20; removal of the ban on advertising and the requirement of membership; removal of cooling off requirements for new members; and the ability to trade for 24 hours per day. These significant relaxations came on top of earlier relaxations permitting entertainment in casinos, and also alcohol to be taken onto the gaming floor.

16. Parliament’s view was that those early freedoms—which were undoubtedly liberalising measures—struck the right balance between protection and regulation, but that the existing 1968 Act casinos should not enjoy all of the privileges to be accorded to the new 2005 Act casinos, and that they should not be able to transfer their licences across administrative boundaries.

17. So far as the question of portability was concerned, this was dealt with in The Gambling Act 2005 (Commencement No 6 and Transitional Provisions) Order 2006 (SI 2006/3272), which was the main implementing provision under the new legislation. This permitted holders of casino premises licences under the Gambling Act 2005 converted from gaming licences granted under the Gaming Act 1968 to transfer those
licences to other premises within the same local authority administrative area (Schedule 4, paragraph 65(12),(13)).

18. The outcome of this legislative process, which involved several years of debate, expert analysis, policy development and cross-party consensus, was that in addition to the right to offer unlimited numbers of casino games and games of equal chance:

— The eight large casinos would be able to offer up to 150 gaming machines together with bingo and betting.

— The eight small casinos would be able to offer up to 80 gaming machines together with betting.

The 189 licences granted under former legislation would entitle the operator to provide up to 20 gaming machines and to move within, but not beyond, local authority boundaries.

C. The Casino Licensing Process

19. Following the making of the Gambling (Geographical Distribution of Large and Small Casino Premises Licences) Order 2008 (SI 2008/1327) in May 2008 it was possible for the casino licensing authorities to devote resources to their own casino licensing processes. As will be explained, the processes have been rather prolonged principally but not solely due to the nature of the underlying legislation.

20. The Gambling Act and Regulations made under the Act set out in some detail the procedure to be followed by authorities at Stage 1 of the casino licensing process, the regulatory stage. But Parliament did not prescribe the procedure to be followed at Stage 2, the benefits stage. This was left to licensing authorities to devise. Some general principles were set out in the Government’s Code of Practice: Determinations under Paragraphs 4 and 5 of Schedule 9 to the Gambling Act 2005 relating to Large and Small Casinos issued by the Secretary of State for Culture, Media and Sport on 26 February 2008, but the actual procedure was not prescribed.

21. There were a number of complexities built into the process. So, for example, the Code of Practice set out confidentiality requirements in relation to bids, so that it would not be possible to have public hearings. This meant that procedures needed to be devised which resolved competing demands of confidentiality, equality and transparency.

22. The Code of Practice also indicated that a wide series of benefits might be considered by the licensing authority (paragraph 5.7). These included: provisions for protecting children and the vulnerable; provisions for preventing crime and disorder; provisions for ensuring that gambling is conducted in a fair and open way; the likely effects of an application on employment and regeneration within the authority’s area; the design and location of the development proposed in the application; the range and nature of non-gambling facilities to be offered as part of the development proposed in the application; and financial and other contributions to the licensing authority’s area.

23. It was necessary for licensing authorities to conduct internal and external consultation exercises to establish which of these considerations would be treated as material and how they would be prioritised. Given that most of these considerations are incapable of numerical assessment, it was also necessary to develop scoring and weighting mechanisms to ensure that evaluations were made as objectively as possible. In some cases, authorities have used external consultants to assist them with the development of these appraisal models, which are new in the field of licensing.

24. It was thought unlikely that a single Licensing Sub-Committee would possess the range of expertise to assess performance against criteria as diverse as employment, regeneration, design, problem gambling, business planning etc. This required consideration and resolution. In most cases, authorities have decided to select and appoint advisory panels to evaluate bids prior to submission to the Licensing Sub-Committee or Committee.

25. Section 349 of the Gambling Act itself requires that the authority publish in its statement of principles (ie its gambling licensing policy) the principles that it proposes to apply in making determinations at Stage 2. Therefore, it was necessary for authorities to devise, consult upon and ultimately adopt new gambling policies specifically for the casino licensing process.

26. Before accepting applications, it was necessary for authorities to comply with the Gambling (Inviting Competing Applications for Large and Small Casino Premises Licences) Regulations 2008 (SI 2008/469). This involved compiling a detailed application pack containing (amongst other things): the procedures which were to be followed; terms of reference for panels and committees; criteria and weighting matrices, and draft legal agreements for the provision of benefit etc. Given that none of this material was prescribed by legislation, it had to be devised from scratch, and considerable care needed to be taken to ensure that it was legally compliant. Some authorities have carried out a non-statutory consultation on the contents of the application packs.

27. Then, authorities had to publish an invitation for applications, which Regulation 5(2) of the Gambling (Inviting Competing Applications for Large and Small Casino Premises Licences) Regulations 2008 stated had to be on three months notice.
28. Given that the procedures and tests under this system are completely novel, it has also been necessary to train councillors and officers specifically in relation to the casino licensing regime. The officers concerned include those working in licensing, legal and democratic services departments.

29. It will be clear from the above that the process devised by Parliament for the award of casino licences built in certain delays and complexities which have had to be negotiated by licensing authorities. However, there have been other factors which have contributed to the time taken to implement the casino licensing regime. Those cited by members of the Network are:

1. the recession and the decrease in market interest;
2. the change in the tax regime for casinos, which caused some loss of market interest;
3. the smoking ban which also affected the confidence of casino operators;
4. the cost to the licensing authority of running a complex process in a period of fiscal retrenchment;
5. concern regarding the amount of officer time involved as against the potential return to the authority in the short to medium term;
6. changes of administration; and
7. concern regarding the threat of legal challenge to the decision.

30. The recession in particular has caused concern that the amount of collateral benefit which operators may be prepared to offer to obtain the licence may be limited. However, in no case has an authority determined not to proceed with its casino project.

31. The current position is as follows:

1. In two cases, a licence has been granted. In one of those cases, the grant is subject to an application for judicial review. Permission to bring proceeding was refused by the High Court on the grounds that the claim was not arguable. A renewed application for permission is due to be heard in July 2011.
2. In three cases, Stage 1 has been completed and Stage 2 is underway.
3. In one case, Stage 1 has been completed, but the Stage 1 grant is the subject of an appeal to the magistrates' court.
4. In two cases, Stage 1 is in process.
5. In seven cases, preparation of the process is underway, with the process to be launched within the next 6–12 months.
6. In one case, the project is being re-evaluated pending further market analysis and a review of the project’s strategic fit with the area’s leisure product development plans.

32. In the light of the current position, the Network anticipates that by the end of 2011 between six and eight of the 2005 Act licences will have been granted and that by the end of 2012 practically all of the remainder will have been granted.

33. In the one case in which a licence has been granted after Stage 2, the London Borough of Newham, significant benefits have been promised, including an immediate cash payment of £5 million, a revenue share of at least £1 million per annum or up to 5% of the net gaming revenue of the casino, employment of not less than 300 employees, £100,000 per annum to local good causes and £50,000 per annum to fund employment opportunities in the borough. Thus, the potential has been demonstrated for the legislative scheme to produce major benefits for local areas.

D. Portability Of Licences

34. Prior to the General Election, DCMS officials notified the Network of a dialogue between the Department for Culture Media and Sport and the National Casino Industry Forum (“NCIF”), which emerged following the demise of the British Casino Association. The Network was informed that the main topics under consideration were:

(a) The harmonisation of casino entitlements, so that casinos with licences originally granted under the Gaming Act 1968 but now trading under converted casino licences would be entitled to offer the same number of gaming machines as the 2005 Act casinos, and would also be entitled to offer bingo and/or betting.

(b) The ability for operators to move a converted casino licence across administrative boundaries to any other local authority area which is willing to accommodate it.

35. The matter was discussed within the Network and within the member authorities. The unanimous view was that the Network was fundamentally opposed to this suggestion, and that even to accept the suggestion in principle would be highly damaging to the 2005 Act process, and the regeneration benefits for local authorities which that process was designed to harvest. This view was communicated to departmental officials and the proposal was not taken forward.
36. Following the election, NCIF has continued both in meetings with Ministers and otherwise to seek to persuade Ministers of the merits of this case. The view of the Network authorities is unchanged. This view has been communicated to the Secretary of State.

37. NCIF has argued that the course set in relation to casinos in the Gambling Act 2005 should be changed because the legislation has not yet resulted in the construction of any casinos under the Act. Recently, Philip Davies MP proposed an amendment to the Localism Bill to enable converted casino licences to move across administrative boundaries.\(^{52}\)

38. In this note, the opportunity is taken to explain why the Network authorities strongly oppose the suggested amendment. In particular, it is important that this issue is understood in the context of the history of the casino licensing regime provided for by the 2005 Act and, as importantly, the policy which underpinned the regime.

39. The matter will be approached from the following perspectives:

   (1) Casino licensing policy.
   (2) The casino industry.
   (3) The network authorities.
   (4) The public.

1. Casino licensing policy

40. We have set out above the lengthy and detailed process which underpinned the promulgation of the Gambling Act 2005. The resultant legislation and underlying policy was the product of independent expert advice, cross-party co-operation and the joint scrutiny of both Houses.

41. As stated above, it was key to Government thinking that the regeneration benefits of local communities should be harvested and the social impacts of the legislation should be fully understood, before a further expansion in the casino market was to be contemplated.

42. During the course of 2005, there were strong representations by the industry, including a meeting between the British Casino Association and the Secretary of State, and correspondence with Lord McIntosh, during which the Government’s position was staunchly defended. In a debate in March 2005, Lord McIntosh explained why he had rejected the entreaties of the British Casino Association. He set out the rationale for the Government’s position (Hansard, 10 March 2005, Col 982) (with emphasis added):

> Having said that, of course we have taken very seriously the concerns expressed by the British casino industry. We have seen members of the industry on every occasion that they have asked to see us; we have read their advertisements with great interest and increasing incredulity; and we have heard them say, as has been said today, that the Bill treats them unfairly and puts existing casinos at a competitive disadvantage. We think that those concerns have been, at the very least, overstated, but we recognise that there is an issue here which these amendments are intended to address. However, I have to say that I am unable to support them. I want to explain why and I shall go on to explain to the Committee what we see as a better approach to the issue.

In bringing the Bill before Parliament, we have made clear from the outset our view that public protection must be a priority. In the Bill before the House, we have adopted a precautionary approach, holding back on the liberalisation of regulation until we can be sure, on the basis of practical experience, that we are not going too far too fast and that we are not letting problem gambling run out of control.

It was on the basis of that precautionary principle, and recognising the concerns expressed very forcefully in another place at Second Reading, that we introduced an initial limit of eight as the number of casinos in each category allowed under the Bill. Whether and when those limits can be eased will depend in due course on an assessment of their impact by the Gambling Commission and on the agreement of both Houses of Parliament.

Those limits will not affect the entitlements of existing casinos. They will continue to be able to trade as now. They will be able to enjoy some important benefits from the new system of regulation, including, for the first time, the freedom to advertise. I expect the casinos to take full advantage of this opportunity.

But it is the case that those 137 casinos will not immediately be entitled to all the entitlements of new-style casinos. In particular, they will be limited to 10 gaming machines [now 20] rather than up to 80, as proposed in the amendments, and they will not be allowed to offer betting in combination with casino gaming. We think that the impact of casinos with the additional entitlements needs to be tested and carefully evaluated before the door is opened more widely.

On the other hand, the impact of a small number of new-style casinos on the existing industry—that is, eight plus eight plus eight—should not be exaggerated. New-style large and small casinos will not be able to offer different or better kinds of machine. People who want to play a category B machine in an existing casino will be able to do so just as readily as in a new-style casino. I think

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\(^{52}\) See House of Commons Debates 17 May 2011 Col 285.
it is now accepted that category A machines, which are new, should not be introduced outside regional casinos at present.

Nor must the pudding be over-egged in terms of betting. Existing casinos already have to compete with more than 8,000 betting shops—some of them literally next door. The addition of eight or 16 new-style casinos will not change that comparison much.

We also need to bear in mind that we are not proposing to freeze the position of existing casinos for all time. Some have suggested that the Bill is putting them in aspic. But it seems to me that aspic dissolves: I think they really mean “concrete”. But that is not the case. If the initial eight/eight/eight stage is satisfactory, it will certainly be possible to extend the entitlements more widely, including to existing casinos.

I turn to the amendments themselves. It seems to the Government that, in straining so hard to protect existing casinos, the amendments give rise to problems far worse than those they seek to address. The first and most important point to make is that they would substantially dilute the precautionary principle. I think that if we were to return to the House of Commons a Bill which was significantly less precautionary than the one which left the House of Commons, we would receive very powerful resistance— I do not know about Front-Benchers but certainly from Back-Benchers of all parties.

Instead of testing, as we are doing, in a number of locations the impact of casinos which have a significantly increased number of machines, we would be rushing straight into allowing every casino in the country to do so, together with additional new casinos. The machines may be familiar, but the effects of concentrating them and allowing proliferation of venues are not familiar. We would, almost at a stroke, be looking at 10,000 new category B machines and potentially far more than that—I shall explain my figures in a minute—without any kind of prior test or assessment. The number of casinos allowed to have 80 category B machines each could easily double.

43. Lord McIntosh concluded by expressing the strong view:

It would be dangerous and wrong, however, to prejudge the outcome of the testing period of the impact of the new casinos in a limited number of areas.

44. In similar vein, following the passage of the legislation, the casino industry continued to lobby for greater machine entitlements, but the Secretary of State personally rejected the proposals in correspondence dated 6 November 2005. The industry’s campaign, however, continued unabated at the time of publication of the transitional provisions orders, with the same result.

45. Having failed to persuade the Government to give the same rights to existing casinos as it proposed to give to the new casinos, the now defunct British Casino Association elected to take the Secretary of State to Court in a case reported as R (British Casino Association Limited) v Secretary of State for Culture Media and Sport [2007] EWHC 1312 (Admin). That case represented a challenge to the Secretary of State’s decision to pass a transitional provisions order restricting the rights of existing casinos in accordance with the Statement of National Policy. The challenge was roundly rejected by the High Court.

46. Langstaff J observed (with our emphasis):

8. To increase the number of licences permitted by Section 175 to include provision for those existing casinos which, as operated, currently do meet the minimum size requirements to be classed as large or small casinos (none is big enough to be equivalent in size to a regional casino) would be inconsistent with the clear intention of Parliament to impose a maximum of 17 upon the total number of such licences to be granted. This point was implicitly accepted by Mr Beloff QC, who presented the case for the applicants together with Mr Ward of counsel, in that he accepted that existing casinos could not expect to be granted under the 2005 Act the same privileges in terms of the numbers and classes of gaming machines permitted them, nor in their ability to provide for betting and bingo, as were the “new” casinos. A argument that they should be permitted to do so was very much a part of the original grounds of challenge to the decisions of the Secretary of State which are central in this litigation, but he was in my view entirely right to accept this. Whatever the purposes of the Act, it is plain on the face of the Statute that there is to be a limited number of “new” casinos, with differences in entitlement between the three classes of such casinos as to the number of gaming machines each could operate, their nature, and the concentration of those gaming machines in the available space, and that the two larger classes of casino should be able to provide bingo, but the smaller not.

9. The important point is thus that there is no parity between existing casinos and the categories to be licensed under the 2005 Act. The Act provides effectively for disparity.

47. Thus, the Secretary of State strongly argued, and the industry accepted, that it was Parliamentary policy that there should be disparity. Parliament has not resiled from that view.

48. The Government’s position was supported by a detailed statement of David Fitzgerald, the Head of the Gaming and Lotteries Branch at the Department for Culture, Media and Sport. His views were recorded by Langstaff J as follows:

36. Economic models suggested that limiting the number of regional casinos to eight would significantly increase the number of large and small casinos which were opened. This risked an
increase in problem gambling. Thus, for reasons set out in Mr Fitzgerald’s witness statement at paragraphs 84 to 86, it was decided to limit large and small casinos to eight in each case, in the first phase. The Government wished to test the impact of higher concentrations of gaming machines in single premises. This could not be achieved if the gaming machine entitlements of those large and small new casinos were to be reduced from the high concentrations then anticipated. Yet the precautionary principle which had been adopted sought to ensure that only a few casinos should have such concentrations of gaming machines available for use.

49. Thus, it is clear that a central part of the rationale for the bifurcated position as between old and new casinos was to control problem gambling and to enable a controlled test to be undertaken of the impact of larger numbers of machines being allowed in premises.

50. Langstaff J, urged by the Government, went on to give judicial approval to the Government’s position:

41. It is apparent, at least from an historical perspective, that the need to limit the number of new casino licences was linked to the considerably expanded entitlement that each was to have to provide gaming machines, bingo and betting, and the logic of restricting the number was in order to take a careful and cautious look to see if there was any adverse effects from this marked expansion within individual premises. In the light of the policy (and later statutory) objectives this implied that it was unlikely that existing casinos would be permitted to expand to the same extent. To permit this in the case of any casino which otherwise met the requirements to be a “small” casino would be to license an eightfold increase in the number of permitted gaming machines, section 21 machines apart, in addition to betting and possibly bingo. From such a perspective it could not have been surprising, therefore, that in paragraphs 23 to 25 of the statement expression was given to that very implication.

51. It is possible to summarise recent national policy so far as casinos are concerned in this way:

1. The 16 new large and small casinos are intended to produce regeneration benefits for communities. This is a quid pro quo for the greater entitlements accorded to these new casinos in terms of machine gambling and the right to offer betting and bingo under the same roof.

2. The number of new casinos—16—was chosen very carefully and only after lengthy political consideration and debate. It represents a cautious approach, because the social impacts of these new casinos, particularly with their significantly greater machines entitlements, has yet to be assessed. (Indeed both the Government and the Network is commissioning research to analyse social impacts.)

3. The existing land-based casinos, while granted a number of significant early freedoms, would not be permitted these much greater entitlements, nor to move across local authority boundaries because (a) that would risk public protection at a time when the social impacts of the new casinos are unknown; and (b) that would threaten the very regeneration benefits upon which the new casino structure was founded.

52. The Network is not aware that, outside the casino industry itself, there has been any clamour for a further liberalisation in the approach to casino gambling. Nor is the Network aware that public understanding of the effects of casino gambling has developed so significantly that a new, or newly relaxed, approach to public protection is called for. Nor was there any commitment in the Party Manifestos or the Coalition Agreement arguing not only for a relaxation but for a wholesale departure from the position settled on by Parliament in the interests of community protection.

53. Furthermore, given that none of the 16 casino licences permitted by the 2005 Act has yet been developed, it is difficult to understand what justification there could be for a change of policy now.

2. The casino industry

54. According to the Gambling Commission, as at 31 March 2010, there were approximately 141 operating casinos achieving a “drop” (that is, cash exchanged for gaming chips) of just under £4.5 billion and gaming machine profit of £137 million. In addition, there are 30 casinos which are licensed but not operating, and a further 19 which are licensed but closed.53 These have tended to be much smaller, old-style casinos, particularly in areas where larger new casinos have opened. However, there have been outright failures in the recent past, such as Casino Red in Huddersfield and the Beacon Casino in Northampton, which proved unviable within a short time of opening.

55. Between March 2010 and February 2011 the number of casino licences operating in Great Britain increased from 141 to 150. According to Rank (Annual Report, 2010) the increase has been due in part to the development of small electronic casinos. These venues offer a limited range of electronic roulette and gaming machines rather than the full range of table games, card rooms, bars and restaurants provided by full-scale casinos. The Report stated that these electronic venues have grown up as a consequence of changes to casino gambling duty introduced in 2007, which rendered many small traditional casinos uneconomic.

56. The current picture of no fewer than 40 dormant casino licences demonstrates that casino operators took advantage of the window of opportunity afforded to them by Government in the final days of the Gaming Act

57. The current lobbying by industry appears to have two objectives: first, to extract economic benefit from uneconomic licences by increasing machine entitlements; and second to extract economic benefit from those licences in areas other than those in which they were granted.

58. There can be no doubt at all that, given the opportunity, operators will move some of their banked dormant licences to places where they perceive that there is profit to be had. These will not all necessarily be to the same places as the 16 new casino licences, but they are likely to fall within their catchments. This is because the rights to grant new casino licences were not allocated according to the wealth of the local population but according to the need for regeneration of the local area. Thus, it is likely that operators will seek to move their banked licences into the centre of wealthier populations so discouraging such customers from travelling to the Gambling Act 2005 casinos to enjoy the facilities they offer. This will reduce the potential profit, and therefore regeneration benefits, of the new casino licences.

59. The 2005 Act casino licences, established as they will be in areas needing regeneration, will depend for their success on bringing in trade from a wide catchment. The establishment of new casinos in nearby areas will diminish the potential profitability of the licences to be granted under the Gambling Act 2005 competition.

60. Is there an economic imperative underpinning the industry's lobbying? The statistics published by the Gambling Commission suggest that the industry has grown at an acceptable level. For example, there were 118 casinos trading in 2001 compared to 141 now. Over the last four years the attendance at casinos has risen from 13.9 million to 17.1 million and the "drop" has increased, despite the recession, from £4.2 billion to £4.5 billion. Thus, the Network is unaware of evidence to suggest that the needs of the casino industry should supersede the public protection and regeneration objectives of the Gambling Act 2005, or national policy carefully developed and articulated over the last 10 years.

61. Furthermore, the position seems to assume that the industry which would benefit from a change in government policy is somehow separate from the industry which is intended to benefit from the 2005 casino licensing regime. In fact, these are the same operators, with equal entitlements to apply for new licences. So, for example, in the recently competition in Newham, no fewer than three of the five applicants were existing casino operators—Grosvenor, Genting and Aspers, all of whom have banked licences in other parts of the country. Naturally it would be very much to their commercial advantage if they could establish new casinos in un-served parts of the country by transferring existing, dormant licences without having to offer the regeneration benefits which they will need to offer in order to win the competitions for the new Gambling Act 2005 licences.

62. The Network is seriously concerned that permitting operators to move existing licences across boundaries will not only compete with 2005 Act casinos, but will provide a major disincentive to such operators to compete for the new licences, where to win the licence they will need to promise to provide benefits to the area of the licensing authority. Furthermore, the Network is concerned that the prospect of competition from portable licences will reduce the amount of benefit which competitors are prepared to offer in order to win the 2005 Act licensing competition. Even if operators decide not to compete with 2005 Act licences with substantial casinos, they may decide to operate low-cost, low-staff, highly mechanised e-casinos, producing little benefit for the area but reducing the potential profitability of 2005 Act casinos, and therefore the benefits which competitors for those licences can offer.

63. The Network understands that it has been suggested that the economic difficulties of existing operators may justify a relaxation in Parliamentary policy. However, the Network has not seen any evidential justification for that. Indeed, the Gambling Commission's own figures suggest that the casino sector is performing at least adequately.

64. Gala’s most recent annual report (2009) states:

The casino business had an excellent year, delivering 27.8% pre-exceptionals growth to £30.3 million. The division showed strong like-for-like admissions growth in the year, and good growth in new members. A year-on-year reduction in cash drop per customer was experienced, believed to be due to a combination of the weak economy and our focus on a high volume, low stakes model. Despite this reduction in cash drop per head, an improvement in the gaming gross win percentage resulted in profitability per customer increasing over the period.

65. The Rank Group plc’s Annual Report for 2010 stated:

Grosvenor Casinos produced a strong performance during 2010, finishing the year as the Group’s largest business in terms of revenue and operating profit. Revenue of £238.6 million was up 8.5% on the prior year, driven by estate expansion and a 5.0% like-for-like improvement. Operating profit increased by 16.5% to £36.0 million as a result of sustained growth across the year.

66. The position regarding Genting is more difficult to ascertain because it is part of the multinational conglomerate Genting Berhad. However, the group returned EBITDA of £7.1 billion MR (about £1.4 billion) in 2009–10 (annual report 2010) so there is no strong evidence that as a company it is struggling.
3. The network authorities

68. We now turn to a consideration of the position of the Network authorities. We believe that it would be helpful to explain why, from our perspective, even the potential that casinos could be allowed to move across local authority boundaries and that machine entitlements could be harmonised would be so damaging to the benefits they are seeking to obtain from the casino licensing competition.

69. Schedule 9 of the Gambling Act 2005 provides that in each area the winner of the casino licensing competition will be the applicant whose scheme offers the greatest benefit to the area of the authority. For most if not all of our members, the entire rationale for seeking the right to grant casino licences was the prospect of regeneration benefits. These will arise principally from the promises given to local authorities by those operators competing for the right to run the new casinos. Those promises are to be secured by written agreements under Schedule 9 of the Gambling Act 2005 and by licence conditions imposed under Part 8. The benefits sought range from capital or income payments to regeneration initiatives, percentages of profits, payments in kind, the running of services and so on. Operators will only offer such promises if they anticipate making significant profits from their operations which go beyond profits they would normally expect to earn. In other words, the regeneration benefits for communities depend on the new casinos making a high level of profit.

70. For casino operators, entering local competitions for casino licences is an expensive and time consuming process, which they will only engage in if they believe that there are significant profits to be had from the exercise, which they cannot earn by other means. Further, casino operators are only likely to make promises of future commitments if they are confident of making high levels of future profit. From this, the following flows:

- If casino operators believe that there is a prospect of other operators being able to enter the market other than through the casino licensing competition, this is bound to affect their estimate of future profits and the level of risk they will be prepared to undertake in making profits.

- In certain areas, the prospect of uncertain future competition will deter operators from entering the competition at all. This may result in either no operators applying, or a single operator applying, in which case there will be no competition and no right for the authority to demand benefits from the operator.

- Even if the local authority itself is given a measure of control as to how many licences enter the area, there would be nothing to prevent an operator establishing a casino in a (wealthier) neighbouring district, which may seriously undermine the viability and profitability of the 2005 Act casino. All of this will affect the calculation of risk which operators will undertake before offering benefits as the price of a licence.

- In all cases, the prospect that existing land-based casino operators will obtain the same gaming machine entitlement will have a severe effect on the level of profit anticipated by casino operators, and therefore the amount of benefit they will be prepared to offer. The main difference between the old and new style casinos is the extent of machine gaming which can be offered. Were Government now to hold out the prospect of harmonisation, this would fundamentally undermine the process, for operators will see no significant added advantage in having the new licence, and a serious prospect that their profitability will be decimated by conferment of the same privileges on other operators.

- If machine gaming rights are in fact harmonised, so that instead of only 16 casinos being able to offer more than 20 gaming machines, nearly 200 casinos could do so, we believe that in a number of areas this would result in an outright failure of the competition through lack of interest.

- There is currently little interest in these licences from abroad, principally due to the Government’s fiscal treatment of casinos (with gaming duty now running on a sliding scale from 15–50%, which tends to affect the larger casinos disproportionately) but also because the regime is not as liberal as was first indicated by Government in the period 2001–04. To signal to operators, and particularly operators who hold dormant licences, that the Government has an eye to harmonisation will deter them from entering the new competitions, and will certainly deter them from making strong commitments to local communities, because they will be safe in the knowledge that they will be able to use their banked licences to achieve profitability in any event and without having to promise collateral benefits.

71. The Network authorities have devoted very substantial resources to the winning of the competition to be designated casino authorities. Whether to participate in the competition was for most authorities a balanced decision. They elected to participate on the assurance that the number of licences would be strictly rationed, so that regeneration benefits (which were the foundation of the 2005 Act regime so far as casinos were concerned) would flow for the benefit of the communities they served.
72. The Network doubts very much whether its member authorities would have pursued the right to licence casinos had they believed that Government might signal its intention to dismantle the very pillars on which the casino legislation was founded before casinos were built, let alone before the licensing competitions were completed. Furthermore, for some of the member authorities, there was a fine balance of political considerations in play, and certainly a spectrum of views among local communities. Were there to be any momentum towards legislative change, this may lead to a need to re-evaluate the commitment of some authorities to this process at all, which would add further expenditure of resources, and the possibility that all that has been expended so far would have been wasted.

73. Moreover, for those authorities for whom the benefits are already marginal, had they appreciated that they might not need to win the competition in order to obtain the right to licence casinos, but that they could simply invite existing operators to re-locate licences into their areas, it is hard to see why they would have expended their limited resources in participating in the competition. Moreover, the regeneration benefits upon which their bids were predicated clearly depended on the goalposts not being moved by allowing the supply side of the equation to increase around them, whether numerically or in terms of the product which could be offered, respectively, in existing land-based casinos and in the new casinos.

74. It is fair to point out that local authorities and local communities have suffered during the recession, and that tightening fiscal restraint is likely to lead to more difficulty in the years to come. It would appear therefore to be untimely and illogical to revisit the balance between converted and 2005 Act casino licences, which would lead to a transference of economic benefits towards casino companies and away from local communities.

75. The Network is therefore deeply concerned at the prospect of approximately 40 dormant licences being able to relocate, and 189 licences being able to offer the same facilities as the 16 to which Parliament accorded special privileges, particularly if the 189 do not need to offer the same benefits as the 16— which have to win a "local benefits" test in order to establish themselves at all. The harmonisation proposal, if implemented, would change the entire balance of the market, and would give the 189 an unfair competitive edge over the 16—the precise reversal of the position intended by the 2005 legislation.

76. In summary:
- Any indication to the industry that these proposed changes are seriously contemplated will damage the 2005 Act casino licensing process before it has begun.
- It would reduce the benefits generated for communities.
- It would not be justified by any evidence.
- It would be wholly contrary to the purpose and objectives of the 2005 legislation.
- It would neuter the careful process of control and evaluation approved by Parliament.
- It would be unfair on the authorities who won the casino licensing process to find neighbouring authorities, who did not, able to offer a berth for casinos enjoying the same benefits.
- It would create a damaging political situation for the local authorities who have devoted much resource to the 2005 Act exercise.

4. Public concern

77. Deregulation of the casino industry is a matter which gives rise to significant public concern whenever the topic is raised. Deregulation without going through the careful process which underpinned the Gambling Act 2005, let alone the research into impacts contemplated in relation to the new casino licences, is most unlikely, we suggest, to garner public support.

78. Furthermore, any attempt at harmonisation through secondary legislation may cause concern with the Joint Committee for Statutory Instruments, and may lead to the need for a debate in Parliament at a time when the Government is occupied with more pressing agendas. It should not and cannot be contemplated without a change to primary legislation.

E. Conclusion

79. The drafting of the Gambling Act 2005 built in an element of complexity and therefore delay into the casino licensing process. In some authority areas, economic and political factors also delayed progress to some extent, with the recession causing concern that operators may find themselves unable to offer significant collateral benefit as the price of obtaining the licence. However, the competition is now underway in eight of the 16 areas, and in no case has an authority determined not to proceed with the competition.

80. The Network authorities remain seriously concerned at the suggestion of harmonisation of entitlement between converted casino licences and the 16 Gambling Act 2005 licences, and also the suggestion that the former licences should be portable across administrative boundaries. This would represent an illogical and unjustified reversal of well-established policy, would be detrimental to the communities which the authorities represent, politically and economically damaging for the authorities themselves and unwise in terms of public protection. While the Network certainly does not criticise casino operators for attempting to rebalance the regulatory climate, this is certainly not an imperative, and the arguments which led to the balance being struck as it has apply just as strongly now as before.
81. The Network would be glad to elucidate or expand upon this submission in oral submissions to the Committee.

June 2011

Written evidence submitted by the Methodist Church in Great Britain

The Position of the Methodist Church on Gambling

1. The Methodist Church in Britain is delighted to respond to the Culture, Media and Sport Committee’s consultation on the implementation of the Gambling Act 2005.

2. Methodists have been concerned with the impact of gambling on the poorest and the most vulnerable for over two centuries. Originally this manifested itself in a prohibitionist stance towards gambling activities. In recent decades the Methodist Church has moved away from absolutist viewpoints and instead focuses on the personal and social harm that gambling can cause. In doing so we have worked closely with our ecumenical partners, especially the Salvation Army, the Evangelical Alliance, Quaker Action on Alcohol and Drugs, CARE, the Church of England and the Church of Scotland.

3. We engaged with the 2005 Act, not with a view to prohibition, but to ensure effective regulation, prevention of proliferation of gambling activities and protection of children and the vulnerable. We have continued to engage with regulatory bodies following the Act and are pleased to respond to this inquiry. We wish to see a well-regulated gambling industry committed to minimising the harm that gambling undoubtedly has the potential to cause.

4. Methodists and partners have consistently called for the debate involving industry, faith-groups and others to be grounded in a solid evidence base. We welcomed the creation of the Gambling Commission (hereafter simply called the Commission) and affiliated bodies, and the research undertaken since the 2005 Act. The recent Gambling Prevalence Survey 2010 enables comparison with the (initial) 2007 Survey. This serves as a landmark of research into gambling, underscoring the importance of the evidence-based approach.

Failures of the 2005 Act and Conclusions from the Gambling Prevalence Survey 2010

5. The Gambling Act 2005 specified three clear objectives: keeping gambling crime free; making sure that gambling is fair and open; and protecting children and vulnerable adults.54 Evaluating the success of the first two objectives mostly goes beyond Methodist expertise, but the implementation of the Act has manifestly failed with regard to the third.

6. It is clear from the 2010 Prevalence Study that problem gambling is on the increase, although the industry and perhaps disappointingly the Commission chose to play this down.

7. “Statistical significance” here means that these survey results would not have been seen if there were no rise in problem gambling, even if the survey were repeated 20 times. This is a very stringent test of data, which all agree the Prevalence Survey problem gambling screen achieved. It is not credible to claim that problem gambling has not increased since 2006.

8. When questioned on the Draft Gambling Bill by the Joint Committee, the Rt. Hon. Tessa Jowell MP said that if there were an increase in problem gambling, then the Act would have failed. In light of the Prevalence Survey, this would imply that the Act has indeed failed.

9. The rise in problem gambling appears to be linked to the rise in gambling participation. Conversations with the Commission and industry following the publication of the 2010 Prevalence Survey suggest that around 1 in 100 customers of the gambling industry will be significantly harmed. We look forward to secondary analysis of the data which explores the nature of the relationship between participation levels and numbers of problem gamblers.

10. Further industry expansion is only compatible with the aims of the Act if accompanied by a decrease in the proportion of problem gambling. Otherwise, it will inevitably lead to increased levels of problem gambling. As a Church we are primarily interested in reducing the harms to people’s physical and mental health, relationships, housing situation, as well as their risk of getting into debt.

How effective the Act has been in its core objectives to:

— Ensure that gambling is maintained crime-free and conducted in an open and fair manner;
— Protect children and vulnerable people from the adverse effects of gambling;
— Update the legislative framework with regards to online gambling

11. Openness and fairness apply at different levels. Those aspects relating to the interaction of gamblers (as customers) with the industry go beyond Methodist expertise. But fairness also includes ensuring that gambling, especially its particularly addictive forms, does not proliferate so as to cause serious harms to the vulnerable.

54 www.culture.gov.uk/what_we_do/gambling_and_racing/3305.aspx accessed 27/06/2011
12. The relationship of crime to gambling goes beyond specific examples of crime connected with gambling establishments. Combating crime must be seen against the localism agenda. The Methodist Church welcomes strengthening of powers that enable communities to limit harms in their areas. This should include the power to limit the proliferation of betting shops in high streets, particularly in poor or otherwise vulnerable areas. Such local powers would complement the components of the Police Reform and Social Responsibility Bill enshrining robust powers in combating alcohol-related disorder.

13. As problem gambling is associated with debt, the issue of credit providers and “loan sharks” should also be considered alongside the dangers of particularly addictive forms of gambling, as part of local crime reduction strategies.

14. There has been no comprehensive survey of youth gambling in Britain and this is urgently needed. But even the existing evidence makes it clear that early exposure to gambling is linked to later patterns of problem gambling. By implication, British children are potentially at greater risk of problem gambling than children in other countries. Furthermore, it is likely that children’s gambling (both legal and illegal) has increased.

15. We believe that, as protection of children should be a primary aim of the legislation, the collection of authoritative data on children’s gambling (both legal and illegal), and their rates of problem gambling is necessary. The link between youth gambling and later problem gambling also needs explored in the context of Britain’s unique position in allowing children to gamble legally: category D gambling machines have no age restriction.

16. Any examination of the Gambling Act 2005 should consider whether the Act fails to protect children sufficiently by permitting them to gamble on Category D machines. We, along with many other churches, charities and academics, would support moves to prevent commercial gambling aimed at children.

17. The Commission’s mystery shopping exercise showed that 98/100 high street bookmakers failed to prevent 17 year-olds from placing bets. Unless rigorously enforced, the rules on underage gambling are often ignored. We welcome the Commission and the Association of British Bookmakers’ steps to improve compliance in this area but remain concerned that children under 18 will not consistently be prevented from gambling, both in bookmakers and other gambling venues which have not been subject to Commission investigation.

18. Discussions with the industry have noted that staff working alone in a bookmakers’ do not feel empowered to monitor potential underage gambling effectively: this would require them to move from behind the counter and to feel safe when challenging a customer. While the industry has introduced tough sanctions on workers found not to be enforcing age-regulations it has been less keen to take more expensive steps, such as ending lone-working, which would ensure a culture of rigorous enforcement.

19. In other fields, when dealing with children, the precautionary principle is normally applied, recognizing both their vulnerability and our increased responsibility towards them. The lack of base line information, the troubling levels of compliance and the lack of research all suggest the opposite is the case in the formulation and implementation of policy in Britain relating to children’s gambling.

20. The issues around vulnerable people have been discussed in paragraphs 5–10 above. The findings around the failures of the 2005 Act to increase opportunities for safe gambling are a serious concern, as this was a key intention of the work preceding the formulation of the Act.

21. One of the challenges of the online gaming environment is the loophole in the regulation of offshore gambling. At present, Britain only requires companies wishing to provide online gambling services or advertisements to obtain licenses for key equipment (computers etc). The Government has been slow to act on this situation. The Methodist Church would strongly encourage Government to introduce a requirement that all companies operating in Britain act under license in the full sense and not just with respect to equipment.

The financial impact of the Act on the UK gambling industry

22. Gambling is not an industry where “light-touch” regulation should be the default assumption, as its potential to be harmful and addictive is well understood. Financial considerations should never have the sole or last word in legislation. The Commission has declared the relevance of the principle that “the polluter pays”. This is particularly relevant because the features that make gambling exciting—eg that it is fast, involves repetitive play and the excitement of near misses etc—are identical in type to the features that cause problem gambling. The difference is a matter of degree.

23. Claims of financial impact need to be assessed objectively. There have been suggestions that the gambling industry has suffered financial harm from the 2005 Act. The Methodist Church and ecumenical partners have expressed an interest in seeing evidence for this claim, but this has not been forthcoming. In particular, the Smoking Ban was introduced in 2007 and it is likely that this is a prime cause of any significant fall in industry profits.

24. Worryingly, the evidence shows that, contrary to beliefs that the recession might limit gambling, it has continued to rise including problem gambling. This is at a time of greater risk to gamblers’ finances. So it is hard to see how the industry’s profits can be falling.
The effectiveness of the Gambling Commission since its establishment, and whether it represents good value for money

25. The Commission is an intrinsically valuable body, due to its independent role and its use of a risk-based approach embedding the role of evidence-based action, which is necessary both strategically and tactically. The Methodist Church also notes the Commission’s commitment to meet regularly with churches and charities concerned with gambling, (rather than just the industry), and to consult widely. The Church would like to see this developed further.

26. One particular example of value for money the Methodist Church would like to highlight is the Commission’s role in overseeing the Gambling Prevalence Survey. This has become an important part of national efforts to curb the growth of, and harm caused by, problem gambling. In a survey of this nature, it is important that there is a baseline for future comparison. The 2007 survey set this baseline and in an important sense the 2011 survey was the first opportunity to assess trends and harms in gambling in Britain.

27. The effectiveness of what has been achieved by the Commission should not be undermined at this point where a satisfactory profile of problem gambling is emerging, nor should the money already spent be wasted by discontinuing necessary work where problem gambling is on the increase. But Government funding for it has been removed. This has been done despite promises during the passage of the 2005 Act that the prevalence survey would happen every three years and be paid for by Government. This was done specifically so as to allay the concerns of groups like the Methodist Church with concerns about the Act.

28. The Methodist Church believes that Government should reverse its decision to remove funding from Prevalence Survey. If this is not done, the Survey should not be directly funded by industry but by fees. It is also vital that future studies continue to be comparable.

29. The Methodist Church neither endorses nor criticises the tripartite structure of the Responsibility in Gambling Trust (now GREaT Foundation), Responsible Gambling Fund and Responsible Gambling Strategy Board. But we have found it confusing. However, in a system where the industry funds key areas of prevention and treatment, it is important that it does not acquire excessive influence. The danger of putting both the industry and regulators into difficult situations involving allegations of conflict of interest has been noted.

30. The Methodist Church is clear that, if the present system of voluntary donation does not lead to the industry providing adequate funds for the prevention and treatment of problem gambling, there remain strong grounds for implementing a levy.

The impact of the proliferation of off-shore online gambling operators on the UK gambling sector and what effect the Act has had on this

31. The Methodist Church is concerned that an attempt to advantage UK-based gambling industry may lead to a contradictory and unworkable attempt at increasing liberalisation of gambling domestically, while aiming to introduce greater controls on internationally-originated gambling. Allegations of any ensuing difficulty in maintaining an international regulatory framework may act as the thin end of the wedge for calls for deregulation in the UK following claims that regulation in general is proving too hard to enforce.

32. Ultimately, the Church is concerned with harm resulting from gambling, not with revenue. The location of a particular computer that provides the opportunity to gamble is not fundamental. It is regrettable that certain major UK based companies, e.g. Sky and William Hill, have chosen to serve their UK customers from international locations to avoid regulation. There is a need for better offshore regulation, not domestic deregulation.

Why the Act has not resulted in any new licences for casinos or “super” casinos

33. Super casinos received a thorough debate in Parliament and in public. The message was clear: the public at large had no appetite for them. This was the consensus during times of economic growth: super casinos are even less appropriate at a time of recession and cuts in public spending.

The effectiveness of the classification and regulation of gaming machines under the Act

34. Despite the detail of the classification system, as designed it reflects a simple and realistic separation into venues, gaming environments and hard gaming locations. Worryingly, these distinctions are increasingly being eroded. For example, the spread of new kinds of machines have made many adult environments such as pubs essentially equivalent to what would previously have been considered a gaming environment.

What impact the Act has had on levels of problem gambling

35. As clearly shown by the Prevalence Survey 2010, the Act has failed to stop problem gambling rising along with general levels of gambling. As stated in paragraphs 5–10 the Act must be judged to have failed in its mandate to protect the vulnerable. Methodists would add its failure to protect children to its shortfalls.
Conclusion—reason for the failure of the 2005 Act to promote safe gambling and limit problem gambling

36. The key concern is the use—or absence of use—of evidence in policy making. This data is required to understand developments in the industry and patterns of gambling behaviour. We therefore welcomed the provisions of the 2005 Act allowing for the creation of a high quality evidence base upon which to make regulatory decisions, gathered and analysed by the research community and supplemented by specially commissioned research where appropriate.

37. The Commission within its resource constraints has sought to build this evidence base, and we are grateful to them for that. Its data and expertise are extremely useful when trying to understand the harm caused by gambling to society. However, the Government's apparent reluctance to act on clear findings raises the worrying concern that policies which favour short-term industry concerns are being prioritised.

38. One example was the change in Category C machines in 2009. The rules around machine classifications are meant to follow a three year cycle. But the Category C review was brought forward by around two years following a claim that change was needed to bring additional profit to the industry, notably in seaside resorts hit by the recession. Evidence for this special need was not provided. Government doubled the stake to £1 and increased the prize to £70. A nother recent example was Government's announcement of its plans to relax rules on the number of Category B3 machines allowed in arcades and double the stake from £1 to £2.

39. These two cases show gambling policy being made without research to establish whether it risks causing increased problem gambling. Even more seriously, the recent plans to liberalise B3 machines were the first examples of policy to be formulated after the results of the Prevalence Survey 2010, establishing the rise in problem gambling. This step towards promoting the industry's interests was in directly the opposite direction to the evidence.

40. There are two possible explanations, both worrying: either the Government has decided to abandon evidence-based policy making in the case of gambling, or it has decided that the available evidence does not given sufficient guidance for policy making. If the latter is the case, the Methodist Church would request a clear statement of this view along with a description of what would constitute criteria for intervention. However, the Church holds to the view that the findings of the Survey are already robust and clearly show the case for action.

Suggestions

41. It is important that all involved parties clearly understand how the ongoing cooperation between DCMS, the Commission and the Minister works. This should make clear how policy decisions follow on from clear reasoning on an established evidence base.

42. Just as Government is committed to transparency through measures like a register of hospitality, a similar register of meetings held and their results would allay concerns raised by various parties in this debate around fairness.

43. In view of ongoing challenges in implementing some of the 2005 Act, a commitment to regular reviews around strategy and resource allocation, giving rise to a clear and realistic plan around implementation and enforcement, is essential.

June 2011

Written evidence submitted by Professor J Orford

Summary

I am an Emeritus Professor of psychology with a long-standing interest in gambling and problem gambling. I was adviser for the three British Gambling Prevalence Surveys (BGPSs) and author of a recent book on the subject. My main concern is with the public health aspects of gambling (paras 1 and 2).

— The latest BGPS (2009–10) shows the prevalence of problem gambling amongst adults, particularly young adults, to be sufficiently high that it constitutes a significant public health problem which needs to be addressed. Even larger numbers are adversely affected by the problem gambling of a family member (para 3).

— Since the previous survey (2006–07), problem prevalence appears to have increased by 40 or 50%. That is most likely to have been due to the effects of the 2005 Act which increased access to gambling opportunities. Such an increase was predicted by major gambling policy reviews including that of the Budd report which preceded the Act, and is consistent with public health theory. It constituted a main hypothesis behind the series of BGPS studies (paras 4–11).

— Certain groups appear from the results of the surveys to be particularly vulnerable. They include those who are unemployed, those on lower incomes, those living in relatively deprived areas and those from Black and ethnic minority groups (para 12).
— Under 16s were not included in the adult surveys but 12 to 15 year olds are known to be especially vulnerable if exposed to gambling. The access of children and adolescents to category D machines should be reviewed as was promised (para 13).

— Results of the 2009–10 survey, including secondary analysis (report available shortly), are throwing further light on the question of whether certain forms of gambling are more dangerous than others. Some forms of gambling, fixed odds betting machines (B2 machines) among them, are associated with much higher rates of problem gambling prevalence and much higher proportions of gambling occasions and of total spend attributable to problem gamblers, than other forms (paras 14–16).

— In conclusion, the 2005 Act has been responsible for exposing the British people to a greater danger of problem gambling than previously was the case. The changes which the Act brought about are not popular with the public. The Government should now adopt a more precautionary approach in the interests of public health and should be less influenced by supplier interests (para 17).

1. I am Emeritus Professor of Clinical and Community Psychology in the School of Psychology at the University of Birmingham and an Honorary Fellow of the British Psychological Society. I am a Clinical Psychologist by training but most of my career has been spent jointly in University and NHS settings (in London, Exeter and Birmingham). I have also had continuous career involvement in the charity/voluntary sector as a Trustee or committee member. My main area of interest throughout my career has been the study and treatment of problems relating to the use of substances and activities, like alcohol, gambling or certain drugs, which have the potential for addiction and misuse. Gambling has increasingly been the focus of my work in recent years. I have been one of the academic advisors to the three British Gambling Prevalence Surveys of 1999–2000, 2006–07 and 2009–10, carried out by the National Centre for Social Research (NatCen), the last two for the Gambling Commission. My most recent written work on the subject was the book, An Unsafe Bet? The Dangerous Rise of Gambling and the Debate We Should Be Having, published by Wiley-Blackwell in January 2011.

2. My main interest is therefore in the public health aspect of gambling. My submission is mostly about the impact that the Gambling Act 2005 has had on levels of problem gambling, drawing particularly on the results of the 2009–10 survey. I also address other issues such as the regulation of gaming machines and the effectiveness of the Act in protecting children and vulnerable people from the adverse effects of gambling.

3. The British Gambling Prevalence Survey carried out in 2009–10 (BGPS10) used two measures of problem gambling, according to which the prevalence of problem gambling was estimated to be 0.9% or 0.7% of the population aged 16 years and over. Those percentages translate into substantial numbers of problem gamblers: in the region of 450,000 or 350,000 people. These are very significant numbers in public health terms which put problem gambling on a par with many other health conditions which are taken far more seriously. For example, these figures are comparable to estimates of the prevalence of the misuse of Class A drugs in Britain. Because large numbers of Britons do not gamble at all, prevalence figures are substantially higher if expressed as a percentage of those who report any gambling in the past year (1.3% or 1.0%). The proportion of adults with family members they believe to have gambling problems is higher (3.8%). To the figures for problem gamblers an additional estimate can be added. The Gambling Commission estimated approximately 900,000 adults who were gambling in a way which puts them at “moderate risk” of problem gambling. These figures suggest that as a nation we do have a very significant gambling problem which should be at the forefront of our minds when considering national policy.

4. BGPS10 showed a substantial percentage increase in the prevalence of problem gambling since the previous survey was carried out in 2006–07. The same two measures were used in both surveys. The increase in prevalence was 50% in the case of one measure, and the increase was statistically significant; the increase was 40% in the other case, and of borderline statistical significance. There has been much discussion about how the apparent rise in the prevalence of problem gambling in the three years between 2006–07 and 2009–10 should be interpreted. I have heard the view expressed that this should not be attributed to the effects of the 2005 Act, either because (a) it is not a real effect, or (b) the rise can be explained in other ways. That view seems to me to be dangerously complacent and/or biased towards serving producer interests. In my view the results constitute strong evidence for a real increase in the prevalence of problem gambling as a consequence of the changes introduced under the Act. Let me explain.

5. Gambling carries some danger because it is potentially addictive. That has long been known and for a number of years now problem gambling has been included in the major taxonomies of mental health problems (the WHO International Classification of Diseases and the American Psychiatric Association’s Diagnostic and Statistical Manual). In many respects it is similar to alcohol which is also legally available, indulged in without problems by most, but which carries dangers and gives rise to very significant public health problems. Almost certainly some forms of gambling carry greater dangers than others (see paras 14–16 below).

6. As it was meant to, the 2005 Act approved the removal of many restrictions on the provision of gambling which were considered to be outdated. The result is, as intended, that gambling opportunities are now more widely advertised, more accessible, and more diverse in Britain than they were. The leading relevant public health model, sometimes known as the total population consumption model, predicts that such a change in accessibility would lead to a general increase in the engagement of the population in gambling, an increase in
the numbers gambling in a risky way, and thence to an increase in the prevalence of problem gambling. The same
would be true, for example, for an increase in the availability of alcoholic beverages or fatty foods, leading to a
general increase in the population’s drinking or body mass index, and thence to an increase in the prevalence
of problem drinking or obesity. The rise we are seeing in the prevalence of problem gambling is therefore predictable on theoretical grounds.

7. An increase in prevalence would also have been predicted according to all the major reviews of a nation’s
gambling and gambling policy, including highly authoritative reviews by the Australian Productivity Commission and by the US National Research Council, both in 1999, and in Britain the report of the Gambling Review Body in 2001 (the Budd Report), the recommendations of which formed the basis for the 2005 Act. It is particularly telling that the Budd Report, which was always inclined to free British gambling from what were seen as unnecessary constraints, should have recognised the likely effects of its recommendations. Paragraph 17.7 of that report states, “a central question for us has been whether increasing the availability of gambling will lead to an increase in the prevalence of problem gambling. The weight of evidence suggests that it will do so.”

8. An increase in the prevalence of problem gambling was therefore widely expected. This expectation
constituted one of the main reasons for, and perhaps the principal rationale of, the series of BGPS studies. Knowing that there was a danger that problem gambling prevalence might rise as a consequence of the Act, the surveys were considered a very important check on that possibility. A major hypothesis was that prevalence would rise, or, to put in more formal scientific language, the null hypothesis was that prevalence would not rise. The findings now enable us to fairly confidently reject the null hypothesis. A survey of the general population is always going to have difficulty in detecting changes in the prevalence of a health or social problem which affects a minority of the population, unless the sample size is very large. Sample sizes for the BGPS have been between 7,000 and 9,000 although a number of us argued that sample sizes should be twice that number in order to have much chance of detecting a statistically significant change in prevalence. It therefore came as a considerable surprise that the percentage increase in prevalence was so great that the results were reaching (in the case of one measure) and almost reaching (in the other case) statistical significance.

9. The increase in prevalence was therefore predictable and in line with a major hypothesis. It is also
consistent with a number of other findings of BGPS10. As predicted by the total population consumption
model, there are indications of the kinds of general population changes which it is thought mediate between
greater accessibility and increased problem prevalence. Notably, for the first time the proportion of the
population reporting gambling in the past year on any form of gambling other than the National Lottery has exceeded 50% (56% compared to 48% in 2006–07 and 46% in 1999–2000). Engagement in certain forms of gambling has markedly increased, notably betting on sports events other than horse or dog races, playing fixed odds betting machines (FOBMs or B2 machines), and online gambling. A standard set of questions about attitudes towards gambling was also included in 2006–07 and 2009–10. Attitudes in all social groups remain mostly negative towards gambling: large majorities believe, for example, that gambling is not good for society, that there are too many opportunities for gambling, and that gambling should be discouraged; although the majority are against prohibition, disagreeing that it would be better if gambling was banned altogether. But attitudes had moved slightly, and significantly, in a more positive direction by 2009–10. These changes in gambling behaviour and attitudes are all indications that in just three years since the 2005 Act came into operation it is possible to detect the way in which gambling has become more normalised in British society. This is evidence of the mediating link between increased accessibility and increased problem prevalence which is a key component of the total population consumption model.

10. It is important to add that NatCen, who were responsible for carrying out BGPS10 and writing the report
of the survey, are very cautious in their interpretation of any results which they produce. They have therefore
looked hard at the possibility that the apparently increased problem prevalence might be explained as an
artefact of, for example, the changing socio-demographic makeup of the general British population or any
possible changes in the way the survey was administered. They have not found any such factor to be responsible
and therefore conclude that it is mostly likely that BGPS10 has picked up a real increase in prevalence.

11. I have dealt at some length with this issue of the evidence for increased problem gambling prevalence
and the interpretation of this finding because I believe it is so important. Because the increase seems to be a
real one, because such an increase was expected and was a major reason for carrying out the series of BGPS
studies, and because there is other evidence about how gambling behaviour and attitudes have changed which
fit with the major public health model in the field, I believe it is correct to conclude that the most likely
interpretation is that the 2005 Act has been responsible for an increase of as much as 40–50% in the prevalence
of problem gambling amongst British adults (equivalent to around 100,000 to 150,000 more people with such
problems). Research can never pin down any one interpretation with absolute certainty. But I believe it is hard
to avoid the interpretation I have given.

12. Problem gambling is unequally distributed across different social groups. Young adults, young men in
particular, appear to be most vulnerable. Worryingly, problem gambling prevalence has increased most in those
aged 16–44 and according to BGPS10 prevalence amongst all 16–24 year olds is now in excess of 2% (over
3% for 16–24 year old past year gamblers, and 4% for 16–24 year old male past year gamblers). Those who
are unemployed appear to be a particularly vulnerable group, having a higher rate of engagement than others
in all forms of gambling other than the National Lottery and other lotteries, being over-represented amongst
those who spend a relatively large amount of time gambling, reporting gambling for enhancement and coping reasons which are associated with problem gambling, and having a significantly higher prevalence of problem gambling. Black and ethnic minority groups showed a pattern of results suggesting that they are more likely than others to abstain from gambling, but of those who gamble a higher proportion experience problems with their gambling than is the case for the majority white population.

13. The BGPS does not include under-16s but there is a great deal of other research evidence from Britain and elsewhere that younger adolescents (12–15 year olds) are more vulnerable to problem gambling than adults. It is therefore a continual source of surprise that Britain allows children and adolescents to play category D gaming machines. The Budd report expressed unease about this, and Government, aware of widespread concern, promised a review of this aspect of regulations. This anomaly—no other country allows this—should be put right.

14. I alluded earlier to the likelihood that some forms of gambling are more dangerous than others. It has always been assumed that forms of gambling that allow rapid, repeated play are likely to be more dangerous (casino games and machine gambling, for example, as opposed to playing a lottery or the football pools). But it has been difficult to confirm that from BGPS findings because many people gamble more than one activity. For example, BGPS10 found playing poker in a pub or club to be the form of gambling associated with the highest prevalence of problem gambling (12.8%) but people engaging in that form of gambling also reported engaging in an average of six to seven other types of gambling. The high prevalence rates found among poker players cannot be attributed to poker necessarily. I have been undertaking some secondary analysis of BGPS10 data which may throw further light on this by using data on the reported frequency of engagement in different forms of gambling, and the amount typically spent in a month, by problem and non-problem gamblers. I have used these data to calculate, for each of fifteen different forms of gambling, the percentage of all days play which can be attributed to problem gamblers, and the percentage of total spend which can be attributed to problem gamblers. The results are currently being checked and the report of the secondary analysis will be available within the next two months. But I can describe the preliminary findings.

15. It is clear that these attributable fractions of days play and spend vary greatly between the different forms of gambling, and that in some cases they are very large. Three forms of gambling—playing casino games in a casino, playing FOBM’s (B2 machines), and betting on dog races—stand out as having 20–30% of all days play attributable to problem gamblers (in other words 20–30% of all attendances at these forms of gambling are by problem gamblers), and two of these—betting on dog races and playing FOBM’s—have percentages of total spend attributable to gambling of between 20–30%. Other forms of gambling which have 10–20% day’s play and spend attributable to problem gamblers are poker playing in a pub or club, playing other types of gaming machine, online machine style games/instant wins, other sports betting, and betting on non-sports events. Betting on horse races, private betting, football pools, scratchcards and bingo have lower figures for attributable days play and spend, and the National Lottery draw and other lotteries have the lowest figures. These figures begin to give a fuller indication of how prominent problem gamblers are as contributors to different forms of gambling, both in terms of the proportion of problem gamblers who attend and the contribution they make to spend.

16. To obtain a complete picture of the contribution which problem gamblers make to British gambling, it is necessary to take into account two further pieces of information: the relative popularity of different form of gambling in the population as a whole and the different average amounts of money which BGPS respondents reported spending per month. Betting on dog races then ceases to be so prominent because it is less popular and average spend is lower than it is for betting on, say, horse races. Playing casino games continues to be one of the most prominent forms of gambling, particularly because it is the form of gambling with the highest average monthly spend. The form of gambling which remains in the first position, however, is FOBM’s which are associated with a relatively high problem gambling prevalence, percentage days play and spend attributable to problem gamblers between 20% and 30%, and a reported average monthly spend more than twice as great as that reported for other forms of machine gambling (in-person or online). This does not constitute incontrovertible proof that FOBM’s are themselves more dangerously addictive than other forms of gambling. It could be the case that they are particularly popular amongst problem gamblers, and that a relatively high proportion of FOBM spend is attributable to problem gamblers, but that the origin of these players’ problem gambling lies in their playing of other forms. Although that is possible, it seems unlikely, particularly since FOBM’s combine many of the features which are believed to make certain forms of gambling dangerous and because agencies providing treatment and advice for problem gamblers in Britain are now reporting that their clients very often describe difficulties controlling their FOBM play. Therefore, although the case is not proven beyond all dispute, there is sufficient evidence to suggest that B2 machines, introduced only a few years ago without much consultation and without a proper impact assessment, constitute a particularly dangerous form of gambling.

17. In conclusion, results of the latest British Gambling Prevalence Survey provide convincing evidence that the prevalence of problem gambling among British adults constitutes a significant public health problem which should be taken more seriously, that groups such as unemployed people and those living in more deprived areas are most at risk, and that problem prevalence has risen substantially since the 2005 Act came into operation. Some forms of gambling are more dangerous than others, notably category B2 machines. The 2005 Act has been responsible for exposing the British people to greater danger than was previously the case. Public attitudes are predominantly opposed to the greater accessibility to gambling which the Act has brought about.
Policy should now move towards a more precautionary approach and should be less influenced by provider interests.

June 2011

Written evidence submitted by BACTA

Who is BACTA (British Amusement Catering Trade Association)

BACTA is the voice of the British amusement industry representing large manufacturers through to small seaside arcades. BACTA was formed in 1974 and represents the interests of over 500 companies and over 1,000 individuals. BACTA is the largest and most influential lobbying body in its sector. Formed in 1974, it promotes the interests of over 500 companies plus over 1,000 individuals the British amusement industry employs over 20,000 directly and entertains millions of people every year. Through its national and regional charity partnerships including Macmillan, BACTA members have raised millions of pounds to provide information and support to the vulnerable in local communities.

Executive Summary

BACTA would welcome the opportunity to give Oral Evidence to a House of Commons Select Committee. BACTA fully supports appropriate regulation. Before the Gambling Act 2005 was implemented we already had a long history of working with the existing regulator, the Gaming Board for Great Britain. Prior to the Act, the UK had already developed a worldwide reputation for proportionate regulation and industry compliance with one of the lowest rates of problem gambling in the world. One of the main justifications for new legislation by Government was that “deregulation” was appropriate considering the industry’s enviable record.

The Act was designed to address technological advances, such as the internet, to introduce a new casino regime which would include Las Vegas style gaming into the UK and to create a new super regulator with powers and resources to regulate what would be a vastly expanded industry. The final shape of the legislation was unfortunately largely reflective of political battering during the “wash-up” period, rather than principles such as consistency, evidence based regulation, and fair competition.

Nearly four years after implementation of the Act, the internet remains largely unregulated with most operators still located offshore, the Las Vegas style casino regime has not come to fruition, and a “gold plated” regulatory framework, which includes a regulator three times the size of the Gaming Board for Great Britain, no longer appears to be fit for purpose.

The traditional gambling industry has suffered one of the most severe economic downturns in recent history. The operational and financial burden of disproportionate regulation continues to cripple businesses already hit by the worldwide economic crisis and the smoking ban.

Inconsistencies in the Act also removed machines from certain sectors, which were fundamental to their business models resulting in more than 200 amusement arcades closures in the last 18 months, manufacturing of amusement machines falling from 55,000 to approximately 10,000 per annum, and hundreds of jobs having been lost.

The recent Prevalence Study showed that playing on amusement machines had actually decreased and there was no cause for concern regarding problem gambling from the traditional amusement machine sector. BACTA helped to form Britain’s leading treatment agency for problem gambling—GamCare. BACTA members have continued to support GamCare’s work, however, the previous Governments action in introducing unnecessary and costly Quango’s now threatens the vital work that GamCare undertakes. An urgent review of research, education and treatment in relation to problem gambling is needed to protect existing treatment agencies and reflect Parliaments decision that the Gambling Commission rather than well meaning but bureaucrat Quango’s should have the primary role to advise the Secretary of State.

A full scale dismantling of the 2005 Act would cause instability and uncertainty and therefore we are urging the Select Committee to use this opportunity to recommend a number of rebalancing measures to address the unintended consequences which have become a hallmark of this well-intentioned, but ill-executed piece of legislation.

A summary of this submission’s requested changes are as follows:

— Consistent regulation between adult premises/parity for all adult premises.
— Return of the triennial review ie stakes and prizes review every three years.
— Effective and equivalent regulation (and taxation) of all forms of gambling including the National Lottery, regardless of the distribution method (ie scratch cards, online etc).
— A reduction in Gambling Commission and local authority fees and simplification of regulation.
— Research, Education and Treatment funding to be streamlined and GamCare protected.
We are eager to assist the Committee by presenting evidence at the earliest opportunity. Two annexes are attached to this submission by way of background and in support of our response.

**Select Committee Questions and BACTA Answers**

1. **How effective the Act has been in its core objectives to:**
   - ensure that gambling is maintained crime-free and conducted in an open and fair manner;
   - protect children and vulnerable people from the adverse effects of gambling;
   - update the legislative framework with regards to online gambling

**Answer**

Firstly, a distinction should be drawn between the principles behind the licensing objectives under the Act, which the whole industry supports, and the execution of powers by the Gambling Commission to promote such objectives. There are concerns that the Gambling Commission adopts a bureaucratic approach to dealing with issues of illegality which can often mean delays in taking action and a disproportionate amount of time is being spent on “soft targets” ie not focusing on matters where there appears to be ample evidence requiring investigation or disproportionately dealing with matters of a trivial nature. Further information is set out under the section below regarding value for money of the Gambling Commission.

Secondly, we believe that the legislative framework is wholly inadequate in relation to online gambling. Remote gambling is simply another form of distribution of gambling services and there is no justification for allowing regulation via white-listing when there can be no effective sanction or enforcement. We refer to this further in our answer to questions 4 below.

2. **The financial impact of the Act on the UK gambling industry**

**Answer**

The traditional British amusement industry is suffering one of the worst downturns in its history. Whilst this is partially due to the worldwide economic downturn and impact of the smoking ban, the Act introduced changes which have been financially devastating to the UK gambling industry. Treasury seems currently determined to create even further damage by fundamentally changing the tax structure of our industry which is estimated to damage both the seaside tourism industry and revenues to the Exchequer. We urge that lessons should be learned from implementation of the Gambling Act 2005 and that Treasury should abandon its ill considered proposal.

Such costs include, the new licensing regime, removal of Section 16 and 21 machines from arcades and bingo halls, new amusement machine technical standards, implementation and training for new licence conditions and codes of practice, change of premises structures to address new requirements of the Act, professional advice from lawyers and accountants in making application for licences and preparing and submitting regulatory returns.

The competitive situation was also unfairly altered with betting shops with the same regulations as arcades, being allowed casino gaming machines harder than you get in a much more highly regulated casino, so not surprisingly they are financially doing well, strong gaming and low cost regulation.

Whilst DCMS previously published a report indicating that there had been a diminution in the regulatory burden, we strongly submit that that study was grossly inaccurate as it failed to include many of the costs which were borne by the industry including the loss of machines and the increase in licensing costs. A more detailed note of the financial impact is contained in Annex A.

3. **The effectiveness of the Gambling Commission since its establishment, and whether it represents good value for money**

**Answer**

The new legislation provided a “gold plated regulator” in anticipation of a boom in the UK gambling sector which would see Las Vegas style casinos regulated by demand and online operators relocating to the UK. The approach of the new Gambling Commission was to develop a UK model reflecting worldwide best practice and therefore, rather than starting with the already existing and tested regulatory regime, looked to jurisdictions such as Australia, Canada and the USA where the style and scale of gambling are vastly different to that which we find in the UK. This meant that generations of businesses have been required to adopt policies and procedures which are much more relevant to a USA style casino environment and the gaming machine technical standards reflected regimes where concerns and problems emanated from a totally different gambling tradition.

Concerns were quickly expressed that the scale and cost of the Commission needed to be recalibrated to reflect an industry, which instead of booming, was being crushed by the combined forces of economic...
downturn, the smoking ban, and disproportionate bureaucracy and regulatory cost which had been intended for a gambling industry that never came into existence.

The industry has provided detailed information on many occasions about the impact of these regulatory costs with representations being made at different times to DCMS, BIS, and the House of Lords. Despite these representations little tangible progress appears to have been made. Published reports include the DCMS Simplification Plan December 2008 which concluded that DCMS have taken significant steps to reducing administrative burdens through simplification and deregulatory measures, exceeding its baseline target to deliver a 43% reducing in administrative burdens. It cited in particular changes under the Licensing Act 2003 and the Gambling Act 2005. It went on to note that using the Standard Cost Model it found that “the administrative burden of the 2005 Act stands at £17.4 million which is significantly less than the cost of the previous regime which was estimated at £74 million”. Stakeholders have been dismayed that the methodology used to prepare such a report was clearly self-serving and serious consideration must be given to challenging this style of reporting and value of producing such reports.

Numerous meetings were held between BERR, BIS and the BRE with the industry again providing specific instances of excessive bureaucracy. These culminated in the Hampton Implementation Review Report which was welcomed by the Gambling Commission in April 2009. The Hampton Review noted that improvements could be made but there was a lack of practical implementation and again the utility of preparing such a report in the absence of tangible benefit must be reviewed, not just in relation to the Hampton analysis of the gambling sector, but of regulatory review generally. A report was prepared by Baroness Golding and Lord Mancroft for the then Minister, Gerry Sutcliffe, highlighting the industry’s concerns regarding disproportionate bureaucracy, but again no action was taken of which we are aware.

There is a view that in an environment where “Quango cutting” is clearly on the agenda, the Gambling Commission must demonstrate that it represents value for money. It is noted that as an independent non-departmental public body sponsored by DCMS, the Commission might have been vulnerable to cost saving measures but some commentators believe that as it is largely funded by fees from the licences it issues to gambling operators, it will escape ‘the axe’. We submit that the source of the funds should not prevent reforms being implemented which would then also enable licence fees to be reduced and stimulate the economy. It has also been noted that DCMS has announced it will deliver savings by merging the National Lottery Commission with the Gambling Commission and the Gambling Commission has noted that it intends to cut its budgets. The savings and cuts suggested, while welcome, do not address the main problem in that the baseline costs are probably 50% greater than they should be.

We believe that a small review board comprising members of the previous regulator, the Gaming Board, representatives of industry, representatives of GamCare and the National Audit Office might work to find practical savings which in no way prejudiced the Licensing Objectives.

4. The impact of the proliferation of off-shore online gambling operators on the UK gambling sector and what effect the Act has had on this

Answer

Our perspective is as follows:

— The current situation under the Gambling Act 2005 is a failure. The concept of white-listing was flawed from the beginning and some fundamental principles need to be set out both in terms of social protection and taxation.

— Whilst there are practical challenges dealing with the internet, a clear announcement from governments in other countries ie USA and Germany instantly impacts the stock price of offshore operators and therefore while enforcement might not be perfect, a clear expression on intent appears to be needed.

— The principle should be that the provided gambling services should be subject to the same regulation to protect consumers and the same taxation rates as applied to the existing bricks and mortar industry. It is fundamentally wrong that a company can monetise UK consumers without contributing to the Revenue which will be used to support the infrastructure for the UK customer base. Effective enforcement can only be achieved if the operating company has assets and personnel within the jurisdiction. It should be clear that UK customers cannot be targeted unless the operating company is licensed in the UK and pays UK taxation in relation to profits from the UK customer base and that penalties will be levied against any party who facilitates the provision of those services where the operator is not so licensed and liable to UK taxation. Effective enforcement means that directors and assets of the operating company must be within the grasp of UK courts. This would be underpinned by criminal sanctions against directors of any facilitator of illegal provision from technical communication, ISPs, marketing, advertising and payment facilities. We understand that Treasury has advised the Minister that they do not have the resource to deal with this issue currently because they are fully deployed on their GPT/MD exercise. We believe that the GPT/MD exercise will mean the closure of many more of the ‘soft’ amusement businesses and force more UK customers onto the internet.
5. Why the Act has not resulted in any new licences for casinos or “super” casinos

Answer

We refer to the response from the National Casino Industry Forum.

6. The effectiveness of the classification and regulation of gaming machines under the Act

Answer

This question can be divided into—(i) locations of gaming machines, (ii) stakes and prizes, (iii) technical standards and (iv) dealing with illegal operation.

(i) Location

The Act has caused a major inconsistency in that adult only premises do not have the same ability to site equivalent machines. In particular LBOs are entitled to B2 machines while equivalent machines called Section 16 and 21 machines were removed from arcades and bingo establishments. All adult premises which do not contain casino games should be entitled to the same machines. The primary purpose of the gaming establishment should also reflect the machine entitlement ie is it right that betting offices whose primary purpose is betting should be entitled to site the most powerful types of remote machines, while machine based premises with the same over 18 policy, should be denied to compete for customers?

(ii) Stakes and Prizes

Under the 1968 Gaming Act a system had operated for many years in which stakes and prizes for gaming machines were reviewed. The Gaming Board considered representations from all sectors of the industry and after taking evidence made a recommendation to the Secretary of State. This meant that there was a three year cycle in which manufacturers could develop machines, and the industry developed a buying cycle so that their investment could be planned. The Gambling Act 2005 unintentionally disrupted this cycle and it is our strong submission that a Triennial review must be reintroduced in which the initial focus will be the following:

(Category C £1/£100, B4 £2/£500 and discuss Category D subject to conversations with the Commission and DCMS)

(iii) Technical standards

The new technical standards have meant that legacy machines continue to be more popular with customers and BACTA has recently been in consultation with the Gambling Commission concerning ways in which to amend the technical standards to develop a more satisfying game for a customer without any prejudice to the licensing objectives. We believe that the testing regime should be amended to allow for a limited number of machines to be used for commercial testing so that manufacturers can engage customer reaction before going through a lengthy process of regulations, standards and notification to Europe which might ultimately prove to be popular with the player.

(iv) Illegal operation

The industry supports tough regulation and licensed operators are eager that the Commission exercises its powers to address illegal operation of gaming machines in an effective way. There are however concerns that the industry has provided the Gambling Commission with evidence that appears to mandate immediate action and the Commission has delayed making a statement or effectively dealing with the situation. We refer the Committee to the Commission’s dealing with an operator known as Agora. Despite numerous complaints being made to the Commission, action was tardy and more than 12 months after issues were identified, the Commission seemed to remain focused on ‘soft targets’ without addressing serious issues which impact the licensing objectives in a material way.

7. What impact the Act has had on levels of problem gambling

Answer

The recent Prevalence Study indicated that playing on traditional amusement machines had actually reduced and that they did not raise issues regarding problem gambling. Of greater concern is the way in which the Act has seen development of a policy by DCMS which threatens existing treatment agencies, in particular GamCare. Parliament determined that the Gambling Commission should have responsibility for advising the Secretary of State. Since the Act an unnecessary bureaucracy has been constructed which must be reviewed. There is a strong argument that all research should fall within the Gambling Commission, in order to coordinate and give strategic direction. The current Strategy Board is in a sense brought in on expertise to advise the Gambling Commission and the Strategy Board and the RGF should effectively have their functions subsumed into the Gambling Commission utilising the Commission’s current staff and structures, including their expert panels, research department and Commissioners. A summary of the issues is attached as Annex B.

July 2011
SUMMARY OF COSTS

Note the costs below are calculated based upon industry knowledge and experience relating to legacy machines remaining in the market. The definition of legacy machines has yet to be confirmed, however, we are seeking confirmation that it includes all machines which are produced prior to 1 September and will include stock.

It is assumed that the only cost arising from the Section 240 regulations is the cost of labelling and that is broken out for each sector (see individual sheets). The cost of the loss of Section 16 and 21 machines includes loss of revenue and is projected forward for 10 years.

* Note M/C represents machines

Total including Section 16/21 machines
Total loss attributable to Section 16/21 machines
Total excluding Section 16/21 machines

BREAKDOWN BY SECTOR

FECs
Total including Section 16/21 machines—£1,142,953,142
Total loss attributable to Section 16/21 machines—£1,142,663,000
Total excluding Section 16/21 machines—£5,042,142

AGCs
Total including Section 16/21 machines—£257,393,920
Total loss attributable to Section 16/21 machines—£257,296,000
Total excluding Section 16/21 machines—£97,920

M/C Suppliers (pubs & clubs)
Total cost = £6,760 million
Total cost of conversion = £5,625,000
Total cost of labelling of all M/C’s (one off cost) = £3.135,000

Manufacturers
Total cost of implementation—£11,000,000

Bingo
Total including Section 21 machines—£821,550,000
Total loss attributable to Section 21 machines—£816,312,297
Total excluding Section 21 machines—£5,238,703

Family Entertainment Centres (FECs)
Total including Section 16/21 machines—£1,142,953,142
Total loss attributable to Section 16/21 machines—£1,142,663
Total excluding Section 16/21 machines—£10,286,868

CURRENT ASSUMPTIONS—PRE 1 SEPTEMBER 2007

960 Sites

<table>
<thead>
<tr>
<th>Category D</th>
<th>Category C</th>
<th>Section 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>M/C No’s</td>
<td>41,080</td>
<td>13,618</td>
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<tr>
<td>Average Annual Revenue</td>
<td>2,419</td>
<td>5,106.40</td>
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<tr>
<td>M/C (ex VAT)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost new M/C</td>
<td>£1,145</td>
<td>£3,120</td>
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<tr>
<td>Life</td>
<td>5 years</td>
<td>5 years</td>
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</tbody>
</table>

CURRENT ASSUMPTIONS—POST 1 SEPTEMBER 2007

Section 16 will not be permitted in designated areas of FEC’s, therefore FEC’s or around 50% are applying for AGC licences instead of designated areas. Costs include conversion of Section 16 machines to Categories B3 and C (although some operators would prefer not to convert machines and would prefer to buy new...
machines, where the cost would be higher) loss of revenue projected forward for 10 years and costs of FECs converting to AGCs. In addition there are labelling costs to comply with the Section 240 regulations.

Conversion costs from Section 16 to Category B3 and C

Assume that 480 sites (half existing sites) will retain 4 B3 M/C’s which will be converted from existing Section 16. 1,920 M/C’s (4 x 480) at £1,495 conversion cost

Total conversion cost of Section 16’s to Category B3 = £2,879,000 (one off cost)

All other Section 16 machines (ie 8,558—1,920 = 6,638) will require conversion to Category C again at £1,495

Total conversion cost of Section 16’s to Category C = £9.924,000 (one off cost)

Revenue loss—ongoing cost

Assuming the 1,920 converted B3 machines take the same revenue as the existing average Section 16 whilst lower stake at £1 the assumption being that 4 M/C’s instead of 8.915 per site will be played more thus compensating for 50% loss in stake.

The remaining 6,638 will revert to Category C with a revenue loss of 6,638 x (£22,127.56—£5,106.40) = £112.986M per annum

Total revenue loss = £1,129,860,000 over 10 years

Cost of conversion from FEC to AGC—ongoing cost for licences

The 480 sites requiring change to Adult Gaming Centres will need the following:

- Operating Licence
- Premise Licence
- Planning/Drawings
- Building Work etc.

Assuming this to be in the order of £10,000 per site = 480 x £10,000

Total cost of conversion from FEC to AGC = £4.800,000

Cost of labelling (one off cost)

Labelling all machines 63,256 fruit machines plus 17,458 other Category D machines x £3 (cost of label + labour)

Total cost of labelling = £242,142

**Adult Gaming Centres (AGCs)**

Total including Section 16/21 machines= £355,216,000

Total loss attributable to Section 16/21 machines= £257,296,000

Total excluding Section 16/21 machines= £97,920,000

**Current Assumptions—Pre 1 September 2007**

<table>
<thead>
<tr>
<th>800 sites</th>
<th>Category D</th>
<th>Category C</th>
<th>Section 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>M/C No’s</td>
<td>8,400</td>
<td>19,840</td>
<td>4,800</td>
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<tr>
<td>Average Annual Revenue per M/C (ex VAT)</td>
<td>£3,301.45</td>
<td>£5,709.60</td>
<td>£26,553.19</td>
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</tbody>
</table>

**Current Assumptions—Post 1 September 2007**

All AGC’s restricted to maximum 4 B3 machines, ie 3,200. £1 stake £500 prize. All Section 16 converted either to B3 or Category C £1,495 x 4,800

Total conversion cost from Section 16 to Category B3 and C machines =£7.176m (one off cost)

Revenue loss—ongoing cost

3,200 Section 16 machines converted to Category B3 or C machines (4,800-3,200) = 1,600 x (£26,553.19—£5,709.60)

= 1,200 x 20, 843.59 = £25.012 million per annum
Total revenue loss over 10 years £250,120,000
Cost of labelling (one off cost)
32,640 x £3 (cost + labour)
Total cost of labelling = £97,920

Manufacturers
Total cost of implementation £11,000,000
Cost of the new Technical Standards and Section 240 regulations depending upon the final legacy position.
Stock write offs redundant parts = £1 million.
New M/C additional cost
Assume minimum of 40,000 sales per annum @ £25 per annum (ongoing cost) = £1 million over 10 years = £10 million

Testing
Test procedures unknown. If Category C are involved in independent testing by external companies this adds to the cost of a new M/C.
However, more importantly it adds to the lead time of developing new machines.
Any major increase in time to market would destroy the principle of supplying the pub market. Machines are changed every 8–12 weeks as there are normally one or two per site and customers get used to the M/Cs and look for something different.

Machine Suppliers (to Pubs and Club Sector)
Total cost of conversion = £5,625,000
Conversions £101.00 x 50,000 = £5,050 million
Conversions Labour £11.50 x 50,000=£575,000
Total cost of labelling of all M/C’s (one off cost) = £3.135,000
100,000 @ £14.50 high labour costs due to M/C’s located around pubs and involving service engineer visit = £3.135 million

Bingo
Total including Section 21 machines—£821,550,000
Total loss attributable to Section 21 machines—£816,312,297
Total excluding Section 21 machines—£5,238,703
This area comes under the Bingo Association. Note that the Bingo Association have said they would convert the numbers and if they are materially different we will revise the figures.
There are approximately 4,099 Section 21 M/C requiring conversion to Category C or B3 @ £1,200
Total cost of conversion = £4,200,000 (one off cost)
Write off of 4,099 older Category C M/C’s @ £300
Total cost of write off = £1,050,000 (one off cost)
Loss of Section 21 revenue (£638.30–£255.32 x 52) 3,500
Total loss of revenue = £81,630 million per annum x 10 years = £816,300,000 (ongoing)
Total cost of labelling £3 (cost and labour) per M/C x 4,099 = £12,297

Casino
Please confirm the figures below directly with British Casino Association.
800 Section 21 machines scrapped or converted @ £1,200 = £960,000
The opportunity to convert Section 21 casino machines to other product is negligible. Unlike Bingo operators casinos are entitled to Category B (20) OR unlimited category C. All of the casinos with Section 21 machines have the full complement of Category B (and no intention to swap them out in favour of Cat C).
The opportunity to dispose of the machines is realistically limited to international markets where the prices which can be obtained for second hand product often equate to not much more than a recovery of associated costs.

Most Section 21 machines are sited on a 80/20 revenue share basis.

The requirement to remove them will result in losses as follows:

Revenue: £21,464,000 for 10 years (800 @ £450 per week x 52 weeks @ 20%) (ongoing cost)

Total revenue loss over 10 years = £36,000,000 (ongoing cost)

Removal/storage/freight costs: £240,000 (800 @ £300.00)

Asset loss £800,000.00 (800 @ 1,500 less 800 @ 500 recovery on international market.)

Note that the cost of TITO issues regarding Section 240 and Technical Standards has not been included and is dependent upon the final legacy position.

Annex B

BACKGROUND TO RGSB AND RGF

Prior to the setting up of RGSB and RGF, the gambling industry helped to establish GamCare and respected members of the industry remain GamCare trustees on an unpaid basis. GamCare has a long established reputation for effective treatment through its helpline and has contributed to Britain’s worldwide record on treatment of problem gambling. The industry also contributed to a voluntary fund to be applied to the treatment of problem gambling and particularly to fund GamCare. The current GREaT Foundation, formerly known as Responsibility in Gambling Trust (RIGT), was established as a charity in 2002 as Britain’s largest funding body responsible for tackling problem gambling through the funding of research, education and treatment from voluntary donations.

In May 2009, as part of the creation of RGSB and RGF, The GREaT Foundation returned to its original perceived function solely of raising funds for gambling research, education and treatment of problem gamblers. The GREaT Foundation has an annual target of approximately £6 million.

The RGSB and RGF was set up in late 2008 to advise the Gambling Commission and, in turn, the DCMS on research, education and treatment programmes needed to support a national responsible gambling strategy and associated funding requirements. Baroness Neuberger DBE is the chair, supported by nine board members.

THE RGSB AND RGF’S RECORD TO DATE

The RGSB has embarked upon a number of activities which appear to waste resource and in some instances damage the viability of providing treatment. These activities include replacing the established GamCare helpline with a free phone helpline (estimated to cost the industry millions of pounds in implementation costs without any quantifiable improvement in the availability of treatment) and a number of research projects which duplicate currently available research and again without any evidence that such expenditure will result in improvement in research, education and treatment.

Why was the RGSB set up?

The Gambling Commission identified the need for the creation of a Responsible Gambling Strategy Board, covering England, Scotland and Wales, to develop a strategic framework and priorities for the distribution of funding for gambling research, education and treatment, to advise on the funding needed to deliver them, and to advise the Gambling Commission and DCMS on a national responsible gambling strategy. RGSB forms part of a tripartite structure comprising a single purpose fundraising body (the GREaT Foundation) a distributing body (RGF) which determines the strategy and priorities for research, education and treatment, and passes a strategic funding framework to the RGF.

What is the remit of the RGSB?

An independent expert body which:

— divides the Gambling Commission (and through them, the government) on the research, education and treatment elements in a national responsible gambling strategy; and

— determines and recommends to the RGF (after consultation with stakeholders and experts) what research, education and treatment is required to reduce harm from problem gambling as part of an overall national responsible gambling strategy, and the levels of funding necessary to deliver the recommended priorities.
How is the RGSB funded?

The Gambling Commission has made available £250,000 in the 2009/2010 and 2010/2011 financial years to fund the activities of the RGSB. This funding supports the core work of the RGSB.

What has been the effect on existing treatment agencies, in particular GamCare and Gordon House?

Funding 2011–12—Position as described by GamCare

At a meeting on 8 March the GamCare Trustees discussed the current unsatisfactory position in respect of funding for 2011–12, and the implications for the fulfilment of our charitable duties. At that meeting we were advised by the Head of Charity & Community at Farrer & Co. I am writing to set out our concerns shared by all Trustees and to seek an urgent meeting with your Board to try to resolve at least some of these issues. In the meantime, though, and you need to be aware that acting on Farrer’s advice we are consulting an insolvency practitioner because of the lack of security in respect of future funding from the RGF.

Our funding from RGF for 2010–11 took the form of a single grant for our core services, so encompassing all of our helpline and treatment provision. RGF funding represented nearly 85% of our projected funding for the year. For 2011–12 you chose to separate the helpline from other treatment services, and to introduce two separate grants. These two “commissioning” processes, which began on 10 November and 29 November 2010 respectively, still remain undetermined just two weeks before the start of the financial year—indeed we have just received a further request for more information to be provided to a completely unreasonable timetable. This means that we have no funding in place for 2011–12 to support our existing services or those delivered by our Partners.

Although you still intend to award grants, you chose, contrary to normal charitable grant-making practice, to initiate “single tender” processes (which would normally lead to contracts) for existing service providers -Gordon Moody Association, the CNWL National Problem Gambling Clinic and ourselves. For the helpline you have required us to complete a two-stage application culminating in a 70 page invitation to tender. You issued a specification which you are still amending and changing even at this late stage. Treatment services were also originally to be subject to a two-stage process, though this changed half way through, and you chose not to provide any specification, but rather asked us to provide evidence of need and our proposals for responding to that need. We have provided what you have asked for in both cases. In neither case did you provide any indication of the funding likely to be available until we were told on 18th February that “up to £1.75 million” could be available for treatment, and on 1 March that funding for the helpline would be capped at £800k (5% less than our helpline budget for 2010–11).

We understand that the RGF claims that it cannot make more available because of the level of funding available from GREaT. However, it is clear that the RGF has more industry funding available to it than has ever been raised before, but that funding commitments made in advance of the tendering processes for existing providers have reduced the amounts available to fund the key frontline services delivered through us, the NPcG and Gordon House. This means that you are giving funding priority to, for example, the GRaHM pilots, all of your research commitments, your commitment to the Royal College of GPs and expenditure on the RGF’s staff, administration and consultants above these frontline services. We cannot see that this is a defensible strategy for using the industry’s funding cost-effectively. Nor can we see why, in the light of the evidence of need which we and no doubt others have provided, you cannot revisit these decisions in order to release more for existing services.

Together with GREaT, and in the middle of the tendering process, you also chose to issue a statement to the trade press which effectively implied that GamCare’s current helpline service is not high quality, does not deliver value for money and does not signpost callers to other services. This was inappropriate and inaccurate. You continued to make similar points when you and Chris Bell met John Brackenbury last week, claiming that another provider could deliver the helpline specification “for £300k less than GamCare", and we gather these points are being repeated by the RGF in their contacts with the industry. You have not provided us with any evidence to support your assertions, and we are surprised that you think it acceptable apparently to approach another provider despite your commitment to a single tender.

At our meeting we were reminded by Farrer & Co that our duties as Trustees are to ensure the delivery of our own charitable objectives. We had until recently been satisfied that these objectives have been best served by supporting a collective industry funding mechanism as advocated by Ministers, the Gambling Commission and some representatives of the industry itself. An inevitable consequence of this was that we would rely for funding on others (previously RIGT, now GREaT and RGF) rather than raise funds ourselves, and this was accepted, indeed welcomed, by the other parties involved, implying a moral obligation to continue that funding. It now seems clear to us that the RGF’s new approach to the distribution of the funds raised by the industry removes any certainty of funding which we had previously enjoyed, and will also progressively remove from us the freedom to develop and design our own programmes and activities. Under these circumstances we cannot see that it is consistent with our duties to continue to support the existing collective funding mechanism merely to deliver services specified by the RGF.

It is clear, however, that it is not in anyone’s interest—the industry’s, Government’s or, most importantly, that of the vulnerable groups we are seeking to help—that the services we currently provide should be
discontinued, leaving no provision for gamblers just when the latest Prevalence Study has shown participation in gambling, and the numbers of problem gamblers, both to be increasing. Yet we have no immediate prospects of obtaining alternative funding, and so without RGF funding we would have no alternative but to take action immediately to wind up our services. We therefore request that a small group of Trustees from each Board, together with the CEOs, should meet urgently to sort out contingency funding arrangements which will allow us to continue operations beyond the end of March, and avoid the collapse of helpline and treatment services for problem gamblers.

The current situation with GamCare’s funding as reported by GamCare

Julia Neuberger has written to GamCare stating that we can expect two offers of grant providing up to £50k more in funding for 2010-11. This breaks down into up to £800k for the helpline and up to £1.750k for counselling. This is indeed, in total, £50k more than the single grant of £2.5 million we received this year, although the ceiling for the helpline is £50k less than we had budgeted to run the helpline in 2010-11, and considerably less than we requested to run a helpline to the RGF’s new specification. We will not be able to switch funding between the two grants (unless RGF change their previous position on this). Julia also says that the helpline contract will be extended to 2 years, presumably leaving the treatment contract at 18 months.

We have however yet to receive these offers, so do not know what terms and conditions are to be applied if we are to be able to obtain the whole of the funding on offer, or whether any funding is to be made available from 1 April and if so how much. Until we have received and been able to consider those letters, our financial position is therefore effectively unchanged. We had also of course (as you have) raised several issues with RGF about the helpline specification, the cost/benefit analysis for changing the helpline brand (including costs to the industry), their standard terms and conditions, and their use of the increasing amount of funds available to them from the industry.

THE PROPOSED SOLUTION

Making better use of industry funds for research, education and treatment

RGF were meant to deliver effective, competitive, transparent commissioning; keep bureaucracy to a minimum; and introduce three year funding. The reality is different: the RGF has no business plan, spends more than £500k per annum on six staff and administration, in addition employs an army of consultants, has committed £1.6 million to three pilots which duplicate what is already happening at extravagant funding levels, has arbitrarily decided to rebrand the helpline with no regard to costs, has handed out contracts and research tenders with no open process, and has committed nearly £1m to questionable research, yet frozen funding for treatment and made no progress at all on education. All of this undermines GREaT’s fundraising.

The Way Forward: £5 million annual funding, index-linked

For £3.55 million per annum (CPI linked), GamCare (£3.15 million) and the National Problem Gambling Clinic (NPGC) (£400k) would:

— Continue to deliver and develop an effective national helpline (it is already regarded as an exemplar internationally).
— Expand treatment coverage from current 68% to 95% of GB population, working through and developing GamCare’s Partner network.
— Link GamCare Partner network and NHS services using the NPGC as an exemplar and hub of expertise within the NHS.
— Develop pilot education and treatment programmes.
— Use industry funds to lever in other funding (Lottery, other trusts etc).
— Provide authoritative analysis and advice for the RGSB and GREaT.

A further c£350k (bringing total to £3.9 million) could safeguard residential provision by Gordon Moody for referrals from GamCare and NPGC (22 beds, maximum six week stay).

This leaves £1 million+ for research (research priorities: prevalence, c£200k per annum, and research to inform better treatment and prevention, including service evaluation) and to increase prevention measures.

How would it work?

Acting as a Development Agency, GamCare working with NPGC produces a 3 year strategic plan for education, prevention and treatment in line with priorities established by the RGSB, and submits it to GREaT and the RGSB. RGF wound up.

GREaT, RGSB and GamCare meet to discuss and agree a plan. GREaT funds GamCare and NPGC directly on basis of agreed plan. GamCare and NPGC report against targets every six months.

All programmes subject to independent evaluation.
GREAT allocates an agreed annual amount (c£650K?) to fund research (including prevalence and evaluation) which is commissioned through the existing RGSB Research Panel.

Benefits

- Saves £500k per annum admin, plus savings on consultants, which can be redirected to the frontline.
- Immediate expansion of services and help for those in need.
- Closer cooperation with NHS based on experience and links of NPGC and GamCare.
- Funding released to support Prevalence research.
- Allows industry cash to be used to lever in other funding.

A coherent and realistic strategy, with immediate improvement in services but also recognising the reality of current economic circumstances by setting industry fundraising target at £5 million per annum Exemplar of the Big Society: charities, industry and NHS working together.

Written evidence submitted by The Bingo Association

1. The Bingo Association represents the majority of the licensed bingo industry in Great Britain. Our members welcome the opportunity to submit evidence to this inquiry and to highlight their main areas of concern about the Gambling Act 2005. Sadly, many of the concerns we highlighted during debate on the Bill have proved to be well founded, and we see little prospect of the situation improving in the near future. Many of the central issues were inadequately debated at the time and subsequently poorly drafted, creating ongoing difficulties for both the industry and the regulator.

Effectiveness of the Act in maintaining core objectives

2. The GB gambling sector was widely acknowledged as being a model of sound regulation, and its gambling industry recognised as being responsible and well-run, before the Gambling Act 2005 was introduced. The Gaming Act 1968, whilst much amended, had ensured that the objectives carried forward to its successor legislation were rigorously applied. In this respect, the general state of the gambling sector located in the UK has not changed. It remains crime-free, conducted in a fair and open manner, and protects the interests of children and the vulnerable. The main difference is that under the Gambling Act the burden of regulation for industry is greater and the costs are higher.

3. The Act was billed as deregulatory, but was generally not so; for example, products that had previously been available in bingo clubs were no longer permitted. Much of the criticism leveled at the Gaming Act 1968 was based on its inflexibility in adapting to change and technological innovation. However, in our experience, the Gambling Act 2005 has been little better. In some respects, it has further entrenched inflexibility in a system that is more complicated, bureaucratic and expensive than before. Innovation remains difficult within the narrow definitions and complicated drafting of the Act. To further aggravate the situation, the regulatory framework it sets out is directly contradicted or undermined by other legislation, particularly fiscal.

4. The Act has therefore been largely unsuccessful in updating the law in relation to gambling generally, and even more so in relation to online gambling. At the heart of the Act, and therefore of the Commission’s regulatory approach, is a flawed assumption: that it is possible to categorise all gambling which takes place outside a physical premises such as a bingo club as “remote gambling”. "Remote" describes a method of delivery, not a form of gambling. It can refer to any technology that delivers gambling products within, between, or outside premises. It does not adequately describe or address the “online” gambling sector, even though it was the intended target of policy-makers at the time. The weakness of the Act’s remote gambling provisions was evident even before it was implemented, since two sub-clauses were repealed even before they were enacted.

5. All sectors of the gambling industry raised concern at the time the Bill was being debated that in the absence of a clear picture on levels of taxation, it was impossible to put in place a system of effective regulation. This has proved to be the case: the main target of the “remote gambling” provisions, namely online gambling operators, remain outside the system of GB regulation because the regulatory and tax regimes that apply to them are commercially unviable. In contrast, products such as linked bingo in clubs, which had previously operated successfully and without concern for many years, were burdened with additional and unnecessary requirements to hold remote operating licences. However, even though they hold “remote” licences, their ability to offer access to their online products is extremely limited. The “remote” provisions have caught products and operators who were already regulated under the provisions for terrestrial gaming by imposing a further, unnecessary, layer of regulation. Those who were outside British regulation at the time have remained outside, with others choosing to relocate offshore.55

6. Thus the 2005 Act has achieved the opposite of its stated objectives: the regulatory system it established for all forms of “remote” gambling drove the vast majority of online operators offshore. Although the White

List is intended to ensure that operators accessing the GB gambling market are regulated in their home territory, there is little in place to test its effectiveness. The Government (and it would seem, the regulator) have not understood that online gambling operates under a very different business model to terrestrial gambling operations. A “one size fits all” approach to regulation simply does not work. HM Treasury were aware when it set a 15% tax rate that it was unlikely ever to be collected, since very few operators could sustain their online businesses in their current form under such a tax burden, particularly when they could easily find a less onerous tax rate offshore. In liaising with the Gambling Commission an operator who chose to base an online business in GB was asked if they had considered locating offshore. This would appear to suggest that the Commission is not greatly interested in taking an active role in the regulation of online activity, since it can fall back on the White List jurisdictions.

7. If Government is serious about online gambling operators being subject to the GB system of regulation (and therefore taxation) it will need to arrive at a regime more appropriate to the online business model and mode of operation. Even a licence requirement to advertise to and transact with GB customers will potentially be ineffective unless considered in parallel with the tax rate.

Financial impact of the Act on the bingo sector

8. The cost of regulation has increased significantly for licensed bingo clubs under the 2005 Act. In the last year of Gaming Board operation (2004–05), the total cost of licence fees to the Board from licensed bingo clubs was £1.13 million (for over 657 clubs). The total cost of Board operation at that time was £4.4 million, with 77 staff costing £2.6 million. In 2009, 564 clubs paid licence fees totaling £2.7 million. Over the four-year period that is an increase of 278% per club. In 2009–10 the total cost of the Gambling Commission was £13.949m (down from £15.2m the previous year), with 222 staff costing £8.9 million. This ignores the fact that bingo also pays GPT at a rate of 20%—the highest rate of taxation within the gambling sector.

9. The Commission’s Annual Report does not identify revenue from bingo licences separately. This lack of transparency is itself an issue for the bingo industry, since it is now impossible to see whether the cost of regulation is reflected in the fees charged, or whether cross-subsidy occurs. Indeed, there appears to be little scrutiny of Gambling Commission expenditure, nor application of the principles of budgetary constraint, other than the Government’s stipulation that it should operate on a balanced budget which is neither in deficit nor profit.

10. Bingo clubs also suffered significantly from the removal of machines played under section 21 of the 1968 Act, but removed in the 2005 legislation. Machine revenues dropped by 25% in the months following their removal.

11. Funding for research, education and treatment initiatives is now co-ordinated through the GREaT foundation, to which bingo operators contribute. However, whilst the scale and profitability of the bingo sector has declined, the required contribution to GREaT has increased. This, combined with the fact that no account is taken of the “polluter pays” principle in determining contributions is a serious flaw. Yet the increased level of spending has seen little impact; levels of problem gambling in GB have been broadly static since before the 2005 Act was introduced. The bingo industry would welcome ongoing research, rather than the three-yearly cycle which has often generated a short-lived media frenzy, especially now that government funding for the Prevalence Study has been withdrawn. An ongoing programme of review would enable industry to respond more quickly and effectively should any problems be identified.

The effectiveness of the Gambling Commission and value for money

12. The principle of a single regulator for all gambling activities, is sound, and one that the Bingo Association supports, but the exclusion of the National Lottery and its commercial products (scratchcards and ancillary games) goes directly against the logic of this principle. At the time it was difficult to envisage the significant changes migration from the Gaming Board to the Gambling Commission would entail, their negative impact and the associated cost. In many respects the Commission is less effective than the Gaming Board, yet costs more, representing poor value for money.

13. The decision to relocate from London to Birmingham was part of a wider move within Government to save money and decentralise. However, there has certainly been no evidence of reduced costs for the Commission, which covers broadly the same role as its predecessor. The relocation resulted in a significant loss of key staff, many of whom had a wide understanding of gambling issues and the intricacies of the bingo industry, at a time when this experience was desperately needed. As a consequence, the transition to a new regulatory regime was unnecessarily complicated, since the accumulated knowledge of 40 years of regulation under the Gaming Act was not carried forward. There was no continuity from the outset, and this trend has continued with a constant turnover of staff at the Commission. The pool of expertise, built up over many years at the Gaming Board, was lost. Unlike other sectors, there is no National Compliance manager for bingo, nor

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57 GB Report, op cit.
has there been since early 2008. Under the Gaming Board, there was a bingo division. It is difficult to see how this could possibly be interpreted as effective, forward-looking regulation.

14. The approach to inspection has also fundamentally changed. Although clubs are paying significantly more in licence fees, the number of visits to clubs has dropped dramatically as a result of bingo’s status as “low risk”. On a simple cost-benefit analysis, this makes no sense. Many clubs go three years without a visit. The visits themselves now focus on policy implementation, with little or no review of figures. This contrasts significantly with the previous regime, where inspectors would visit a club and review the figures, programme and policies for a specific day to check for compliance. In addition to the licence application process taking longer and costing more, small and straightforward alterations to a licence cost significant sums. One operator recently paid £9,990 for a variation to a casino licence. Such adjustments are unnecessarily expensive, and from the industry’s perspective bear no relationship to the actual cost of time taken to administer.

15. The Commission’s website provides little assistance in this regard. Whilst framed to be industry-, as opposed to consumer-facing, it is difficult to navigate and lacks the relevant and necessary links. Even basic searches for documents are made more complicated because they are not listed in date order. It is not possible to identify how much of the Commission’s budget is allocated to its website, but from our perspective it is ineffective. It also misses the opportunity to advise and support players by providing relevant information or appropriate referral, particularly on online gambling. Given that it currently has no regulatory control over this sector, advising players of potential hazards would seem to be an obvious step.

16. Where the Commission does get involved in developing understanding of the gambling sector, it can be counterproductive. For example, as a consequence of the regulatory returns it collects from bingo operators, it generates industry statistics. However, as the data is collected on a rolling basis, this means that there is no possibility of producing final figures; all Gambling Commission statistics are now qualified as “provisional”. This makes accurate comparison with other industry statistics impossible and also leads to misunderstanding and confusion. When used by Government and other bodies as part of policy discussion and development, these inaccuracies foster suspicion and create tension because they are invariably at odds with industry-produced data. From an industry perspective, it would be more helpful if the Commission collaborated with the Trade Associations on their data.

17. Unfortunately for the industry, the lack of flexibility inherent in the 2005 Act is compounded by the Commission’s failure to fulfill effectively its statutory obligations to advise the Government on necessary updates to the legislative framework. It was obvious in the two years between the Act being passed and its implementation in 2007 that the provisions intended to cover online gambling would be ineffective, yet there is no evidence that the Commission has advised the Government on possible amendments. It took until 2010 for a consultation on the regulation of the remote gambling industry from DCMS to appear, and then only to outline a wide variety of options without any clear picture as to which, from a regulatory perspective, was likely to be most effective. One year on, despite assurances of urgent action, nothing further has emerged from the Department. Government policy ignores the fact that it is fiscal, not social, policy which is the main cause of operators choosing to locate offshore, and therefore remain outside the scope of the Act. The fact that the Gambling Commission, as evidenced by the confused and contradictory statements regarding “remote gambling” on its website, seems to fundamentally misunderstand the nature of the online market and the issues to be addressed, gives the industry little confidence in its ability to advise Government on the steps needed to keep legislation up to date.

Proliferation of offshore gambling operators and the Act

18. Development of the online gambling market has not significantly affected bingo in licensed clubs. However, the regulatory regime has meant that those operators also wishing to develop an online product have had to do so as a separate business. A more realistic approach to remote gambling operation would benefit licensed bingo club operators in that it would permit them to operate both aspect of their business together.

The effectiveness of gaming machine classification and regulation

19. Machine regulation has not been improved by the 2005 Act, particularly as far as licensing by local authorities is concerned. For example, no template for licence summaries has been provided by DCMs or the Commission, resulting in local authorities making reference specific machine entitlements on the face of individual licences, instead of enabling phrasing such as “such number of Category B machines as prescribed by statute”. The consequence of this is that when any aspect of machine regulation changes, every individual licence must be reissued. The Commission seems unable to ensure that Licencing Authorities comply with their obligations under the Gambling Act and inform them when a Premises Licence is issued. Operators also experience difficulties with the Licencing Authorities when they issue incorrect premises licences; members have reported receiving betting licences when they have applied for bingo licences. This is the sort of unnecessary bureaucracy that the Act was intended to remove, not increase.

The Act’s impact on levels of problem gambling

20. Levels of problem gambling remain broadly the same as before the Act was implemented. It is therefore difficult to see how it has impacted, other than to increase costs, as outlined above.
CONCLUSION

21. The Association has noted a growing reluctance on the part of Government to engage with gambling-related issues. This appears to be as a result of increased sensitivity to the reaction of the media to gambling generally. The DCMS has issued two business plans within the past year, neither of which makes any reference to the gambling sector and is possibly an indication of the DCMS’ reluctance to meet its role as a supporting department and champion of Britain’s gambling sector. Decisions which are needed urgently have been delayed for long periods of time, in an apparent unwillingness to fully engage with the sector. The DCMS seems to be uncertain of its role as our “sponsoring department”; instead there is almost embarrassment, and a distinct unwillingness to engage in any form of public debate on gambling issues. Bingo and indeed the gambling sector needs a sponsoring department which is committed to and supportive of the sector and one whose remit is possibly more appropriate to business.

22. The Gambling Sector is a business, like any other. Any concerns over social responsibility are addressed through the Act and regulated by the Gambling Commission, in the same way that sector-specific requirements are implemented and regulated in other industries. It may be more appropriate for gambling to be re-allocated to another government department whose focus is more on business and innovation rather than on the arts and media. The gambling sector in this country is responsible, well-regulated and generates significant employment and revenue for the UK economy. As stakeholders, we are entitled to engage with government in a co-operative and productive manner, something which will only be achieved if the sponsoring department is interested in doing so.

June 2011

Written evidence submitted by Ladbrokes Plc

SUMMARY

— Ladbrokes is grateful for this opportunity to engage with Government and take part in this consultation.
— We believe that on the whole the Gambling Act was necessary for consolidating and updating legislation, and we agree with its core objectives, which have been largely useful and enforceable.
— We do however retain some major concerns as to the ongoing impact of high taxation and regulation on UK-based businesses, coupled with the unlevel playing field suffered by UK operators when competing against offshore companies.
— The industry is of major importance to the UK economy, directly and indirectly contributing £6bn and employing 100,000 people. Ladbrokes itself employs 14,000 people across over 2,100 shops in the UK.
— However the industry has been hit hard by tax increases (the VAT increase represented a £20 million increase for the industry), making it impossible to compete with operators based in low-tax jurisdictions. This has led to several operators relocating from or closing facilities in the UK, which inevitably means job losses and lowered revenue for the Treasury.
— The level of regulation on the industry also prevents businesses from responding to customer demand—particularly in the area of gaming machines and mobile betting and gaming—contrary to a key tenet of the 2002 White Paper from which the Gambling Act emerged.
— In essence we believe that this industry requires greater protection from the UK Government and more consideration for the impact that decisions on tax and regulation have, not only upon the industry but also on the wider spectrum of “the high street”, jobs, and Treasury revenue.
— Ladbrokes is more than happy to provide spokespeople for examination at Select Committee.

1. How effective has the Act been in its core objectives to:
— Ensure that gambling is maintained crime-free and conducted in an open and fair manner?
— Protect children and vulnerable people from the adverse effects of gambling?
— Update the legislative framework with regards to online gambling?

1.1 Ladbrokes supported the consensus view that the legislation around gambling had become out of date and inflexible and required an overhaul. In the words of the 2002 White Paper “A Safe Bet for Success” “The legislation... has not enabled regulation to keep pace with either technological advances, or customer expectations and the ability and desire of the gambling industry to meet them.”

1.2 Ladbrokes also supported the Act’s core objectives as a key element of enabling the industry to grow. In fact many of the Licence Codes of Practice had been voluntarily implemented by Ladbrokes years before the introduction of the Act.

1.3 The Gambling Act has been effective in providing a workable and enforceable framework and industry-wide regulator, and in ensuring that its core objectives have been met with regard to UK-based operators.
1.4 However, the provisions relating to online operators have failed to embrace the vast majority of online activity because of the significant tax advantages to operators locating offshore. A more level playing field, as discussed later in this document, would provide relief for UK-based bookmakers and long-term economic benefits for all.

1.5 While the vast majority of online gambling activity takes place with operators in well regulated jurisdictions like Gibraltar, the Commission clearly does not have the resources to monitor regulation in all jurisdictions around the world. This could potentially put the consumer at risk from operators who do not comply with UK regulatory standards. Further, many operators who undertake significant levels of business with customers do not contribute to Responsible Gambling funds, placing an unfair burden on responsible UK operators.

1.6 Owing to the financial and regulatory burden within the UK, many UK-based operators have been forced to move their online operations offshore in an effort to remain competitive. This includes Ladbrokes, which has also been forced to close a call-centre in Aintree affecting 263 jobs, again primarily as a result of offshore competition. We have detailed the competitive disadvantages to UK operators below in section 2.2.

1.7 With regards to underage persons being within betting premises, we believe that Section 47 of the Gambling Act could be revised slightly. It currently states that an offence is committed once such a person enters the shop, without taking consideration for the length of time they are present or whether they were subsequently asked to leave. This is almost impossible for operators to enforce, without employing security on the door to physically prevent their entry. As such, statistics can be skewed to suggest a far lower rate of compliance than is actually the case. It would be far more logical for the offence to be failure to remove an underage person once they have entered the shop.

2. What has been the financial impact of the Act on the UK gambling industry?

2.1 The Hampton Review (April 2009) found conflicting views within the Gambling Commission with regard to its role in the economic regulation of the sector. The review highlighted the important economic role of the sector (contributing around £6bn to the UK economy) and recommended that a “key element of their activity will be to allow, or even encourage, economic progress and only to intervene when there is a clear case for protection”.

2.2 The UK-based betting and gaming industry has a very high financial burden placed upon it, which puts businesses and jobs at risk. There has also been a high degree of uncertainty over potential changes to some areas of regulation such as gaming machines, which has had an impact upon the financial confidence of investors in the industry.

2.3 Ladbrokes profitability has severely declined during the period that the Gambling Act has been in place. In 2010 Ladbrokes’ profit was £202 million compared to £252 million in 2006, preceding the implementation of the Gambling Act. In 2009, prior to major cost-cutting (and also affected by the recession) the company’s profit was just £168 million. This illustrates a dramatic drop which also impacts upon the company’s ability to invest, develop and create more jobs. Therefore, far from encouraging economic progress, all indications suggest that the high levels of taxation and regulation have impeded growth.

2.4 Operators in the UK pay 15% tax on their Gross Profits, 10.75% horseracing levy on British horseracing bets and VAT on their input costs. The vast majority of offshore operators would pay a capped rate of tax, representing a significant tax advantage.

2.5 The ongoing issue of the Horse Racing Levy is significant to the industry. The Government has recently increased the Levy to 10.75% (in addition to lowering the threshold for smaller shops), meaning that the industry contributes over £75 million per year directly to horse racing, in addition to the £95 million in media rights and sponsorship (increased from £12 million in 2002). This is a significant additional cost incurred by UK-based retail bookmakers which is not incurred by many offshore on-line bookmakers.

2.6 From a typical horse racing bet taken over the counter, Ladbrokes makes less than 12 pence profit in every pound—the remainder being taxes, levies and other costs—and less than seventeen pence from every ten pound bet once margins are taken into account.

2.7 The cost of licenses per shop has also increased from around £150 plus a £25 renewal cost, to a potential £1,600 payment to the Gambling Commission, in addition to a £600 annual charge by the Local Authority.

2.8 Such an uneven playing field has led to many UK-based operators moving offshore, including Ladbrokes which also had to close its call-centre in Aintree, affecting 263 jobs.

2.9 Ladbrokes believes a level playing field should be created by extending UK regulation and Gross Profits Tax to offshore operators and betting exchanges, and providing relief to UK retail and online operators through a lower rate of GPT.
3. What has been the effectiveness of the Gambling Commission since its establishment, and does it represent good value for money?

3.1 The Gambling Commission had an understandably difficult job to regulate the betting and gaming industry and tackle its issues almost overnight, but given this it has performed adequately and effectively.

3.2 Bookmakers contribute license fees to the Gambling Commission and Local Authorities. However, it must be reiterated that the financial pressures on the betting and gaming industry are very high and that increasing regulation and costs, whether through the Gambling Commission or other bodies, represent a threat to the industry and the jobs within it.

3.3 During the current economic climate, businesses would ideally look to make savings and would look to the Government to enable this. For example, a potential merger with the National Lottery Commission may lead to some efficiency savings which could be passed onto businesses, allowing them to protect jobs and continue to grow.

3.4 Whatever value for money the Gambling Commission has delivered to date, it seems likely that a merger with the National Lottery Commission would deliver synergies which would result in costs being saved. Some of those costs could be passed back to businesses to reduce their tax burden. The Government is doing this in other areas in these times of austerity, and we would urge them to extend such measures to the gambling arena, where businesses are under significant pressure.

3.5 Another area where potential savings could be made is in bringing age verification testing under the Primary Authority system. Ladbrokes, for example, has Primary Authority status with Liverpool City Council, which means its procedures and processes are subject to intense scrutiny by one Authority, which then becomes responsible for dealing with issues arising in other Authorities. We believe this system should allow for some efficiency savings regarding issues such as age verification testing, but currently this does not come under the Primary Authority system. The Better Regulation Executive is currently consulting as to whether age verification checking should come under the Primary Authority scheme.

4. What has been the impact of the proliferation of off-shore online gambling operators on the UK gambling sector and what effect the Act has had on this?

4.1 The proliferation of off-shore online gambling operators has had a serious negative impact upon the UK gambling sector and, while the vast majority of online customers transact with operators in well-regulated jurisdictions such as Gibraltar, there is a risk relating to some sites in some jurisdictions where the Gambling Commission does not have the resources to adequately check regulation is being applied.

4.2 The lack of competitiveness of UK-based operators which is the result of the relatively high financial burdens (including taxation, licensing, levies, responsible gambling funds) compared with the low costs of operating a gambling website from off-shore, has led to the closure or relocation of several major facilities, leading to job losses and loss of revenue to the UK Treasury.

4.3 Whilst many jurisdictions, such as Gibraltar, are well regulated, the Gambling Commission does not have the resources to regulate all off-shore online operators and as a result some that fall outside its jurisdiction are poorly regulated and may not strive to attain the same standards as UK-based firms. This has the potential to put vulnerable people at risk, as well as exposing consumers to the potential of crime and unfair betting, thus falling short of the Gambling Act’s core principles.

4.4 The Gambling Act has helped to provide a framework within which operators can work, but the high financial burden and regulation that parallels it pushes many operators outside of its remit, therefore making some aspects self-defeating.

4.5 A more level playing field would gain the UK Treasury increased income and allow the Government to use additional revenues to provide financial relief to UK-based bookmakers, particularly those that provide considerable employment and high-street footfall, enabling them to grow and flourish economically.

5. Why has the Act not resulted in any new licences for casinos or “super” casinos?

5.1 Initially the announcement of the potential for such establishments within the UK was greeted with optimism by some of the betting and gaming industry, and produced significant constructive activity and investment amongst businesses, local authorities and other interest groups.

5.2 Ladbrokes initially invested in a London-based Casino, with the intention of bidding for a regional or “super” casino—a decision which created jobs and economic generation, whilst illustrating the pro-active response of business to the removal of barriers and the “opening up” of the market.

5.3 However, the nature of the casino-bidding process, combined with a change of policy towards new casinos, made the continuation of this investment and activity impossible.
6. What is the effectiveness of the classification and regulation of gaming machines under the Act?

6.1 The classification and regulation is largely effective but it is important to note that the class of gaming machines found within betting shops is relatively highly regulated compared with other forms of gambling, whilst the number of machines is arbitrarily limited.

6.2 The artificial restriction on machine numbers limits betting shops’ ability to grow. Betting shop gaming machines are limited to four machines (B2 or B3 classification) regardless of the shop’s size, popularity or turnover. Given the sizeable tax revenues generated by machines—£118 million per annum in VAT (the method of taxation on gaming machines) and £64 million in license fees, the Treasury is missing out on significant amounts of revenue. With these machines contributing around 40% of a shop’s income, and 28% of betting shops making less than £17,500 profit per year, machines are an integral part of a betting shop business and have a major impact upon the security of shops and jobs. The decision to arbitrarily and artificially limit their number leaves bookmakers unable to respond to customer demand; and in some cases has led to an increased number of shops opening within a specific area in order to cater for customer demand, prompting complaints about their “proliferation”.

6.3 We welcome the reviews of B3 Stake and Prize limits, recently conducted by the DCMS, but believe that betting shops should also have some extension of machine numbers, particularly now that Bingo and AGC’s have had some liberalisation. We would encourage the DCMS to launch a consultation into Stakes, prizes and machine number limits within betting shops.

7. What impact has the Act has had on levels of problem gambling?

7.1 According to the 2010 British Gambling Prevalence Survey the rate of problem gambling has been on the margins of “statistical insignificance” (also in 1999 pre-Act and 2007 post-Act) and is relatively low by international standards.

7.2 Bookmakers in the UK commit to working to support problem gambling education, treatment and research and through the GREaT Foundation donate money to leading charities in this area such as GamCare. This year Ladbrokes has contributed around £700,000 to the industry’s annual target of £6m for research, education and treatment of problem gambling issues. The vast majority of offshore operators do not contribute in the same way.

7.3 Support for those suffering from problem gambling is significant, with information displayed within all shops and online, self-limits and time-delays on machines, and behaviour logs and self-exclusion schemes offered. Staff in betting shops are also fully trained to recognise and deal with problem gambling behaviour.

7.4 It should be noted however that the availability of unregulated offshore betting and gaming websites does present a loophole for potential problem gamblers. For the Act to have significant impact upon problem gambling, it needs to find a way to compel such operators to comply with key areas of regulation before being able to interact with a UK-based consumer.

June 2011

Written evidence submitted by Talarius Ltd

Talarius is the United Kingdom’s largest operator of Adult Gaming Centres (AGCs). Through its brands Quicksilver, Silvers and Winners, it owns 170 venues and has 900+ staff in permanent employment. The company is a wholly owned subsidiary of the Tatts Group, one of the largest gaming companies in Australia, and is listed on the Australian Stock Exchange, where our business includes monitoring machines & collecting revenue on behalf of the Australian Government.

Like most operators in the industry, Talarius was expecting the impact of the 2005 Gambling Act to reflect the liberalisation objectives of the Budd report. However, a misunderstanding of the industry led to compromise and complexity, and created many grey areas that produced blatant disregard for the spirit of the Act. With the regulatory regime split between numerous Local Authorities and the Gambling Commission, the enforcement has also been piecemeal and very inconsistent.

The biggest problem created by the Act for Talarius, however, is the inconsistency and diverse nature of what differing sectors are allowed to offer as products to the consumer, specifically between AGC’s, Bookmakers and Bingo Clubs. We urge as part of this review that regulation is also proportionate to risk.
**Our Response to Specific Questions.**

1. How effective the Act has been in its core objectives to:

   - ensure that gambling is maintained crime-free and conducted in an open and fair manner;
     
   - The landscape does not significantly differ from the position prior to the act probably reflecting the low risk in existence.

   - Money laundering conditions need to be proportionate to risk, low stakes and prizes in our sector do not represent any risk and yet we are held to the same process as much higher risk sectors.

   - protect children and vulnerable people from the adverse effects of gambling;
     
   - The LCCP and relevant sector wide policies and procedures have we believe effectively delivered on this objective; the quality and level of compliance across the industry require regulation proportionate to risk.

   - update the legislative framework with regards to online gambling;
     
   - The Gambling Act has done little to promote the UK as a location to host and operate online gaming from, mainly due to the taxation levels compared with offshore locations.

   - EU legislation outlines that there should be free passage of trade and goods. However, many jurisdictions in Europe are imposing barriers to this principle either through stringent requirements relating to local licensing coupled with excessively high fees or hosting of servers within the jurisdiction boundaries. In either instance the primary driver appears to be protection of internal jurisdiction monopolies and thereby taxation (usually lottery and extended lottery operations) rather than player protection. Ironically it is the player protection exclusions that allow jurisdictions to impose such barriers to offshore operations.

   - The UK currently extends ‘white list’ status to a number of offshore EU jurisdictions and a few non EU jurisdictions. In all cases the UK government effectively endorses the controls the offshore regulator imposes with regards to player protection and it would seem that considerations given to imposing barriers would be to follow other EU Jurisdictions in the process of going against the EU principles of free trade.

   - From a commercial perspective the decision of whether to apply for a license in the UK or shut down the business would be reliant upon the taxation which is currently too high for most small to medium online businesses. Paradoxically imposition of barriers in the UK would only prompt other jurisdictions to further impose barriers and thus constrain UK based online businesses from expansion through Europe and beyond.

   - We see UK licensing as detrimental to the UK’s online gaming growth. There is also no increased benefit to player protection than that which is already in place via white list status from Malta, Alderney or Gibraltar for example.

   - Non-white list should not be able to advertise in the UK however we don’t think that this is rigorously enforced in order to protect the UK from non regulated operators. In our view (a) advertisers to the UK should be regulated either by the UK or white listed jurisdictions and that (b) operators advertising in the UK outside of the regulatory framework of the UK or White List locations should be penalised. I do not think that operating a UK only licensing regime and thereby scrapping the benefits of white listed jurisdictions brings any other benefits than tax based benefits to the exchequer and in fact is contradictory to EU legislation on passage of goods and trade amongst EU countries.

2. The financial impact of the Act on the UK gambling industry

   The Adult Gaming Centre sector has been significantly affected by the introduction of the Gambling Act 2005. Combined with the effects of the Smoking ban and the credit crunch we have seen a downturn in Talariaus revenues in access of 30% since 2006, causing over 50 venues to close and 200 jobs to be lost.

   The following Table shows the financial impacts on revenues from 2001 to 2011. Whilst the trend has stabilised we have not seen any real sustainable growth in the Market.
We have also been heavily impacted by increased costs directly due to regulation post implementation of the Act.

- **Premises license Costs:**
  - Permit costs per annum in 2006 were £18,700 on a like for like basis.
  - License costs in 2010 £224,475. This equates to a 12 fold increase in premises license costs pre/post Act.

- **Operating License Costs/ Personal License Costs:**
  - Gambling Commission Operating License fees post act £81,125, pre-act Nil.
  - PML Costs £440 per year over six license holders, pre-act Nil.
  - Gambling Commission are steering us to self regulate the Think 21 policy, this is a current cost of £17k per year.

- The requirement for internal extra administrative costs for compliance and License management has resulted in an increase in one full time position.

- The lack of a triennial review post-A ct has also resulted in operators soaking up more cost due to A MLD/VAT and inflation increases that we are unable to pass on to the consumer.

- Whilst we are happy to contribute into research and education through the Great Foundation through the voluntary contribution we are concerned that the industry will have to pick up the shortfall due to funding cuts at the Gambling Commission (we currently contribute £50,000 to the Great Foundation).

- **Parity for all Adult premises:**
  - Currently Adult Gaming Centre premises are allowed 4 Category B3 machines per individual license premises while bingo premises are allowed eight Category B3 machines. Local betting shops are also permitted Category B2 machines. The maximum stake in an AGC is currently £1 and up to £10 on a B2 machine.

  - All these sectors and premises have the same Adult only market and yet our sector is not able to offer the same or quantity product. This has created a very unfair competitive environment within the gambling industry. While the current B3 machine review will bring a couple of the offers in each sector closer together it will not resolve the issue. This has resulted in a significant migration of revenue moving into the LBO sector creating a proliferation of sites and machine numbers. The majority of these sales increases are at the cost of our sector and this is evident from the latest Industry Statistics that show B2 revenue at £1.288 billion.

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<tr>
<th>Gross Profit from gaming Machines in 2008–09</th>
<th>% Market Share</th>
<th>Gross Profit from gaming Machines in 2009–10</th>
<th>% Market Share</th>
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<tbody>
<tr>
<td>AGC’s</td>
<td>£397.4 Million</td>
<td>20.25%</td>
<td>£384.0 Million</td>
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<tr>
<td>LBO</td>
<td>£1,138 Million</td>
<td>58.00%</td>
<td>£1,288 Million</td>
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The Local Authority fee structure needs to be standardised, they currently work to a scale of charges that can vary from £350 to £2,000 per new premises licence application dependant on how much each individual LA wish to charge, and again the annual fee can vary between £350 to £1,000, a fair number of LAs automatically charge the maximum allowed without what we see as justification (£2,000). When changing a premises licence some also charge the same fees for a new licence and then charge the annual fee's again if they insist on surrender and re issue rather than a variation (no refunds given) in most cases this nearly doubles the impact and they receive fees up to double what is in the act as one year’s fee. Also under the 2005 Act we as an operator must pay the annual fee by 1 September each year, some LAs then raise invoices after we have sent payment and then chase us as an operator for the payments they have already received, which wastes our time as well as the LAs. This area urgently needs review.

Triennial Review:

The triennial review was well established pre Gambling Act 2005 and created the opportunity and investment required to support manufacturing R&D, produce innovative product and allow operators to plan investment and cover tax and inflation costs. This needs to be reintroduced as a priority, the piecemeal and protracted machine category reviews post Gambling Act implementation does not work.

Whilst we understand the scope of this Committee’s review, we would also like to comment on taxation issues, and that our industry has faced increases (via VAT and AMLD). Until the ongoing Machines Gaming Duty process is complete we also do not have the confidence that the target of neutrality will be achieved and fair. We believe we will end up with a larger tax bill.

3. The effectiveness of the Gambling Commission since its establishment, and whether it represents good value for money

We feel the Commission spent the first year bedding in and the second trying to advise and sort out issues created by the Act itself. With the amalgamation of the National Lottery Commission we should see some cost benefits coming through, but currently we do not consider it represents good value for money:

Processes are very bureaucratic; an example would be in completing documentation at some 20 odd pages to acquire a business when we have already been fully vetted at operator and PML (Personal Management Licence) holder level.

Twin approach of regulation with Local Authorities is not working, they are either confused as to their role, or do not understand the Act. Gambling Commission attempts to produce numerous warnings and guidance notes that are not resolving the issues, including those on primary purpose, as well as split premises that many companies still exploit. We deal with 107 LAs and none have the same interpretation of the rules.

4. The impact of the proliferation of off-shore online gambling operators on the UK gambling sector and what effect the Act has had on this

From a regulatory perspective those operators within the white list have no real differential. I.e they have the same requirement as UK based operators.

Operators outside the white list need to be brought into a standardised regulatory framework. We need a commercial environment that attracts operators to return, not use them as scapegoats for the current issues in the industry.

5. Why the Act has not resulted in any new licences for casinos or “super” casinos

We have no commentary or knowledge in this area

6. The effectiveness of the classification and regulation of gaming machines under the Act

DCMS has recently pledged to raise the maximum stake on B3 machines back to £2 from £1 (this is the level we had pre the Gambling Act), and allow a number equal to 20% of total machines sited. There is demand for more machines for our customers and we do not believe there is a negative impact on problem gambling as each player can only play on one machines at a time anyway.

We are concerned that we are losing customers to bookmakers who are able to offer far higher stake machines than AGCs, namely Fixed Odd Betting Terminals (FOBTs). We do not believe that the current landscape is a fair playing field for AGCs and hope that this is addressed by the Committee.

7. What impact the Act has had on levels of problem gambling

The Gambling Prevalence Study last published in February 2011 shows that levels of problem gambling in the AGC sector are very low. However, we are not convinced that the measures in the Act are responsible for this. We believe there are many areas in which deregulation would benefit our industry without posing a threat to levels of problem gambling.
Talarius would like to Request that the Committee supports and recommends the following measures:

Fair regulation that clamps down on less reputable operators across the gaming sector but that does not harm well regulated and compliant firms.

AGCs should be given a level playing field to other gambling sectors, notably on regulations around category B machines. The maximum stake on B3 machines is being raised to £2 from £1, which is still a long way off the £100 stake that high street bookmakers can take on B2 machines.

The Gambling Commission and Local Authorities must take more action against firms who do not comply with regulations such as the numbers of permitted machines, rather than issue unenforced warnings. There should also be nationally applied consistent standards of enforcement, rather than policies applied inconsistently across different local authorities.

Triennial review process should be re-introduced urgently to stimulate product development & investment and allow operators to pass on tax and cost inflations.

Full review of the Gambling Commission post amalgamation to produce value for money.

The marketplace must be economically competitive but, at present, there are too many barriers to leading operators being able to have a viable and successful business model.

We welcome the review and look to a more robust and affective result than last time around.

June 2011

Written evidence submitted by the Gambling Commission

Summary

— From a regulatory perspective, the Gambling Act 2005 (the Act) provides a set of tools that are broadly fit for the purpose of regulating gambling, although it can be improved in places, notably in relation to remote gambling. The system of shared regulation, with a single national regulator (the Commission) and very many local regulators (Licensing Authorities and Boards) is still not fully understood or supported and therefore presents a challenge to the Commission and local regulators to make it work effectively.

— The flexibility of the Act offers considerable scope to the Government of the day to determine the approach to regulating gambling in Great Britain. Secondary and tertiary legislation can be used as well as the primary Act to support a wide range of strategic policy objectives.

— The regulation of gambling is improving over time. This is partly a result of the embedding of the Act, learning and improvements by the Commission and industry and partly the nature of the regime which allows a broad range of regulatory responses.

— The Commission takes a risk based approach to regulation, in line with principles set out in the Hampton Report60. We keep our approach under review to spot and mitigate emerging risks to the licensing objectives while keeping regulatory burdens to a minimum.

— While the Commission has a significantly broader remit than its predecessor,61 its operating costs are closely comparable. The Commission is wholly funded through fees paid by the industry. Pressures on costs are rising as a result of the increasing volume and complexity of regulatory issues and cases.

— Recent research shows that the rate of gambling participation has increased in recent years and problem gambling has probably also increased. A better understanding is needed of ways in which harm from problem gambling62 could be minimised.

— The Responsible Gambling Strategy Board (RGSB), with input from the expert panels, should prove to be an effective way of obtaining the necessary advice on research, education and treatment (RET) for the Commission and government. At this stage, the voluntary arrangements are not working in practice as well as we would have hoped.

Introduction

1. The Gambling Commission (the Commission) is the national regulator for all forms of commercial gambling in Great Britain except for spread betting and the National Lottery. Funded by licence fees, the Commission is an independent non-departmental public body sponsored by the Department for Culture, Media and Sport (DCMS). It is also a prosecuting authority, is the money laundering supervisory body for the casino sector and has a statutory duty to advise central and local government about gambling and its regulation.

60 Reducing administrative burdens: effective inspection and enforcement, report by Philip Hampton, March 2005.
61 Gaming Board for Great Britain (GBGB).
62 Broadly defined as gambling behaviour which results in adverse consequences for gamblers and their families (e.g. financial hardship, breakdown of relationships etc).
2. The Commission operates under the three licensing objectives prescribed by the Gambling Act 2005 (the Act): to keep gambling crime free, fair and open and to protect children and other vulnerable people from associated harm. The Commission has an overriding obligation to pursue and have regard to the objectives, and to permit gambling so far as it thinks is reasonably consistent with them. General "sponsorship" of the industry is not part of our role, but clearly we do take into account economic impact when considering the proportionality of regulation.

3. A risk-based regulator, the Commission licenses operators and individuals and ensures compliance with the Act and with the licence conditions and codes of practice (LCCP),

4. The Act introduced a new licensing regime for commercial gambling, which brought casinos, bingo, betting, arcades, lotteries and remote gambling into a unified regime.

5. The Commission first published its statement of principles for licensing and regulation in 2006. Pursuit of the licensing objectives is integral to the new regime, which in turn means that they should be integrated into operators’ policies and procedures.

6. The Act created a system of joint regulation between the Commission and licensing authorities (LAs). As such, it was never foreseen that the Commission would take a role in compliance and enforcement issues of a local nature and indeed was not resourced on that basis. We provide technical support and expertise to LAs, local police and other organisations, while concentrating our own regulatory effort at a regional and national level.

7. While the Act seeks to accommodate commercial and technological changes, there are some limitations in the current legislation. Remote gambling is one example. Another example, where our concerns are shared by stakeholders in Scotland including COSLA and SOLAR, is the different licensing authority in the current legislation. Remote gambling is one example. Another example, where our concerns are shared by local police and other organisations, while concentrating our own regulatory effort at a regional and national level.

8. Equally, the Commission considers that there may be scope for further deregulation in some areas. The nature of the Act is that much detail is not contained in primary legislation and there may also be scope for changing the balance currently enshrined in secondary legislation. One area where the Act does specify detailed rules is in relation to small lotteries where it arguably imposes burdensome requirements on small lotteries that make it harder for small charitable enterprises to use lotteries to raise funds for "good causes".

9. The Commission's regulatory approach focuses on outcomes in relation to the licensing objectives. We avoid prescriptive detail—although we find that our requirements are sometimes "translated" into more detailed requirements than intended. We keep our approach under review as our knowledge and expertise and that of operators and our regulatory partners increases. This enables us to improve our effectiveness and to reduce, wherever possible, the regulatory burden on the industry. This is illustrated, for example, in our recent review of the casino games trial approval process.

10. The Commission has a range of regulatory tools; we tailor their use for maximum impact given our finite resources. Our regulatory powers are used to stop, disrupt and deter non-compliant behaviour: we give advice, we issue formal warnings, financial penalties are used where licence conditions have been breached and, where we have serious concerns about suitability, we suspend or revoke operating and personal licences. Where necessary we prosecute.

11. We have invested considerable effort to ensure an understanding of and compliance with the new Act. We have provided advice and guidance, visited and talked with operators, built strong relationships with trade associations, faith groups and we have collaborated with other regulators and law enforcement bodies. This investment is paying off with the overwhelming majority of licensed operators compliant and understanding the requirements of the Act so that we can increasingly target our resources towards high impact operators and issues, including illegal gambling provision, ie those of regional or national importance.

12. While the licensing objectives are increasingly well embedded in the regulated industry, there can be a gap between policies and practice and it is a key part of the Commission’s role to identify such gaps and to work with the industry to address them. For example, in 2009 the Commission tested the age verification
procedures in a sample of betting shops run by the largest operators and initially found a 98% failure rate. We called on the industry to implement immediate remedial measures. Critically, the larger operators also put in place their own arrangements to check the effectiveness of their training in this area. Subsequent retesting showed a great improvement in the proportion of shop staff correctly challenging and refusing service to an under age person.67

13. Another area of risk is the integrity of sports betting. We have established a Sports Betting Intelligence Unit, which collects information and acts as a hub for intelligence about potentially corrupt betting activity involving sport within Great Britain and abroad. About 200 betting integrity issues have been referred to the Commission since September 2007. Working with the police and sports governing bodies our aim is to stop, disrupt and deter betting corruption.

14. Recognising the importance of all partners working together to tackle issues concerning sports betting integrity, we have worked closely with sports governing bodies, the betting industry and other enforcement bodies to ensure that the necessary components of an effective strategy are established. These include sports having rules, education and sanctions in place to take swift action, betting operators making it hard for corruptors to profit (through the implementation of mechanisms to spot them, report them and withhold pay-outs), the Sports Betting Intelligence Unit managing the intelligence generated and the Commission taking enforcement action where appropriate. This is underpinned by information sharing. While domestically this is largely in place, further work is needed internationally to ensure successful cross-jurisdictional working. In addition, the Parry report68 identified a role for Government in reviewing the powers contained in the Act.

FEES AND COSTS

15. The Commission’s initial five year financial plan was for application fees and annual fees to recover the Commission costs over that period, so that fees could be held broadly constant in real terms. We expect changes to the fee structure to reflect the planned shift of emphasis away from smaller operators— as we come to the end of the initial period of education and capacity building— and more towards managing regulatory risks and issues of more national significance.

16. In 2003–04 the Gaming Board employed 75 people and regulated 850 venues with a gross gaming yield (GGY)69 of £3 billion (at a cost of £4.1 million (of which £1.9 million was paid by the industry). In 2010–1170 the Commission had 203 employees, regulated 12,000 venues with a GGY of £8.4 billion71 at a cost of around £13 million.72 Including the GGY of UK consumers using overseas sites (on which the Commission still has to advise the government and monitor their impact) the cost of the Commission as a proportion of GGY is around 0.15%. This compares to the Gaming Board (around 0.14%).

17. While we consider that the costs recovered from industry are soundly based, we continue to work on ways to improve our efficiency. We have streamlined and improved our working practices. This has enabled us to reduce our costs whilst increasing our capacity to provide advice on issues, such as the implications of changes to the regulation of remote gambling, and changes to stakes and prizes.

18. We have reduced operating costs by around £1.9m over the course of the last two fiscal years. In future, we expect costs to remain at a similar level but our expenditure profile will change. As our work becomes even more focussed on higher impact issues and operators, we expect to need to use more specialised staff and resources and the costs of prosecutions or complex regulatory cases are likely to remain a significant upward pressure.

REMOTE GAMBLING REGULATION

19. The Gambling Act restricted the advertising of remote gambling in Great Britain to those operators licensed by the Commission or by other EEA States, Gibraltar or jurisdictions on the government’s ‘white-list’. Only those operators with remote gambling equipment in Great Britain can be licensed by the Commission. Operators wishing to target the UK market may therefore choose instead to be regulated in one of the fiscally more attractive jurisdictions.

20. Since 2007, a number of large remote betting operators have decided to relocate some or all of their business offshore. The size of the remote market regulated by the Commission has reduced from around £890 million to around £630 million.73 The majority of those now licensed by the Commission are small to medium in size, with the vast majority of UK customers’ online gambling provided by operators regulated overseas.

67 In retesting, a person under 18 years of age was prevented from placing a bet at the counter in 65% of the 160 shops visited. Media release: www.gamblingcommission.gov.uk/gm-medialatest_news2009/mystery_shopping_par2.aspx
69 GGY is calculated by subtracting customer winnings from customer stakes.
70 As at 31 March 2011.
71 remote gambling facilities not regulated by the Commission but on which we retain the duty to advise— some studies suggest that Great Britain has the largest consumer market in Europe for remote gambling (eg H2 Gambling Capital 2008) with GGY of over €1.9 billion.
72 Our total income from fees and other sources was £13.3 million in 2010–11, of which £481,000 was received from DCMS as grant in aid to support our research programmes. This funding will not be available from 2011–12 and is excluded from the calculation to enable comparison with GBGB costs.
73 As at March 2010.
21. The Commission assisted the DCMS with its review of remote gambling regulation and its subsequent consultations on the proposal to move from the current “point of supply” basis to “point of consumption” in line with other countries which now regulate remote gambling. These proposals to extend Commission licensing to cover those who target British consumers were designed to address the weaknesses identified which include:

- operators in Britain (both remote and non-remote) being undercut by their overseas counterparts facing less stringent regulatory and fiscal requirements;
- while many overseas operators comply, those responsible for the majority of UK customer online gambling activity are not directly subject to the Commission’s regulatory requirements; cannot be compelled to make suspicious activity reports to British anti-money laundering authorities; to report suspect betting activity directly to the Commission (or relevant sport governing body) even where that activity involves British sport or British consumers; or to provide data on gambling provision; or to contribute to research, education and treatment of problem gambling in Great Britain;
- consumers’ confusion about which regulator can help them—approximately 45% of calls to the Commission’s contact centre about remote gambling are customers seeking to complain about operators licensed overseas; and
- it is increasingly difficult for the Commission to advise government on remote gambling owing to the limited information on a significant proportion of the market and reduced licence fee income to finance, for example, age verification test purchasing.

GAMING MACHINES

22. The Act introduced a new regime for gaming machines, including a new definition of gaming machine together with powers to prescribe categories. Although the new framework has made it simpler to accommodate new product developments within the regulatory framework, its focus on controls built into the machine— for example, stake and prize limits and technical standards— has arguably worked against innovation in the industry. In addition, the approach to regulation of machine numbers—with strict limits on the number that can be made available in different types of premises, but no overall limit in the community—has led to some unintended outcomes—for example, the creation of “split premises”, or artificial conversions to different types of premises with greater machine entitlements.

23. The Commission has managed some of the issues that have arisen as a result by, for example, providing guidance to LAs on premises splitting and “primary gambling activity” and introducing a licence condition to ensure that the activities taking place reflect the nature of the licence held.

24. In the longer term, however, it is an area of law and policy that may need to be reconsidered. The Commission has been encouraging the industry to consider the future of machines regulation. In particular, there may be scope to consider whether it may be possible to harness technology to move from a system of blanket controls built into the product (for example restrictions on stakes and prizes) to one in which the player is encouraged and enabled to take control of his or her play (for example through feedback of information about time and money spent), and where player data might be used to tailor interventions around individual players. There is potential to deliver both improved regulation and protection for the vulnerable and freedom for the industry to innovate.

25. In the meantime, the Act does provide sufficient flexibility to manage issues within the framework as they arise. For example the Commission worked with the industry and HMRC to develop advice and characteristics to help the industry stay the right side of the regulatory boundary between skill with prizes machines (not regulated) and skill and chance combined machines (regulated). We are able to use tertiary legislation to provide detailed management of the framework, as exemplified in our recent consultation on changes to the category C technical standards based on proposals from BACTA.

PROBLEM GAMBLING

26. The issue of problem gambling is central to the delivery of the third licensing objective. A small proportion of gamblers and their families are harmed by their gambling behaviour. The risk and impact of problem gambling is managed through a combination of prevention (which may take a variety of forms, including education and information, intervention by gambling providers, regulation etc) and treatment, although research on what is effective is currently very limited. For these reasons, the Commission has embedded a series of outcome based requirements in its social responsibility codes. With evidence from research and experience, the Commission expects to develop further best practice advice.

27. In 2007 the Commission published its first British Gambling Prevalence Survey (BGPS), which mirrored a similar study carried out in 1999. The survey collected baseline data on gambling behaviour in Britain before the introduction of the Gambling Act in September 2007. We repeated the survey in 2009–10 and published the results in February 2011 providing comparable results and trends in gambling participation and the rates of problem gambling.

28. The BGPS 2010 showed that there had been an increase in overall gambling participation with 73% of the population gambling in 2010 compared with 68% in 2007. Further exploration of the data shows that the number of frequent gamblers has also increased over that period, although it has not been possible to determine whether there has been an increase in the rate of problem gambling among this group.

29. The problem gambling measures29 in the 2010 survey showed an increase in the rate of problem gambling in Britain, though the independent authors noted that it is not possible to say whether this represents an upward trend or a temporary fluctuation. The rates observed are similar to those in other European countries where this has been measured (Germany, Norway and Switzerland) and are lower than countries including the USA, Australia and South Africa.

30. The Commission is focused on improving our understanding of the reasons for the apparent correlation between problem gambling and regular gambling on a number of activities.

**Research, Education and Treatment (RET)**

31. Following our Review of Research, Education and Treatment (RET)76, we established the Responsible Gambling Strategy Board77 (RGSB) in late 2008 with Baroness Julia Neuberger as chair. This was to ensure the Commission and through us, DCMS, had expert, authoritative advice on the RET elements of a national responsible gambling strategy.

32. As part of the agreement with government to continue to rely on voluntary fundraising and not to impose a levy78 to raise money for RET, the Responsibility in Gambling Trust (RIGT) accepted the Review’s recommendations for improving the credibility and effectiveness of the research, education and treatment programmes. It separated its fundraising and distribution functions.

33. Under the new tripartite system The GREaT Foundation committed itself to raising funds of at least £5 million per annum with a target of over £18 million in the first three years from 2009–10 and the Responsible Gambling Fund (RGF) set out to distribute the RET funds raised by GREaT in line with the strategy recommended by RGSB. Also to avoid duplication and reduce costs the RGSB, a non executive advisory body funded by the Commission,79 and RGF agreed to share a secretariat and the use of expert research, education and treatment panels.

34. The three year voluntary fundraising targets and underwriting commitments were to be reviewed and agreed annually following consultation. This has not however happened and the three year agreement between GREaT and RGF ends in March 2012. To date, GREaT has met its £5m minimum commitments but has not reached the targeted amounts. Uncertainty over future funding hampers the RGF’s ability to implement the strategy recommended by RGSB, in particular its ability to award three year rolling contracts for services or to commission larger research projects.

35. While the tripartite system has secured some real advances, notably in the improved identification and treatment of those at risk of gambling related harm, there are concerns about cost of overheads and about delays in implementing the strategy. This may be caused in part by uncertainty over future but also by some resistance to the move to seeking better value for money in exchange for industry funding. These concerns are being addressed by GREaT and RGF.

July 2011

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**Written evidence submitted by bwin.party Digital Entertainment Plc**

**Introduction**

1. This paper constitutes the submission of bwin.party digital entertainment plc (“bwin.party”) in response to the call for evidence by the Culture, Media and Sport Select Committee regarding its new inquiry into gambling. We have sought to address certain issues regarding the scope of the inquiry as well as provide some context regarding the wider EU regulatory environment (Appendix 1). As one of Europe’s largest online gaming companies with operations in the UK, and elsewhere across Europe, bwin.party would welcome an opportunity to give oral evidence to the committee during the inquiry if the Committee would find this useful.

2. bwin.party was formed from the merger of bwin Interactive Entertainment AG and PartyGaming Plc in April 2011 to create the world’s largest listed online gaming company presently valued at £1.2 billion. We are a British business generating approximately 10% of our business in the UK and employing over 250 employees.

75. Problem gambling was measured using two screening instruments. These are the PGSI and the DSM IV. Problem gambling, measured as a percentage of adults shows that, with the DSM IV screen, prevalence of problem gambling was higher in 2010 (0.9%) than 2007 and 1999 (0.6% in both years). This finding was at the margins of statistical significance. The second tool, the PGSI screen, showed a lower level with around 0.7% of the adult population being affected in 2010 against 0.6% in 2007. This finding is not statistically significant.

76. www.gamblingcommission.gov.uk/research__consultations/consultations/closed_consultations_with RESP/ret_2.aspx

77. www.rgsb.org.uk

78. As provided for in s123 of the Act.

79. £250,000 per year.
here. We are listed on the London Stock Exchange and are subject to the same oversight as all other UK listed companies. Our main shareholders are Janus, Fidelity, M&G and Legal & General.

3. As an organisation we are committed to being a responsible gambling operator—having previously been awarded “Operator of the Year” and “Socially Responsible Operator of the Year” in the E-Gaming Awards; we are also certificated by GamCare for our responsible approach to gambling practice and are a member of the FTSE4Good Index series of companies as well as making a meaningful contribution to the GREAT Foundation.

What bwin.party does to: “ensure that gambling is maintained crime-free and conducted in an open and fair manner”

4. As a publicly listed company, bwin.party complies with a wide range of laws, rules, standards and regulations throughout various jurisdictions. These include, but are not limited to:
   - National gaming license requirements in Gibraltar, Italy, France, Alderney, Mexico and Argentina;
   - Self-Regulatory Frameworks, such as the CEN Workshop Agreement (“CWA”) 16259:2011 Responsible Remote Gambling Measures of the European Committee for Standardization, the standards of the European Gaming and Betting Association or the eCOGRA GAPs;
   - EU Data Protection and Privacy regulations;
   - EU Anti-Money-Laundering provisions;
   - Corporate Laws; and
   - IT Best Practices, such as COBIT.

5. To ensure compliance with the applicable requirements, we have established a set of internal controls for all relevant processes. When implementing controls, operational units are supported by our Compliance department and the Risk & Internal Control department to ensure that controls meet all applicable regulatory requirements, are effective and meet best practice. We are also subject to external reviews by independent organisations to ensure that we are meeting our requirements for industry best practice and stakeholder management.

6. The strength of our working practices is reviewed on a regular basis through a process of both internal and external audits. The Internal Audit department performs regular reviews of individual areas to test our regulatory compliance as well as the effectiveness of our policies in achieving their goals. In addition, we are also subject to numerous external audits throughout the year. In the past, such audits have been performed by renowned providers such as KPMG, eCOGRA, GoodCorporation and GLI, which provide comfort as to the quality and independence of the reviews. Results from these reviews are communicated to the relevant operational teams, senior management and the Group’s Audit and Ethics Committees that then take further action as appropriate. This combination of both internal and external reviews helps to ensure that any risk of non-compliance or failure can be addressed promptly and appropriately.

What bwin.party does to “protect children and vulnerable people”?

7. bwin.party is committed to understanding our customers, meeting their needs and ensuring that they can enjoy our games in a safe and secure environment. We aim to develop effective responsible gaming measures based on empirical evidence.

8. While regulation of online gaming at a national level is able to provide a degree of protection for consumers in that territory, the diversity of approach and the fact that in most countries no such regulations exist means that the levels of protection available to consumers can vary considerably depending upon which territory the player is based and subject to the quality of available tools, such as access to public databases.

9. For an international gaming operator like bwin.party, restricting ourselves solely to compliance with national regulations would therefore necessarily lead to an inconsistent approach. As a result, in addition to complying with our license obligations wherever they apply, we also employ a self-imposed layer of protection for consumers based on best practice self-regulation to complement national regulations. This is the reason why we have established a series of strong and long-standing relationships with a number of leading organisations whose aim is to ensure a high level of player protection for consumers.

10. The Children’s Charities’ Coalition on Internet Safety (CHIS) commented in their report “Briefing on the internet, e-commerce, children and young people” in November 2010. “Consideration should be given to establishing a licensing system similar to that which exists within the gambling industry” and “The fact that the gambling industry has been able to introduce successfully a system which keeps children off their sites proves that, at least so far as the sale of products and services rated 18 and above are concerned, scalable working solutions are available now.”

11. Having been one of the first online operators to be certificated by GamCare, the UK’s leading provider of information, advice, support and free counselling for the prevention and treatment of problem gambling, bwin.party continues to apply the high standards of self-regulation set by GamCare.

12. As a member of the European Gaming and Betting Association ("EGBA"), we also comply with more than 160 standards covering aspects of responsible gaming and good business practice, and the Generally Accepted Practices which are both audited annually by the e-Commerce and Online Gaming Regulation and Assurance ("eCOGRA"), a player protection and standards organisation that provides an international framework for best operational practice requirements, with particular emphasis on fair and responsible gambling. A study carried out by eCOGRA reveals that 67% of the consumer facing responsible gaming Standards implemented by the EGBA match or even exceed those applied by 10 of Europe's largest gambling monopolies.

13. We have also taken an active involvement in the recently published CEN Workshop Agreement on "Responsible Remote Gambling Measures" ("CWA"), the first Pan-European agreement which provides a high level of consumer protection for online players across the European Union. As a result of close cooperation between regulatory bodies, research institutes, healthcare providers and the industry, the European Committee for Standardisation initiated in 2010 an international stakeholder dialogue to develop standards for player protection on the internet. This workshop process over the course of several months resulted in the development of the "CWA 16259:2011". Responsible Remote Gambling Measures standard, which comprises 134 normative rules in nine categories:

1. The protection of vulnerable customers.
2. The prevention of underage gambling.
3. Combating fraudulent and criminal behaviour.
4. Protection of customer privacy and safeguarding of information.
5. Prompt and accurate customer payments.
6. Fair gaming.
7. Responsible marketing.
8. Commitment to customer satisfaction and support.
9. Secure, safe and reliable operating environment.

We plan to become certified according to CWA 16259 during summer 2011.

14. These standards have been praised by a number of commentators including UK MEP Malcolm Harbour, Chairman of the European Parliament's consumer protection committee. On publication of the CWA, he commented: "These new European voluntary standards will provide greater protection for online gamblers, and help control underage participation. With a Commission green paper and a European Parliament report forthcoming in this area, it is an encouraging sign that the European industry has shown a willingness to self-regulate in order to create a safer environment for gaming across the Single Market."

15. As a pioneer of addiction-related research, the Division on Addictions ("DOA"), Cambridge Health Alliance, a Harvard Medical School teaching affiliate, entered into cooperation with bwin during 2005. This cooperation, in part, focuses on examining actual gaming behaviour in sports betting, casino, poker and other online games. The scientific analysis and results of the studies have brought about a paradigm shift in addiction research. The unique character of these studies is described by Howard J. Shaffer, Ph.D., Associate Professor, Harvard Medical School, Director, Division on Addictions, The Cambridge Health Alliance, a teaching affiliate of Harvard Medical School, as follows, "For the first time ever the studies conducted in cooperation with bwin use the accurate records from computer-based internet gaming to study actual gaming rather than what people remembered or were willing to say."

bwin.party is continuing this successful collaboration. An ongoing goal is to create a scientific evidence base for the development of a safe and entertaining gaming environment.

16. The collaborative research carried out by the DOA has provided seminal scientific results, which have been published in peer-reviewed international scientific journals:

- Online gaming is used by the majority of players in moderation and in a responsible manner.
- The risk potential is therefore similar to offline gaming. There is no evidence, to date, to support the contention that online gaming is an especially powerful enticer, in line with the findings of the UK prevalence studies.
- The first markers for the early recognition of problem gambling are available. Although a high intensity of gaming by itself is no indicator for an increased risk, a combination of high intensity and high variability of gaming is a predictor for future gambling-related problems.
- A number of Responsible Gaming measures are proven to be effective, and are therefore a significant factor in the prevention of gaming addiction.

17. The continuing results of this research collaboration provide the international scientific community with an empirical evidence base that has long been lacking. A full data is open to further research via the Transparency Project.81 We also benefit from the cooperation with the DOA. It ensures that we can fulfil our vision of a "safe and entertaining gaming environment" on the basis of scientifically developed Responsible Gaming measures.

81 www.thetransparencyproject.org/
18. Although we provide gamers with broad variety of scientifically evaluated tools to help them maintain a controlled and responsible attitude towards gaming, in some cases gambling-related problems can occur. In these cases bwin.party provides players with the facility to self-exclude in order to prevent harm to the player. Such self-exclusion can be for a relatively short period or for six months.

19. However, the complexities of pathological gambling behaviour means that some players need specialist assistance that we cannot provide. Therefore we maintain an international network of collaborations with renowned national and international healthcare providers. Contact addresses to counseling services in the player's own mother tongue are available on the Responsible Gaming website or by direct contact to Customer Services.

20. Not all operators employ all of these protections. Risks to consumer protection are perhaps most acute in unregulated or "black markets" that tend to be populated by many private entities with opaque ownership structures. Regulated markets that fail to present an attractive proposition to the consumer can be expected to result in consumers being driven to underground sites that are able to offer more attractive terms but which fail to offer the same levels of protection offered by regulated operators.

21. It is virtually impossible to restrict consumer access to the internet and if people want to gamble online then they will always be able to find a site based somewhere in the world that will take their money. By prohibiting gambling or by creating an overly burdensome regulated framework, you exclude the licensed and well-regulated sites from accepting customers and effectively drive the activity underground.

22. The black market exists. In Italy, regulators noted that when online poker was regulated in 2009, the market was instantly worth over €2 billion. This is because the market was already there. When the US outlawed online gaming in October 2006, we led the legitimate sector by exiting that market immediately. However, others did not switch off and they filled the void we left. Consequently, in the subsequent years, the market grew but with illicit operators filling the vacuum left by the regulated operators. The market is now worth €16 billion.

23. Similarly, a recent study of the French Market found that an estimated 57% of the total online gaming activity was taking place with illegal black market operators.92

Does the UK legislative framework need to be updated due to online gambling?

24. We firmly believe that the model adopted by the UK Government is delivering an excellent framework for consumers: they have access to a wide choice of operators at competitive prices and the levels of problem gambling as evidenced by the most recent prevalence study remain low. As a result, we believe that there is no need to amend the legislative framework. The UK already has a mature, well-established and well-regulated gambling market, one that represents an attractive model for other European countries as and when they open up their markets.

25. bwin.party is licensed and fully regulated in three Member States—Gibraltar (part of the United Kingdom), Italy and France. As a dependency of the UK, Gibraltar and the UK already enjoy a long, established relationship taking advantage of the working relationship between the regulators.

26. There is no doubt that overly burdensome regulation can damage the business of the regulated industry. Red tape increases costs for both our consumers and operators and impedes the ability of regulated operators to compete with those that choose not to comply with such obligations. Based on the experience gained from markets like France, it is clear that the pricing advantage gained by unregulated operators outweighs the perceived risk that may be associated with playing on an unregulated site.

27. As a business with strong ties to the UK, we want to be able to attract and retain high performing talent from around the world and seek to promote and develop a high performance culture where our employees are both engaged and well-rewarded. We can only do this with the help from our Government in the UK and the right business and regulatory environment in the UK and across Europe.

What impact the Act has had on levels of problem gambling

28. The British Gambling Prevalence Study 2010 ("BGPS") was published in February 2011. The study demonstrated that for the vast majority of consumers, gambling continues to be a popular and safe leisure activity. With regard to problem gambling, the study used two different methods to assess the rate among adults. The first suggested it is 0.7% and the second 0.9%. In 2007, both methods indicated a rate of around 0.6%.

29. The study showed that online gambling—in contrast to land based forms—has clearly become safer between the 2007 and the 2010 prevalence survey. In the 2007 survey they reported percentages of >7% of all online gamblers encountering problems, in 2007 this value went down to 3%.

30. The study also showed that 73% of adults gambled in the previous year (compared with 68% in 2007). Online gambling increased slightly from 6% to 7% of adults over the same period.

31. The Gambling Commission described the increases respectively as, “not statistically relevant” and “at the margins of statistical relevance”. The Commission has also stated that it is impossible to say whether these apparent increases are “an upward trend or a temporary fluctuation”.

32. It is worth noting that even at the marginally higher levels indicated, the rate in Britain is still lower than many other jurisdictions around the world.

33. The authors of the Study have made clear that while the results show what gambling products problem gamblers use, they do not show that anyone product causes someone to become a problem gambler. Both the BGPS 2010 and other recent research show that the only reliable factor that can help to predict problem gambling is the intensity of an individual’s involvement in gambling and that problem gamblers typically use a wide range of gambling products both on-line and offline.

34. The welfare of customers is of fundamental importance for bwin.party and the wider, regulated online gambling industry. We will continue our efforts in conjunction with the UK Government, regulators and experts in the field to determine how to minimise the number of people encountering difficulties. By working with the Government and key stakeholders such as the Gambling Commission, the GREaT Foundation, The Responsible Gambling Strategy Board, Gamcare and the National Problem Gambling Clinic, we will remain active in addressing these issues.

Conclusion

35. An increasing number of adults will and do gamble online. They enjoy it and are seeking to do more of it. The only way to protect consumers is to give them the opportunity to use the best and safest sites. All other things being equal, consumers will always choose regulated competitors over the black market because of our reputation for allowing consumers to gamble safely and fairly. Equally, by remaining outside the regulatory net, black market sites are able to offer significantly more attractive returns to players creating an unlevel playing field: money talks and consumers will inevitably be drawn towards those higher returns offered by illegitimate operators.

36. In the UK, we have a system that already works—one that is tried and tested. We need the UK Government’s support in London and Brussels to ensure that the British online gaming industry remains at the forefront of e-commerce as we work towards a responsible, secure and reliable framework for online gaming throughout Europe, providing consumers with a range of entertaining games that they know they can bet on safely.

37. bwin.party would like to urge the UK Government to continue to support the existing regime which has already proven itself to be a robust regulatory framework, ensuring that customers are able to continue to enjoy a safe and fair online gambling environment and not be pushed towards sites with no assured consumer protection measures or where consumers have no legal rights.

June 2011

APPENDIX 1

THE EU REGULATORY ENVIRONMENT

1. The EU online gambling regulatory environment is uneven and complex, creating a challenging environment for bwin.party as well as consumers.

2. The exclusion of gambling from the Services Directive in 2006 gave Member States the freedom to set their own gambling regulation as long as the measures that they use are necessary, consistent, proportionate, and non-discriminatory—and not simply as a means of protecting government revenues, which as a motivation is expressly unlawful under EU law.

3. Some Member States use a monopoly system to provide gambling services to their citizens. We doubt that in barring well-regulated, licensed and socially responsible EU operators with the most advanced fraud-detection, anti-money laundering and player protection systems at their disposal from accessing some domestic markets—while simultaneously allowing their own national monopoly to market similar online gambling products—consumer protection is in fact the primary motive driving Government policy.

4. There is no evidence that state monopolies are better-placed to protect the consumer than a well-regulated EU-licensed operator—in a study carried out for the EGBA, it was shown that on average, 66% of the EGBA’s members’ responsible gaming practices were either on a par or more robust than those implemented by member state lotteries.

5. Consumer protection is the most commonly cited reason given for restricting access to markets. Therefore, it is vital that there is sufficient evidence to support this position—so far there is none.

6. A number of Member States are beginning to regulate—in 2010 France opened up its market to online gaming, albeit with tight restrictions and in Denmark the process is well under way with the gaming acts having been passed a year ago. In 2011 we are looking at the possibility that Spain, Greece, Germany and the
Netherlands will move to become regulated markets. However, in the absence of any clear guidance from the EU it is likely that this will result in an even greater fragmentation of the EU internal market.

7. Policy makers must understand the reality of the market and focus their attention on ensuring a consistent approach, one that protects consumers. Governments should be making policy decisions based on evidence, not rhetoric and construct laws that achieve their objectives in a proportionate and consistent manner that is based upon market realities. We hope that the European Commission’s Green Paper on “On-line gambling in the Internal Market” and the European Parliament’s IMCO Own Initiative Report on online gambling in the EU will allow for a factual discussion at EU level and curb the costly fragmentation of the common market to ensure that consumers throughout the EU enjoy consistent and high standards of regulated, safe and high-quality products.

8. With a European online gambling market estimated at €9.08 billion in 2011, clarity regarding the parameters for a workable framework for online gambling from the European Commission, as it has done for other inherently highly regulated sectors such as telecoms or pharmaceuticals, would help Member States to avoid costly mistakes and ensure that this vibrant segment of eCommerce is managed appropriately in a way that protects consumers whilst fostering economic growth.

9. A failure to do so will only increase market fragmentation and result in the duplication of national requirements. A study conducted in 2010 by Price Waterhouse Coopers showed that, for France alone, the administrative and technical costs for obtaining and maintaining the national license to operate on the French market are €8.7 million for a single EU operator, already licensed in one or several other Member States. National licensing regimes imposing such burdens on the service providers only benefit non-EU licensed black market operators to the detriment of player protection.

10. bwin.party is committed to promoting integrity in sport and in the run up to 2012 it is vital that, together with Government, we allay any fears on issues surrounding sports integrity. Often there are inaccurate references to the involvement of regulated betting operators in betting scandals when in fact this is not the case. The regulated operators have a vested interest in ensuring that integrity is maintained—fears over corruption in sport will only serve to reduce betting volume and the potential revenue opportunity for betting operators.

11. The nature of the Internet means that we are able to a high level of protection for consumers and for sport. This is demonstrated by the Hoyzer affair in 2005 (a German football scandal involving a referee called Robert Hoyzer)—no online firms suffered during the Hoyzer affair in Germany because their systems and technology platforms are able to provide a perfect audit trail—as such the online channel is an unattractive route for those seeking to benefit from corruption in sport. It also allows operators to identify and act quickly upon any suspicious betting activity. By contrast, the German state offline lottery lost upwards of €20 million on the Hoyzer scandal.

12. We cooperate closely with ESSA (the European Sports and Security Association) to identify suspicious betting patterns and report them within the framework of the early warning system to the responsible sports associations. We also report any Suspicious Activity Reports to the relevant authority, in compliance with the EU Anti-Money Laundering Directive. As IOC President Rogge said in March “We have no issue with legal betting. Betting on sports events is as old as sport itself. Reputable betting firms are our allies in this effort.”

13. In France, since July 2010 and in contrast with other Member States, sports organisers have been extended a right over their sport events—or a sports rights’ levy. Already this has resulted in a smaller and less competitive betting market, with regulated operators being forced to offer less attractive odds as the implementation is rather complex and costly. Each licensed sports betting operator needs to negotiate the payable fee separately with each French sports event organiser while the regulator, A rejel’s approval must subsequently be obtained. In some cases, where no agreement has been reached, no or only few operators eventually offer bets on certain sports events. As a result, the offer becomes less competitive and attractive for consumers leading to them turning to the black market. This has the opposite intended consequence with the reduction in the income of sports event organisers, and jeopardizing fraud control since there are even less online sports betting operators to monitor the events particularly in less popular sports and sporting events.

14. A further unintended consequence is that many online gaming operators refrain from offering bets or reducing their offer on a number of sports focusing only on those sports events that generate most income, ie football and tennis. Operators focus on international events of certain sports such as NBA instead of the French Basketball League, reducing the visibility of and income of French events.

15. In addition, this right fails to address the illegal operators or syndicates that are often based in Asia, which have been linked with some of the well-publicised recent betting corruption scandals. This right encourages the consumer to seek out higher risk, unregulated sites with little or no consumer protection.

16. The introduction of this sports rights right also threatens the freedom of speech as it grants an exclusive right to specific sports stakeholders over information that is currently in the public domain; it is detrimental to less popular sports as they force betting operators to concentrate their investments and resources on the more popular sports with more business and pay-out potential such as premium tennis and football.

17. Finally, such a sports’ rights levy would arbitrarily and unfairly target the gambling industry. Despite rhetoric to the contrary, the online gaming industry does not threaten the funding of sport, it is in fact a major...
contributor to European sport—the licensed gambling industry contributes an estimated €3.4 billion per annum to sport alone with €2.1 billion contributed by private gambling companies. Governments, including the UK, must leave this legally complex area alone to ensure that the current balance between public and private interests continues to exist for the good of sport.

June 2011

Written evidence submitted by the National Casino Industry Forum (NCIF)

1. National Casino Industry Forum—Who We Are

1.1 The National Casino Industry Forum (NCIF) is the major trade body representing the land based casino industry. NCIF represents all the major operators in the UK and a number of smaller operators who together hold around 160 of the issued 186 casino licences. Additionally, NCIF membership includes gaming lawyers, academic institutions and specialist service providers.

2. Summary of Evidence

2.1 The Gambling Act 2005 ("the Act") severely damaged the land based casino industry. This has resulted in closures of casinos, job losses, reduction in capital expenditure, and an inability to attract tourists with a consequential cost to the Exchequer. NCIF has (through an Ernst & Young report appended A2) and continues to propose simple changes; achievable by Statutory Instruments that can reverse much of the unintended damage caused by the Act, (damage compounded by steep tax increases and the smoking ban). These changes also have the benefit of creating jobs, increasing capital expenditure, increasing revenue for the Exchequer and attracting tourists: all without any impact on problem gambling (appendix A1). These changes address:

- Harmonisation— one simple set of rules for all casinos.
- Modernisation— allowing technology legal outside casinos to be permitted inside casinos.
- Portability— allow Local Authorities to decide whether they want casino gaming.
- Restructuring— stake and prize mechanisms.

2.2 The Act has been successful in:

- Establishing a modern regulator.
- Maintaining a crime free and socially responsible industry

2.3 The Act has failed to:

- Provide consumers with a modern and relevant gambling environment.
- Allow the “bricks and mortar” casino industry to compete fairly both domestically and internationally.
- Recognise the casino industry as a core element of the mainstream leisure industry.
- Free the casino industry from unnecessary regulation.
- Establish the hierarchy of risk and control hard gambling on the high street.
- Generate a commercial environment that encourages investment.
- Provide a workable and effective legislative framework for on-line gaming.
- Develop a proportionate response to problem gambling.

3. The financial impact of the act on the UK gambling industry on land based casinos

3.1 The Act is a great disappointment to the membership of NCIF. It followed the highly regarded Budd Report (and subsequent Pre-legislative Scrutiny Committee Report) but the version of the Act which was passed has failed to produce a balance between social regulation and the commercial freedom necessary to allow the industry to be a vibrant contributor to the wider tourism and leisure sector.

3.2 The Act has had a negative financial impact on the casino industry. There is an imperfect relationship between the regulatory regime and entitlements across industry sectors. Casinos operate in the most highly regulated and controlled gambling environment, at the top of Budd’s “regulatory pyramid” and therefore intended as suitable venues for harder gambling, yet thousands more higher stake and prize machines can be found in less controlled environments. Further comment is made below on machine categorisation, but access to “casino games” is now widespread. For example, more than 8,500 licensed betting offices (LBO) and about 600 Adult Gaming Centres offer roulette and other casino games on the high street and the seafront. In LBO’s the maximum stake permitted on a B2 machine is £100 or fifty times more than the maximum permitted on a B1 machine in even a Mayfair casino. In June 2011 the Government introduced proposals under The Gambling Act 2005 (Gaming Machines in Adult Gaming Centres and Bingo Premises) Order 2011 & The Categories of Gaming Machine (Amendment) Regulations 2011, to substantially increase the number of category B3 machines in over 600 Adult Gaming centres and almost 500 bingo clubs, and at the same time proposed an increase of

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93 www.rga.eu.com/data/files/Pressrelease/sports_betting_web.pdf
the B3 stake to £2, the same stake found in the UK’s 140 or so casinos on B1 machines. This is inconsistent with the hierarchical policy philosophy proposed by Budd and intended to be an outcome of the Act.

3.3 The Act has prevented the land based casino industry from developing modern products that compete internationally, with the on-line sector or even across the wider UK sector. The Act is not flexible enough to deal with technological advancements in the industry and prevents the land based casino industry from entering a competitive market. It permits virtual roulette wheels and cards in betting shops but not in casinos!

3.4 The Budd Report based its recommendation for a fund to support work to limit the impact of problem gambling of “not less than £3 million for three years (from implementation of the Act in 2007) on the basis that the recommendations ‘...will provide the gambling industry with the opportunity to expand its operations, and consequently the potential to increase its turnover and profit.’ That hasn’t happened and yet the industry is expected to raise £6 million for the fund this year.”

3.5 The Act has failed to achieve a sensible balance between commercial freedom and social responsibility. While the money was provided and all the mechanisms required to protect the vulnerable, through research, education and treatment were codified and have come to fruition—most of which were already funded and in place before the Act came into force in September 2007—the commercial environment remains inflexible, unfair and incapable of the kind of revenue generation Budd anticipated when the protection safety net was described.

3.6 The so called experiment with 16 "New" casinos, ie to see how customers would respond to modernisation within casinos in terms of technology and availability of machines, has not yet begun. Even were it to do so immediately, the results would not be forthcoming for at least a further three to four years and would then be irrelevant to the industry as technology will have taken a further leap. From the outset the “experiment” was widely recognised simply as a transparent political expedient adopted to secure the passage of a piece of troubled legislation and is now being used as an excuse for inaction on modernising the industry.

3.7 In advance of the Act, investment in the industry was significant with operators investing in their estates and developing modern leisure venues, but 10 of the new 16 casino licences have been granted in existing Permitted Areas. Evidence from the Ernst and Young report (Appendix) is clear. Following the Act, investment collapsed. The Gambling Commission’s Industry Statistics 2009–10 (headcount) also confirms job losses.

3.8 We strongly believe that continuing any adherence to this “experiment” is manifestly unfair, deters investment and does nothing to encourage responsible gambling.

4. The effectiveness of the Gambling Commission since its establishment, and whether it represents good value for money

4.1 The membership of NCiF welcomed the establishment of the Gambling Commission. Members and the trade body have constructive dialogues with the regulator on a wide range of subjects and generally find the structures of the Commission effective. Perhaps because the casino sector was previously regulated (by the Gambling Commission and its predecessor, the Gaming Board for Great Britain) and had become used to paying a fee, we do not contest that fee levels are significantly unfair or wide of the mark. That said, the industry would support any measures, consistent with government policy, to reduce red tape and the cost of regulation.

4.2 NCiF is concerned about the amount of the Commission’s resources assigned to issues around responsible gambling. Two Prevalence Studies have not revealed any statistically significant change in the incidence of problem gambling despite the exponential increase in the availability of gambling since the Act passed into law. We challenge whether the issue is as deserving of the levels of attention and intellectual and financial resource by the Commission that it currently attracts.

4.3 Notwithstanding the very significant contribution the gambling industry makes to the British economy, support for the industry from the “sponsoring” government department can be best summarised as woeful indifference punctuated by reactive and ill informed statements on problem gambling. The political realities of life are not unseen or misunderstood by NCiF but the industry is frustrated that the Act’s objectives did not include any obligation—probably on the Commission—to encourage, promote or sponsor the licensed industry.

4.4 When the Bill was drafted the opportunity to include an obligation—perhaps in the following terms—was not taken.

“to protect the UK’s economic base and to foster a healthy business climate, one open to competition, innovation, and future growth” (from Nevada’s legislative philosophy).

The NAO’s Report of 2008 “Regulatory quality: How regulators are implementing the Hampton vision”? said “Regulators should recognise that a key element of their activity will be to allow, or even encourage, economic progress and only to intervene when there is a clear case for protection.” (NCiF emphasis) “The Commission should work to embed a more consistent recognition of the ways in which its actions can have an economic impact, and to improve the economic modelling of the likely impacts of regulations on the sector.”
NCiF believes that an entirely disproportionate emphasis and effort has been directed to responsible gambling. This is a cause of considerable frustration inasmuch as the industry would contend that (a) it was already conscious of its social responsibility and was working towards delivery without legislative compulsion; (b) that a healthy vibrant industry is better able to add substance to its social conscience than one which is struggling to compete; and (c) the protection mechanisms were to be counterbalances for economic benefits promised to the industry which have not materialised.

5. The impact of the proliferation of off-shore online gambling operators on the UK gambling sector and what effect the Act has had on this

5.1 The proliferation of online gambling in the UK is not in itself the problem. The on-shore industry is not so naïve as to believe that, unlike dozens of other business sectors, it could remain immune from evolution of the internet as a new trading dimension. The problems for the “bricks and mortar” industry are twofold: the inequality of commercial freedoms and the structure of pricing and taxation.

5.2 The on-line industry enjoys virtually unrestricted commercial freedoms: only the land based casino industry is restricted by government as to where it can do business (to 53 Permitted Areas defined in the late 60s), the products we can offer (20 machines per casino, regardless of size), the types of machine and the technical way they operate. It also limits profitability through controls on stakes and prizes and applies a tax rate that is amongst the highest in the world, while much of our competition is not subject to UK tax at all!

5.3 Increasingly technologically savvy, customers are enticed and driven into the online, off-shore environment by companies permitted access to the UK market where there is more choice, accessibility, the games offered are more advanced and low operating costs—including the cost of compliance—produce increased margins that allow generous incentives to be offered. The playing field is not just uneven, it’s precipitous.

5.4 The tax structure in the UK is punitive to land based casinos and is entirely unconnected with business pricing mechanisms. Casinos pay tax at between 15 and 50% (while the betting industry pays 15% and has a much lower cost base). Whilst the Treasury finds it a simple matter to increase the tax burden on the industry on an annual basis, DCMS, the “sponsoring department” for the Industry which has complete control of the pricing mechanism for gaming machines—through the control of stakes and prizes—has been woeful in failing to deliver even an inflation based increase in stakes and prizes for approaching six years!

5.5 Next year the Treasury proposes to move to a unified Machine Gaming Duty. It will have made this major change in a little over a year. However, no such agility is perceptible in the government controlled pricing mechanisms.

5.6 To compete, the industry tries to identify unique selling points that are difficult to replicate on-line. Operators have invested in larger, smarter, premises offering other leisure and dining experiences. These facilities are demanding of capital but they provide real jobs in the sector—often with low barriers to entry—creating employment for the less well qualified in the community.

6. Why the Act has not resulted in any new licences for casinos or “super” casinos

6.1 Before addressing this particular question in detail NCiF will comment more generally on the place of the casino industry in the wider leisure sector.

6.2 The industry was disappointed, but not wholly surprised, that the gambling sector employing over 100,000 people and contributing over £1.4 billion a year to the exchequer in gaming taxes alone, beyond the selloff of the Tote did not merit mention in the DCMS strategy published in May this year.

6.3 The following extract from the Secretary of State’s published reform policies is not reflective of the industry’s experience of the DCMS approach to the industry.

6.3.1 “Our vision is to help create the conditions for growth in the creative, communications, cultural, tourism and leisure economies, removing barriers to innovation and levelling the playing field. Where we judge there is a need for a particular intervention, we will provide real support and set strategy and direction. But we want our sectors and industries to drive their own agenda.” 84

6.4 Government needs to recognise that casino gambling is a main stream leisure pursuit. Last year, there were more than 18 million visits to the country’s 140 plus casinos. The 2010 Prevalence Study found that “fun” was cited as a reason for gambling by 78% of participants. In many other countries there is recognition of what a well regulated gaming industry can deliver to the tourism and leisure sector.

6.5 The industry feels excluded from strategic thinking and lacking in political sponsorship and leadership.

6.6 To be technically correct, the so called “super casinos” or to give them their proper name “Regional Casinos” which were to feature up to 1,250 Category A (unlimited stake and prize) slot machines, of the kind discussed for Blackpool and ultimately awarded to Manchester, were abolished by Gordon Brown when he became Prime Minister. Without a new Statutory Instrument, there is no process by which a Regional or “super...

casino” licence could be granted, even though large hotel casinos can generate visitation and leisure spend unachievable by other means.

6.7 There are numerous reasons why none of these premises have yet opened. Probably the most obvious is that, in the main, operators do not support a two speed industry based on an irrational experiment. Operators want to see a generally rising tide on which all businesses gain equal advantage.

6.8 Ten of the 16 New casino licences have been awarded to LA’s which are in existing Permitted Areas with existing casino businesses. For example, a large licence has been awarded to Leeds City Council, where there are already five converted casino licences granted under the Gaming Act 1968 in the city. Consequently, given the locational constraints on the 1968 Act licences, which prevents operators moving away from a new casino, potential investment in the new premises is constrained and investment in existing premises, threatened by a new competitor, is high risk. NCIF has urged that all Local Authorities be given fair and equal ability to decide whether they wish to be de facto Permitted Areas for casino operations and to allow movement of casinos between those areas. This will not increase the number of licences.

6.9 NCIF believes that another reason why no new casino licences have yet to open is that the machines to table ratios do not make sense. The eight large casinos are permitted 150 category B1 slot machines, against a table ratio of 1 to 5. The eight small casinos are permitted a maximum of 80 machines against a table ratio of 1 to 2. A large casino needs 30 tables to maximise its machine allowance, whilst a small casino needs 40 tables! Consequently, the gaming floor in a small casino has to be larger than that required in a large casino. (Large casinos are also permitted to offer bingo and betting and small casinos are permitted to offer betting.) NCIF has repeatedly urged that there should be a simple uniform ratio of five machines to one table capped at 150.

6.10 The products available to all land based casinos are no longer competitive in terms of stake, prize, mode and variety with gaming products available outside a casino, eroding the business case for investment. With the expansion of mobile communication technology, the “added value” of being able to offer a betting product in a large or small casino—when any casino customer can use their own telephone or computer to call a bookmaker or place a bet—is largely irrelevant. NCIF has urged that the government review stakes and prizes and the method by which they are established.

6.11 The Act does not allow the casino industry to offer modern and innovative gaming technology that is readily and widely available outside casino premises. For example the use of virtual cards or dice is severely limited and whilst it is lawful to use a personal laptop computer or PDA to game almost anywhere—including in Parliament—it is illegal for a casino operator to offer on-line gaming as part of a commercial arrangement in a casino or even advertise that computers are available for play. NCIF has urged that the government allow the use of equipment which is lawful outside a casino to be permitted inside a casino.

6.12 The process of application and grant of the licences is complex and costly. NCIF understands that the granting of the large licence in the London Borough of Newham has cost the local authority (LA) in excess of £1 million. The process is now being challenged at Judicial Review. Costs of this magnitude are a disincentive to LA’s. Where the process is proceeding, the economic benefits sought by the LA’s from operators are unsustainable by the operations.

7. The effectiveness of the classification and regulation of gaming machines under the Act

7.1 The classification and regulation of machines is ineffective. There is inconsistency in the moral and philosophical approach to automated or electronic gambling.

7.2 Though the Act makes provision for Category A (Unlimited stake and prize machines) to be made available in Regional casinos, there are no such premises permitted in the UK so there are no Category A machines either. However it shows that the principle of Category A machines is accepted in the highly regulated casinos.

7.3 Casinos, at the top of the regulatory pyramid are permitted only Category B1 machines with a maximum £2 stake. Of the 144,110 licensed slot machines in the UK, only 2400 or 1.6% are in casinos while there are over 32000 B2 machines in 8500+ high street betting shops offering £100 stakes on a game that plays every 20 seconds and nearly 12000 B3 machines in bingo clubs and seaside arcades also with a proposed £2 stake.

7.4 In many casinos, where the law permits players very high stakes table gaming, B1 machines are simply not relevant to the market. The current law even prevents slot machines being linked to provide larger jackpots for lower stakes players. This is also an unnecessary restriction.

7.5 We recognise that wagering large amounts can be troubling to some observers, but the reality of the international casino market place—where stakes of the equivalent of £100 and prizes of a £1 million on machines are not uncommon—is that there are people who can afford to gamble at these levels and enjoy doing so. If the UK doesn’t provide these facilities they will take their money—and the consequent benefit to the UK economy generated by a 50% tax rate—elsewhere. UK plc should not lose out in this market.

7.6. The technical and stake and prize regimes need to be restructured and higher numbers of Gaming machines including Category A should be permitted in any licensed casino.
8. What impact the Act has had on levels of problem gambling

8.1 There has been no evidence of any increase in problem gambling in casinos over the course of the two prevalence studies.

8.2 Following implementation of the Act the industry agreed to the establishment of the tri-partite mechanism of the RGSB, the RGF and GREat to raise and distribute funds for Research Education and Treatment (RET). It is perceived as cumbersome, inefficient and, most importantly, intended to provide a safety net to an industry of a style and size that has not been permitted to emerge. Consequently, it is not well regarded by the industry as either being value for money or adding value to the process.

8.3 Beyond the RET structures the Act has been successful in ensuring through the LCCP, that operators understand the importance of responsible gaming policies.

8.4 We have deliberately restrained our comments on responsible gambling because we feel this not where the problems with the Act lay and more than sufficient focus has already been given to this issue.

June 2011

Written evidence submitted by the Responsible Gambling Strategy Board

Introduction

This submission is relevant to the second issue in the Committee’s terms of reference (how effectively the Gambling Act is protecting the young and vulnerable).

Summary

— The Responsible Gambling Strategy Board (RGSB) was set up by the Gambling Commission in late 2008 to advise the Commission and, in turn, the Department of Culture, Media and Sport (DCMS), on Research, Education and Treatment (RET) elements needed to support a national responsible gambling strategy and associated funding requirements.

— During 2007-08, the Gambling Commission, at the request of the DCMS, conducted a consultation process intended to rationalise the processes by which funding for RET relating to gambling-related harm was solicited and disbursed. The Commission recommended that there should be a clear separation between the formulation of RET strategy, the generation of income for their implementation, and the actual commissioning and funding of RET activities.

— The Gambling Commission considered that, since the creation of the RGSB was essential regardless of whether funds are raised voluntarily or via a levy, the costs of supporting the Board (currently £250k per annum) should be met from gambling industry licence fee income.

— The RGSB is an independent, expert, body which advises the Commission (and through them the government) on the RET elements in a national responsible gambling strategy. RGSB determines and recommends to the Responsible Gambling Fund (RGF) (after consultation with stakeholders and experts) what RET is required to reduce harm from problem gambling as part of an overall national responsible gambling strategy, and the levels of funding necessary to deliver the recommended priorities.

— Since the publication of the 2009 RGSB Initial Strategy and Priorities, the Board has developed and identified strategic priorities in relation to its three principal areas of focus, namely RET in the field of responsible gambling.

— RGSB provides the Gambling Commission, DCMS and the wider public with advice and information needed to develop policies and practices to reduce the incidence and impact of gambling-related harm relating to individual gamblers, their families, other social networks, and wider society.

— RGSB’s priorities also form the basis of the strategy and priorities (and framework) provided to RGF, which is responsible for funding organisations and individuals to meet those priorities via the delivery of RET programmes. The three workstreams are intimately connected, and sometimes overlap.

— The findings from RGF’s work—from commissioned research, findings from data collection and analysis, conclusions of external evaluations and learning from funded projects—will in due course help the RGSB to refine its strategy and advice and to communicate externally (proactively and in response to consultations), thus creating a virtuous loop of learning, policy development and improved delivery (of harm prevention and treatment).

— RGSB’s overall “direction of travel” remains as it was in 2009, with due regard paid and acknowledged in Strategy 2010 to the areas identified as priorities, and those that required further consideration. Treatment development has been progressed significantly, with the first steps relating to harm prevention work requiring longer consideration and featuring more highly in the second operational year.
The context in which RGSB operates is one of a very popular legitimate activity that provides entertainment and enjoyment for millions of people, but, because of the nature of gambling, requires protection for the vulnerable and constant scrutiny to ensure a proper balance is maintained.

RGSB acknowledges that the majority of people who gamble do so responsibly. This desirable state of affairs is considerably aided by a gambling industry which is committed to promoting responsible gambling and by the regulations and requirements to which operators adhere.

The challenge to understand "causality" (how and why some individuals become problem gamblers) is one which the RGSB recognises and continues to consider how it can be approached. The work of the expert panels, and the strategic direction these give RGSB and RGF, is focused on both establishing and getting behind the correlations (between characteristics of those affected, their gambling activities, specific attributes of the latter) to be able to target prevention and treatment better. RGSB is committed to working closely with the gambling industry in this difficult area and welcomes the opportunities to bring independent researchers, external opinions and those with the sector knowledge together for this purpose.

The public health agenda

1. The need to recognise gambling-related harm as a public health issue was a key theme of the 2009 RGSB Strategy. A public health approach places a strong emphasis on targeted, segmented, and tailored harm prevention aimed at different groups. Population "segments", and the usual level and nature of intervention associated with them, can be summarised as follows:

   - general population—universal or primary prevention;
   - at-risk and vulnerable groups—secondary prevention; and
   - those experiencing gambling-related harm or "affected others"—tertiary prevention, "moving into" treatment activities.

2. The provision of effective support services for those experiencing gambling-related harm and their "affected others" is also a key feature. Underpinning a public health approach is an understanding that all stakeholders (including central and local government, industry, clinicians, communities, etc, as well as gamblers themselves), have a role to play in preventing and minimising gambling-related harm.

Problem gambling or gambling-related harm?

3. RGSB consciously favours the use of the term gambling-related harm in preference to problem gambling. Unlike the phrase problem gambling, which focuses primarily on the individual player, gambling-related harm has a more comprehensive reach. It refers to the negative impacts of gambling across a range of areas, moving beyond the directly-affected gambler to include their families, wider social networks and community. This general term is meant to embrace two key inter-related areas:

   - The negative effects of individuals’ behaviours, particularly excessive expenditure of money and/or time spent on gambling.
   - The impact of problematic gambling on individuals, on affected others, family, professional or other social networks, communities and society.

4. There is general agreement that clearer identification of specific social groups who may be vulnerable to, or who are currently experiencing, gambling-related harm, will assist in the design and delivery of targeted harm prevention and treatment packages. The British Gambling Prevalence Survey 2010 provides new data, as will the findings from RGF’s treatment funding, which the RSGSB will be taking account of in the coming year.

Progress to date

5. The development of broad strategies for RET, plus specific recommendations in relation to areas of concern are summarised below.

Education and Harm Prevention

6. The evidence base on the effectiveness of harm prevention and education is limited. RGSB looks to RGF to enhance the evidence base via systematic data collection in all harm prevention programmes, and robust monitoring and evaluation that takes an outcomes-based approach and includes criteria against which effectiveness can be measured. RGSB will be drawing on developments in social marketing and behavioural change in respect of the education/harm prevention programmes that it might recommend RGF should consider.

7. Harm prevention aims to reduce the strength of risk factors that may predispose people to gambling-related harms and increase the factors that are likely to protect them from such harms. These factors can be individual, familial, linked to the local community or environmental. Protective factors include individual resilience, which may be developed by, for example, an increase in knowledge, skills, improvement in

85 In its primary sense, "affected others" is a term generally understood to mean partners, other family members, close friends, etc.
responsible attitudes to gambling, and a sense of self-efficacy. It therefore makes sense to take a broad approach to harm prevention activities.

8. The Board recognises the harm prevention initiatives that the industry has a role to play in supporting, such as self-exclusion. The Education and Harm Prevention Panel is exploring how such initiatives might be strengthened, and is compiling materials dealing with self-exclusion, pre-emptive avoidance of harm, and self-limitation of potentially problematic gambling behaviour. Collating such a resource bank will enhance RGSB’s understanding regarding levels of and barriers to deployment of relevant strategies, and possible technological and/or training approaches that would assist consumers and gambling industry staff in increasing take-up and understanding better the role and inter-relationship of consumer, operator and regulator in relation to gambling activity.

9. A range of harm prevention strategies is required for different target groups. For example, an intervention which might influence adults may have little effect on teenagers; there is no “one-size-fits-all” solution to the challenges of prevention.

10. RGSB does not regard gambling-related harm prevention and gambling education as occurring only as discrete activities taking place at certain points in a linear continuum. For example, while children and young people are likely to benefit from some education and information about gambling, and can be helped to understand the concept of problem gambling before they are likely to participate in gambling activities, the benefits of integrating education about gambling with other educational topics (such as avoiding risk-related harm in general) merits further exploration. Gambling-related harm prevention and education may need to be refreshed throughout the school years, and is also likely to be necessary for people who may already have experienced (or are experiencing) problems with gambling.

11. This view is consistent with approaches in other risk taking behaviours such as (excessive) drinking, where prevention and education are often embedded in a “life skills” approach, although it is important to make clear that this analogy is drawn in the context of gambling-related harm only. In these other fields, there is also an understanding that prevention activities are often needed in support of recovery, which often involves multiple relapses before reaching the successful long-term management of a problem.

Research

12. RGSB’s research strategy is concerned with providing the evidence base to ensure that effective education/harm prevention and treatment programmes can be delivered. The four main questions to be addressed by the research programme are:

1. What risk factors are associated with and cause gambling-related harm? How can those who have experienced harm be identified?
2. What happens to people and those they interact with and to society as a whole as a result of gambling-related harm?
3. How can we prevent gambling-related harm and help people to avoid, reduce or eliminate harm from their gambling?
4. How can the evaluation of treatment and education/harm prevention activities undertaken in Britain and internationally inform funding decisions, regulatory formulation, policy implementation and best practice in Britain?

13. Findings regarding treatment outcomes, patterns and types of need, client perspectives, client profiling, etc, grounded in daily practice, will provide valuable information to support the planning and targeting both of research programmes and the funding of treatment, education, and harm prevention initiatives.

14. This practical emphasis will continue to be applied during 2011–12, when evaluation findings commissioned by RGF of directly-funded services and data collected from a range of agencies will be available for consideration.

15. There is a limited pool of “specialist” gambling researchers in Britain. It is, therefore, important to provide support (through, for example, studentships, mentoring, developmental workshops) to encourage new researchers from a range of disciplines to develop an academic interest in gambling studies. There is a need to build capacity for research both within the field and amongst those outside it, who may carry out or contribute to the evidence base.

Treatment

16. Education/harm prevention and treatment services form part of a continuum, in terms of their relevance for individuals who have experienced and/or are at risk of gambling-related harm. The activities that make up harm prevention overlap with treatment activities, and the Board has identified opportunities for achieving treatment aims through some harm prevention activities (such as information giving) and achieving harm prevention aims through some treatment activities. The most obvious areas of overlap are prompt identification and intervention, and the RGF has workstreams underway focusing on these.
17. The systematic collection of data in treatment services to measure treatment outcomes and contribute to the evidence base on the effectiveness and impact of interventions and services is a key area. RGSB is anticipating that the Data Reporting Framework being implemented by RGF will be informing future treatment strategy during 2011–12, and is concerned if this is to be delayed after the collaborative work which went into its development. The Treatment Panel has begun to identify and evaluate the effectiveness of brief interventions.

The tripartite system

18. RGSB was established by, and is accountable to, the Gambling Commission, for which it acts in an advisory capacity. RGSB’s current Chair is Baroness Julia Neuberger, and its members comprise experts from a range of relevant fields, acting in an individual capacity.

19. While RGSB, The GREaT Foundation and RGF are formally independent of each other, they work towards common aims and have shared values. So far as RGSB is concerned, these aims are primarily set out in its Strategy documents. As noted, GREaT’s function is to generate income from the gambling industry to fund these priorities. RGF’s function is to distribute those funds in pursuit of those priorities, having taken RGSB’s advice on them into account.

20. There is therefore significant interaction between all three bodies, which benefits not just the work of each one of them, but also the fulfilment of their overall common objectives. This congruence is in particular reflected in the shared secretariat of RGSB and RGF (which reached its full staff complement of two full time equivalent staff in June 2010), and in the regular contact between these bodies and GREaT.

Panels and forums supporting RGSB’s work

21. RGSB has established three expert Panels to inform its, and RGF’s work, whose focus corresponds to the three RET priorities. The work of the Board members on the expert Panels has been complemented by the valuable contributions of a number of external Panel members and observers. The gambling industry is represented among RGSB’s membership, in order that it might benefit from those individuals’ practical knowledge of the sector. The regular cycle of Panel and Board meetings is supplemented by other discussion and consultation opportunities, and Board members have sought contributions from a range of other sources in order to supplement their own understanding of the approaches needed to support a credible and effective RET strategy. These sources include submissions, meetings, discussions, forum events, and national and international research.

2011–12 and beyond

22. In general, RGSB’s initial priorities have proved to be durable over the past year. Much has been learned regarding the pace of change as we have worked through the process of supporting the translation of strategic objectives into actions. A key task is to ensure that turning the Board’s 2009 and 2010 aspirations into reality during 2011–12 and beyond is carried out in an effective and thorough manner that will be subject to transparent evaluation.

23. When the tripartite arrangement was established, it was agreed that GREaT, with the support of the gambling industry, would endeavour to raise £5 million, £6 million and £7.2 million respectively for the first three financial years of its existence. £5 million was to be guaranteed as a minimum for each period. RGSB anticipates that by autumn 2011, as the first three year funding targets come up for review, with detailed further information from a number of sources, it will be in a better position to inform discussions about quantum of funds. However, this is dependent on the findings from RGF’s funded work being presented to the RGSB, and the RGF has been delayed in some aspects of its development work. In particular new data collection frameworks have not yet been implemented. It is hoped that this will soon be resolved.

24. The quantum of funding for each of the individual RET workstreams beyond 2011–12 has not yet been reviewed as, once again, insufficient evidence currently exists to support a recommendation to RGF regarding potential deviation from current allocations (whereby over 70% was allocated to treatment services in 2009–10). However, RGSB is aware that many of its areas of interest, as expressed in the work that the RGF is now commissioning, make less distinction between individual workstreams than might have been assumed in the past. In particular, the emphasis of the pilot programmes on prompt problem identification, (the Gambling Risk and Harm Minimisation projects) in which RGF is investing significant sums, is intended to have a preventative as well as a therapeutic function.

June 2011
Written evidence submitted by the Evangelical Alliance

SUMMARY OF RECOMMENDATIONS

The Evangelical Alliance would ask that the committee consider the following recommendations:

1. The ethical dimension must be considered in gambling legislation, it is an industry based on one person winning at the expense of another, this should not be ignored.
2. Planning policy and premises licensing should be amended to take account of the social consequences of gambling.
3. Local Authorities should be permitted to apply a blanket ban on different categories of gambling premises in the same manner as they can with casinos.
4. Local Authorities should be permitted to adopt a cumulative impact policy on gambling premises.
5. Minors should not be permitted to play any gaming machines, including Category D machines.
6. The age limit for the National Lottery should be raised to 18 to ensure consistency across different forms of gambling.
7. The British Gambling Prevalence Survey must be maintained in its current form.
8. The Gambling Commission should be given stronger power in recourse to premises that fail test purchases.
9. No further development of casinos until those permitted under the Act have been fully assessed and shown not to have any impact on problem gambling.
11. The Government withdraws the draft statutory instrument making changes to B3 gaming machines.
12. Fixed Odds Betting Terminals removed from betting shops.
13. Advertising for gambling removed from locations with a high proportion of children present, i.e. close to schools.
14. Research to focus on the causation of problem gambling.
15. Education on gambling issues to provide clear examples and warning of the danger that gambling causes.

THE EVANGELICAL ALLIANCE

1. The Evangelical Alliance welcomes the opportunity to respond to this inquiry into gambling and in particular the implementation and operation of the 2005 Gambling Act.
   1.1 The Evangelical Alliance works with a range of organisations to ensure that gambling takes place within a regulatory framework that ensures that the most vulnerable are protected.
   1.2 The Evangelical Alliance is the oldest and largest organisation representing Evangelical Christians in the United Kingdom. Formed in 1846 we represent over 3,300 churches and 700 organisations.
   1.3 On gambling issues we regularly work with member organisations CARE and the Salvation Army as well as the Methodist Church, the Church of England, Church of Scotland, and Quaker Action on Alcohol and Drugs.

THE GAMBLING ACT 2005

2. The Gambling Act 2005 was a much needed update to the laws that regulated gambling activity. It provided essential changes to the regulatory framework for an industry that evolves with technological development and therefore presented challenges that were unforeseen under the 1968 Act.
   2.1 The Gambling Act 2005 was a complete rewriting of the laws regulating a complex and varied industry, during pre-legislative scrutiny a series of predictions were made about the effect the changes would have on the industry.
   2.2 Some of the problems that were anticipated during the passage of the Act have not been realised, others are exactly as predicted and further still are evident which were not expected when Parliament approved the wide ranging reforms.
   2.3 We were grateful that the final Act, and the initial statutory instruments of its implementation, limited some of the more extreme deregulatory measures initially proposed, such as the introduction of regional casinos. These changes were essential to take account of the social cost that accompanies gambling.

ETHICAL CONSIDERATIONS

3. A head of engaging with specific issues relating to the Gambling Act 2005 it is worth stating the Evangelical Alliance's position on gambling activity. Gambling is an industry that ultimately thrives on people losing money. For the owners and operators of gambling premises (both physical and virtual) to make money
It is necessary for the customers to lose. This is significantly different from the purchase of other forms of entertainment, in gambling the customer is buying the chance to win more money.

3.1 We readily acknowledge and support the freedom of people to spend their money how they choose. However, this freedom is not unrestricted; the law accepts that the purchase of certain goods and services requires regulation.

3.2 The economic crises of the past few years have highlighted the deeply pernicious affect that avarice causes. The fact that we would endorse such motives remains an enigma. The gambling industry is regulated greed.

3.3 Gambling is legal, and we do not seek to bring this into question. However, we encourage the committee to consider how best such legal activity can be regulated without offering undue support for what can be an unwise use of money, and at times a deeply immoral use thereof.

3.4 The Treasury Select Committee has considered how to discourage casino banking, we do not see why such discouragement could not also apply on the individual as well as the corporate level.

Planning and Licensing

4. The Evangelical Alliance remains concerned that the planning and licensing regimes are too complicated and do not provide local communities with sufficient avenues to influence the profile of gambling activities in their area.

4.1 The removal of the demand test in the 2005 Act placed power in the hands of the gambling industry at the expense of local communities.

4.2 The variety of regulation for different aspects of the gambling industry is also inconsistent. We suggest that the same suite of options is available to local authorities and community groups in the planning and licensing of all gambling premises. At the moment authorities can adopt a casino veto if they decide that they do not want casinos in their area but have no power to limit the number or density of betting shops or arcades. We understand that proposals in the Localism Bill will enable communities to adopt neighbourhood development plans which will allow them to determine the planning policy for their area. While we welcome the proposed power we believe further amendments could allow communities to have a greater say in the make up of gambling opportunities in their area.

4.3 The Evangelical Alliance considers it essential that more is done to bring together the planning and licensing processes, both at central government and local authority level.

4.3.1 We also consider it an anomaly that betting shops share a use class order with other premises such as banks which have a very different impact on a high street. We look forward to the Government’s forthcoming review into use class orders and suggest that betting shops and AGCs are placed in a separate category or are sui generis in order to prevent such changes of use without the need to seek planning permission.

4.3.2 The Gambling Act 2005 gave local authorities licensing powers for gambling premises which took the responsibility away from the Magistrates Courts. While this was a common sense move echoing changes made in the 2003 Licensing Act it also gave local authorities two separate powers over gambling premises.

4.3.3 Local authorities therefore are responsible for granting planning permission (where necessary) and licensing. There is a challenge under the current system that these two responsibilities are not played off against each other so that if planning permission has been granted the licensing committee comes under pressure to effectively rubber stamp the earlier planning permission with a premises license.

4.3.4 We suggest that as well as the proposed changes in the Localism Bill and the forthcoming use class review, there are several other changes which would help the system function more effectively.

4.3.4.1 Planning and licensing committees need to give greater attention to social impact as well as economic impact.

4.3.4.2 The freedom for local authorities to adopt a veto on issuing any casino licences “having regard to any matter or principle” should be extended to other gambling premises.

4.3.4.3 The option for local authorities to adopt a cumulative impact policy for gambling premises in the same manner that they currently can for alcohol licenses.

Children

5. We have mainly focused our intention on the licensing objective that relates to protecting children and vulnerable people from the adverse effects of gambling.

86 www.publications.parliament.uk/pa/cm200809/cmselect/cmtreasy/767/767.pdf
87 www.publications.parliament.uk/pa/cm201011/cmhansrd/cm110517/debtext/110517–0004.htm Column 275.
5.1 One point worthy of note is that this is not a group of people that can be defined and identified with ease, nor can it be considered as a unit that is itself unaffected by gambling. For instance, the adverse effects of gambling can make a person vulnerable, so the objective should apply to not only those who are vulnerable, but those to whom gambling can make vulnerable. During the pre-legislative scrutiny of the gambling bill we stated: “It is apparent that any adult susceptible to gambling addiction is a potentially vulnerable individual”.88

5.2 We fully support and have repeatedly welcomed the explicit reference to the protection of children in the licensing objectives.

5.2.1 The removal of gaming machines from unregulated premises, such as takeaways or cafes, was a positive step taken in the 2005 Act. The principle that machines that only adults should play are only in locations where adults visit is a crucial one.

5.2.2 We remain concerned that a class of gaming machine (category D) remain accessible and explicitly targeted at children. The United Kingdom is the only country in western Europe that allows children to gamble. We believe that this should stop.

5.2.3 The 2010 Gambling Prevalence Study shows a clear increase in the propensity to develop problem gambling tendencies for those who begin to gamble when they are children (table 6.3).89

5.2.4 There remains a discrepancy between the ages of eligibility for the National Lottery and other forms of adult gambling. With the forthcoming merger of the Gambling Commission and the National Lottery Commission we suggest that now would be an appropriate time to rectify this anomaly and raise the age threshold for the lottery to 18.

5.2.5 The test purchases undertaken by the Gambling Commission shows a worrying propensity for betting shops not to challenge customers that appear under 18.

Gambling Commission

6. The establishment of an independent regulator, in the form of the Gambling Commission, was an essential outcome of any review of the gambling legislation. We strongly supported the development of the Commission out of the Gaming Board which had previous dealt with many regulatory matters.

6.1 A key aspect of the Gambling Commission was its role as a unified regulator for the various parts of the industry. The recent announcement that the National Lottery Commission will be merged with the Gambling Commission from 2012 is therefore welcome.

6.2 The Gambling Commission performs a vital function through ensuring that operators comply with the Gambling Act and providing guidance to the industry. It has also served a crucial role in the commissioning and publication of the 2007 and 2010 British Gambling Prevalence Surveys.

6.3 However, the operation of the Gambling Commission is not without its flaws. As part of the 2010 Comprehensive Spending Review the Government announced that grant in aid funding to the Gambling Commission for the prevalence study would be discontinued. This coincided with a consultation on how prevalence should be assessed in the future. Section 16(1) of the Act stipulates that the Gambling Commission has a duty to advise the Secretary of State about the incidence, manner, effects and regulation of gambling— the Prevalence Survey was the principle evidence base for this advice.

6.4 We are concerned with the indecent haste with which the Commission accepted that the withdrawal of the grant in aid funding necessitated a rejection of the current methodology. We believe that the current Prevalence Survey remains the best option and the alternatives currently under consideration will hamper the Commission’s ability to fulfil its duty.

6.5 This is particularly the case with reference to Section 26(1)(b), which details the duty to advise on the manner in which gambling is carried on. The format of the current survey enables important analysis showing the types of activity where problem gambling occurs most frequently, and provides indicative evidence which can guide policy decisions.

6.6 Even in the absence of grant in aid money the Commission’s effectiveness will be significantly undermined in the absence of a robust prevalence survey. The Alliance therefore recommends that a full prevalence study is maintained and funded from the industry— either through fees or the industry levy.

Remote Gambling

7. The Evangelical Alliance member organisation CARE has submitted a memorandum to the committee focused on remote gambling which we fully support.

Casinos

8. The 2005 Gambling Act brought about fundamental changes to the way that casinos operate and the terms under which they can be developed.

8.1 Through the Act and subsequent secondary legislation the development of casinos since 2005 has been subject to appropriate scrutiny and careful restraint. Even within this cautious framework the casino industry has been able to expand significantly, total drop in 2000–01 was £3.3 billion, while industry statistics for 2009–10 show total drop of £4.4 billion.

8.2 We note that despite the consent given through the Act for the development of eight small and eight large casinos none have to date opened.

8.2.1 It is also worth drawing attention to the fact that a “small casino” is larger than any currently in operation from the previous regime.

8.3 During the intense public scrutiny that surrounded the proposed “regional casinos” we suggested that the purported goal of regeneration was a completely unsuitable aim to tie to gambling.

8.3.1 While we do not deny that the development and operation of a large scale casino would create jobs we firmly maintain that these jobs would come at too great a cost.

8.3.2 We firmly hold that the final decision reached to not permit the development of any regional casinos was the correct one and remains the right decision.

8.4 It is foreseeable that some of the permitted casino development under the 2005 Act will take place in the coming years. It is therefore far too early to provide any judgement on what impact the changes introduced have had.

8.4.1 We will carefully consider the correlation between their introduction and any changes to the rates of problem gambling (cf Section 10). If the opening of new casinos can in any way be linked an increased prevalence then we would expect the Government to take swift regulatory action. We strongly recommend that no changes are made to the casino licensing regime until further prevalence studies and other research can make a thorough assessment of their impact.

Gaming Machines

9. As with most other aspects of gambling activity the 2005 Act completely redrew the categories of and restrictions placed on different types of gaming machines.

9.1 The Act removed machines from unlicensed premises such as cafes, and this was a move we fully supported. It is inappropriate for opportunities to gamble to be available in locations where their use cannot be properly monitored.

9.2 The Gambling Commission does not regulate pubs, clubs, working men’s clubs or family entertainment centres (FECs) that do not have adult areas. Therefore data from these premises are not included in the industry statistics detailing the number of gaming machines in operation.

9.2.1 The Gambling Commission know how many alcohol licensed venues have taken up their automatic entitlement, so the Alliance would suggest that they also account for the number of machines and are therefore able to provide a total figure for the number of gaming machines in operation.

9.3 The Act defined a limited scope for gaming machines in pubs and other licensed non-gambling establishments.

9.3.1 The prizes and stakes for these machines (category C) were doubled in 2009 following pressure from the gambling industry on the basis of the difficult economic trading conditions.

9.3.2 The consultation on changes to category B3 machines noted that the industry projections for growth on the basis of the planned changes had so far not been realised.

90 A Safe Bet For Success: Annex A


93 www.gamblingcommission.gov.uk/pdf/Licensing%20authority%20statistics%20April%202009%2020%20arch%202010.pdf page 8.
9.4 It was therefore with immense disappointment that we saw the Government recently capitulate to further industry pressure, based on similar unproven projections, to change the rules relating to B3 machines placed in arcades and bingo halls.

9.4.1 The 2005 Act placed clear restrictions on the number of higher value machines that could be placed in adult venues, either Adult Gaming Centres (AGCs) or Bingo halls.

9.4.1.1 As well as limiting their number to four per premises the stakes were capped at £1 and the prize at £500.

9.4.1.2 The draft statutory instrument currently before parliament will increase the stake to £2 and change the numerical limit to a proportional one, that of 20% of the total machines on the premises.

9.4.2 One of the motivations behind the changes to the B3 regulation was to remove the incentive for AGCs to split premises to maximise the number of machines that they can have. The Gambling Commission were aware that AGCs were operating in adjacent premises with sometimes very limited distinction between the two premises. By replacing the limit of four machines with a 20% ratio this incentive will be removed. However, we are now concerned that this could lead to the development of large AGCs without a limit on the number of high prize machines. In effect the problem of split premises is being addressed by allowing multiple premises to merge.

9.5 The 2005 Act brought fixed odds betting terminals (FOBTs) into the gaming machine regulatory system and allocated them a separate category (B2) within the new framework.

9.5.1 Previously FOBTs were unregulated; therefore the changes in the Act were necessary and welcome. However, the unique status and far higher level of stakes and prizes was retained. This resulted in betting shops taking gaming machine custom away from AGCs, and as a result placed pressure for the stakes and prizes of machines to be increased to generate increased custom and revenue. Changes have since been made to stakes and/or prizes for C, D and B3 machines.

9.5.2 The Gambling Commission’s most recent industry statistics show a year on year increase of gross gambling yield in betting shops that comes from gaming machines as opposed to over the counter betting. We consider this to place in jeopardy the primary activity of betting shops.

9.5.3 GamCare statistics show that 22% of callers to their helpline cite FOBTs, this is particularly worrying considering that 2010 Prevalence Survey showed only 6% of past year gamblers use them.

9.5.4 The presence of these machines in betting shops places a mini casino on the street corner, in many urban areas such mini casinos now litter the high street.

9.5.5 The Evangelical Alliance considers that given the indication of harm that FOBTs pose, and the distortion that they place on the gaming machine industry, these machines should be removed from betting shops.

9.6 The original Gambling Review Report, from which the 2005 Gambling Act stemmed, suggested that the prizes and stakes were only increased in line with inflation. The Government’s response, in “A Safe Bet For Success” rejected this proposal and recommended triennial reviews taking account of other factors such as changes in the overall gambling market, and potential issues of problem gambling and consumer protection. The evidence so far is that the principal driver for changes has been the demands of the industry in order to increase their profit margins, the protection of the consumer and concerns about problem gambling were given scant attention in the most recent Government consultation.

Problem Gambling

10. In February 2011 the Government minister responsible for gambling, John Penrose MP, blamed the previous Government for liberalising the gambling laws and accredited the significant increase in problem gambling to the changes made in the 2005 Gambling Act. To date the Department of Culture Media and Sport or the Minister have not offered any policy response to the rise in problem gambling.

99 www.dailymail.co.uk/news/article-1357276/Gambling-soars-UK-75-admit-having-flutter.html
100 www.culture.gov.uk/images/consultations/categoryB3-gaming-machines_condoc.pdf
101 www.dailymail.co.uk/news/article-1357276/Gambling-soars-UK-75-admit-having-flutter.html
10.1 The Prevalence Survey, which the Gambling Commission produced with NatCen in 2007 and 2010, with an earlier study commissioned by GamCare in 1999 is the principal tool for measuring the extent of problem gambling in the UK. The problem gambling screen that was used in all three studies, DSM IV, showed the prevalence of problem gambling at 0.6% in 1999, 0.6% in 2007 and 0.9% in 2010. We acknowledge the difficulty in drawing conclusions from changes in a small sample size, which in 2010 meant 64 people were classed as problem gamblers, but also want to emphasis that this did constitute a significant increase. If such an increase was projected onto the entire population the level of problem gambling was around 300,000 people in 2007 and 450,000 in 2010.

10.2 The increase in problem gambling that the most recent prevalence study shows emphasises why it is essential that further thorough prevalence studies are conducted to provide an ongoing picture of the changing gambling landscape. The way in which the current survey is conducted, and notably absent from the proposed replacement, is the reporting of both prevalence of problem gambling and patterns of gambling behaviour. This approach enables indicative conclusions to be drawn about which forms of gambling are most likely to lead to gambling problems. This in turn can guide more detailed research which can inform more closely on questions of causation that the Prevalence Survey is unable to do.

10.3 Previous Government ministers have echoed John Penrose’s sentiment, Tessa Jowell, giving evidence to the Draft Bill Committee stated: “if this legislation gave rise to an increase in problem gambling then it would have failed and it would be bad legislation and it would have defeated the intention and the purposes that we have”.101 We hope that this inquiry will help the Department of Culture Media and Sport to look carefully, along with the Gambling Commission, at what regulatory action will do the most to reduce the prevalence of problem gambling.

ADVERTISING

11. The 2005 Gambling Act legalised advertising for gambling. This is arguably the single biggest cultural shift brought about through the Act, it is now common place to see gambling advertising on public transport, television adverts, innumerable internet pop ups and the sponsorship of sporting activities.

11.1 The Evangelical Alliance would like the committee to consider the tension evident between permitting legal activity and not promoting activity that can have harmful consequences. The sudden inundation of gambling adverts that the public is now party to promotes the false idea that gambling is an activity without consequences.

11.2 In other public policy areas there has been a shift towards greater regulation of advertising. Advertising and sponsorship of tobacco products was gradually withdrawn until its absence is now normal. The recent Bailey Review into the sexualisation of children also called for restrictions on adverts of a sexual nature. We therefore see the changes made in the 2005 Act as moving against the tide and promulgating the idea that gambling is harmless. This is something that should be immediately rectified.

RESEARCH

12. The Gambling Act 2005 created the Responsibility in Gambling Trust as a charitable organisation to oversee and fund research, education and treatment to address the potential for harm that is inherent in gambling. This body has since been replaced with a tripartite structure with the Responsible Gambling Strategy Board, The Responsible Gambling Fund and GREaT to deal with strategy, commissioning and fund-raising respectively.

12.1 The current structure goes someway to ensuring that attention is given to the harmful consequences of gambling but we remain uncertain that it is fully effective. The dispersion of responsibilities, which also includes the DCMS and the Gambling Commission allows plentiful opportunity to pass the buck and say that it is someone else’s job to address a certain problem.

12.2 To date the voluntary levy has raised the requisite funds but we encourage the Government to maintain the option of a compulsory levy as a Damocles sword should the gambling industry show reticence to pay up.

12.3 One of the principal criticisms of the current prevalence survey is that it does not assess the causation of problem gambling, this we accept although the Gambling Commission is often too quick to skip over indications of associated activity which could guide policy without implying direct causation. The research that the RGF commissions needs to be focused on filling this gap.

12.4 GamCare is one of the principle recipients of funding for treatment and due to the nature of the funding process continued operation seems to constantly be in question. The funding of treatment should be over a longer term and therefore allow more consistent operation without the threat of closure.

12.5 The fund-raising arm of the structure is heavily occupied with gambling industry representatives, while this may be necessary to ensure that funds are raised we insist that it does not have any bearing on the way in which those funds are used. The operation of the Strategy Board and the RGF must be independent. In the division of funding, with money going towards research, with results potentially obscured by academia, and to treatment to alleviate their conscience, we consider that there is a potential risk of avoiding education which would require the acknowledgement that gambling causes harm.

June 2011

Written evidence submitted by the Department for Culture, Media and Sport (DCMS)

SUMMARY OF DCMS EVIDENCE
— The Gambling Act 2005 (the 2005 Act) has been only partially successful in achieving its outcomes. While it is not in need of wholesale reform, we are committed to making any necessary changes to improve it.
— There has been concern from the gambling industry that the establishment of the Gambling Commission has resulted in increased regulatory costs, especially when compared with the cost of the Gaming Board of Great Britain. Some of the additional costs relate to the much wider role of the Commission but, even where the Commission provides reasonable value for money, the Government believes there is scope for reducing regulatory costs and burdens. The Department and the Commission should continue to look at how regulatory activity can best be targeted at where it has the greatest possible impact.
— There has to be a balance, but industry should be in the lead in both preventing and treating problem gambling.
— Given the incomplete process for awarding the eight small and eight large casinos under the 2005 Act, it is currently not appropriate to reconsider the case for the establishment of a regional casino.
— We believe that the failure of the policy to attract online gambling to base itself in the UK leaves a potential regulatory gap. The Government will announce its solution shortly.
— We have made changes to how category B3 gaming machines are regulated which improves how the 2003 Act operates, but we would need to be confident that any further relaxation of controls on gaming machines would not materially increase the risk of problem gambling.

BACKGROUND
1. The Gambling Act 2005 was given Royal Assent on 7 April 2005. While some of the provisions within the act came into force during 2005 and 2006, its main provisions came into effect on 1 September 2007. The principal objectives of the 2005 Act were to modernise Gambling legislation and consolidate it into one Act, create the Gambling Commission to regulate all gambling (except Spread Betting) and ensure that gambling is conducted in a fair and open way; and protecting children and other vulnerable persons from being harmed or exploited by gambling.

2. The Gambling Act 2005 was a very long time in creation. After being commissioned by the Government, Sir Alan Budd produced "The Gambling Review report" (commonly referred to as the Budd report) which was published in July 2001. The then Government published its response “A safe bet for success” in March 2002. A draft Gambling Bill followed and was subject to pre-legislative scrutiny by a Joint Committee. It was finally introduced into the Lords on 19 October 2004.

3. All of these changes, many of them late into the process of creating the legislation, meant that while it reflected Parliament’s will, the overarching structure ended up rather muddled. The problems were most apparent in relation to casinos. The original reports had proposed that casinos should only be limited by having a minimum size (so requiring sizable investment) to prevent proliferation and make them destinations instead of places for opportunistic gambling. However, following scrutiny, Parliament decided first that there should be classification of casinos, to regulate what each could offer, and then that there should be limits on each category. This accurately reflected the opinion of Parliament, but it meant that the 2005 Act itself was caught between a framework that was initially designed on largely economic grounds but included very specific regulatory constrictions.

4. We should be wary though of committing to wholesale reform of the Gambling Act. First of all, while the 2005 Act is muddled in parts, it does convey Parliament’s will over key principles and there is no evidence that either the public, or Parliamentary, view of these matters have changed greatly. Secondly, the legislation only came fully into effect in September 2007 and in many areas the delivery is still in its early stages and in a period of bedding down. To alter things now would be premature. Thirdly, objective decision making was difficult in the development of the 2005 Act because of a lack of evidence about issues such as the causes of
problem gambling: that weakness remains. Until a robust and academically respectable evidence base is in place allowing us to understand the likely impact of policy changes, it would be unwise to embark on fundamental changes to the current law which would simply reignite the same arguments which hampered the development of the 2005 Act.

5. The 2005 Act does provide a regulatory framework, with much of its powers controlled by secondary and tertiary legislation which can be adjusted to deal with technological and social changes, something the previous regime was unable to do. The 2005 Act has been criticised by some in the industry as having increased the amount of regulation in comparison to the previous arrangements. While there may be some truth in this, and we need to drive out unnecessary regulation where we can, it is right that the gambling industry itself bears the full cost of regulation. The previous system saw half the costs of the Gaming Board of Great Britain being subsidised by the tax payer and applications to local licensing justices set at just £25, far below the true cost. Recent studies show that the UK, public, whilst on the whole not approving of Gambling, believe that people should be free to gamble if they want to, provided that it is properly regulated. While both the Gambling Commission and the 386 Licensing Authorities are still learning, so too is the industry. As the system beds down further we expand both the Gambling Commission and Local Authorities to target their regulatory activities better and while we want to see an appropriate balance, we still believe that a single national regulator and local licensing authorities is the right approach.

The Gambling Commission

6. Remit—The Commission has a much broader regulatory remit than its predecessor. In addition to covering all forms of gambling (except spread betting) the Commission has the additional licensing objective to protect young people and the vulnerable, has the statutory duty to advise the government on the impact of gambling and its regulation, is a prosecuting authority and is the money laundering supervisory body for the casino sector.

7. Regulatory approach—The Commission takes a risk-based approach to regulating the gambling industry, which has been confirmed by independent reviews. Their risk model takes account of a wide range of factors and risk is managed using a wide range of tools, only some of which are manifestly directed in compliance visits to individual premises or through enforcement action. There have been complaints from the gambling industry that the Commission is not risk based enough, and that companies themselves can manage the risk of non-compliance with the licensing objectives in the same way they manage other risks. The Gambling Commission are responding though, and hope in the future they can rely more on the checks that companies undertake themselves, taking on more of an auditing role. Clearly they will themselves need to monitor the risks attached with this, but it offers further potential to reduce regulatory activity away from responsible operators and focus on those who present a higher risk.

8. Costs/resources—The Commission has managed a significant reduction in employee headcount. In 2007–08 (the year in which the whole industry was being licensed), for example, the Commission had around 300 people working for it in contrast to the 222 quoted in its most recent Annual Report. The Commission’s current headcount is around 200.

9. Local Authorities—Local Authorities are responsible for local compliance and enforcement. There is though some confusion over roles with some operators believing that the Gambling Commission is responsible for local matters and other believing their local authority had responsibility for national level issues. We look to the Gambling Commission and Local Authorities to resolve these issues.

10. Merger of the Gambling Commission and National Lottery Commission—The Public Bodies Bill, currently before Parliament, would allow Ministers to merge the Gambling Commission and the National Lottery Commission (NLC). In advance of this, the NLC will co-locating with the Gambling Commission in Birmingham by the time that the lease on its London offices run outs in January 2012. It is expected that co-location and eventual merger will achieve synergies and ultimately some cost-savings, although these will be offset in the short term by transitional costs.

11. Tackling Problem Gambling—The British Gambling Prevalence Study 2010 (BGPS 2010) showed that there was probably an increase in the small proportion of problem gamblers in Great Britain since the Gambling Act came into force. While this is a cause for concern it should be noted that the increase was only marginally statistically significant, occurred in only one of the two measures used, and should also be taken within the context of an increase of around 5% or 3.5 million in the number of adults gambling overall. The study showed that we had a similar level of problem gambling to other European countries and less than USA, Australia and South Africa.

12. Whilst the headline figure relating to the whole population is important it is also important to examine the proportion of gamblers who are problem gamblers. The BGPS 2010 found that the rate of problem gambling among past year gamblers was 1.3% according to the DSM IV and 1.0% according to the PGSI. We are not able to detect whether there was a significant change in these figures from 2007, but it does provide a useful benchmark going forward.

13. There is also no evidence that the changes in the regulation of this sector have had any effect on the level of problem gambling, either positive or negative. Government, regulators and the industry need to do

102 www.bis.gov.uk/files/file50888.pdf
more to understand the causes and effects of problem gambling as well as the measures that can be put in place to prevent, limit and treat the damage it can cause.

14. While Government needs to play its part it is clear that the gambling industry has to be in the lead, and this should not just be limited to treatment. While players themselves are the best judge as to what level of gambling is appropriate to their situation, responsible operators should take steps to spot problem gambling and bring it to the attention of the customer. The increasing automation of much of the industry makes this more possible and good training of staff can help spot problem gambling in less automated forms.

15. The Government does not intend, by itself, to reopen the structure for Research Education and Treatment (RET) but would encourage all stakeholders to work together to evaluate whether the arrangements work as effectively and efficiently as possible, and to make changes and improvements as needed without waiting for Government to do it for them. It is also clearly important that industry delivers on its commitments to funding which it made as an alternative to a statutory levy.

16. More should also be done to ensure that the work being funded through industry contributions is well publicised. So, for example, in addition to funding existing bodies such as Gamcare and Gordon Moody House, which provides residential treatment, the Responsible Gambling Fund:

- is funding a harm prevention programme aimed at university students, and is to begin working with lead youth organisations;
- has funded the National Problem Gambling Clinic on a pilot programme of specialist counselling to help adults, particularly women, to kick the habit;
- has launched pilot projects with addictions charities, citizens advice bureaux, GPs, law centres, the probation service, family support organisations and other community-based bodies in the midlands, Wales and Scotland to enable early identification and develop effective brief interventions as alternative cost effective ways of helping those affected by problem gambling;
- is funding a GP training package with Royal College of Physicians;
- has commissioned a new National Problem Gambling Helpline, which is to be widely accessible and cost effective; and
- has a research programme focussed on machines underway.

17. Underage Gambling—Tackling underage gambling is an example of how the new regulatory system has worked well. In 2009 the Gambling Commission conducted a test purchasing scheme in betting shops that showed a 2% success rate ie 98% of all visits resulted in underage players being allowed to gamble. This was clearly unacceptable, but following action from the Commission, the industry themselves took control of the situation with good results. While the Commission and local authorities continue to undertake test purchase schemes, this is an area where the industry itself needs to take increasing responsibility for monitoring performance and enforcing its own safeguards.

18. Sports betting integrity—the 2005 Act introduced the offence of cheating and required licensed operators to notify the Gambling Commission and certain sports governing bodies (SGBs) of suspicious betting transactions. This gave the Commission scope to work with betting and sport to combat corruption. The Government is currently considering whether to expand the number of SGBs with which the Commission can share intelligence about suspicious activity. In addition, a number of recommendations made by the Sports Betting Integrity Panel in its report in February 2010 have been taken forward.103

19. Casinos—Small and Large Casinos—The 2005 Act allowed licenses for eight small and eight large casinos104 with the 2007 report of the Casino Advisory Panel deciding the locations that would be allowed to award licenses. We are aware of the progress made of the 16 authorities granted a large or small casino licence, with some having awarded licences, some midway through their process and some yet to start. These competitions are though the responsibility of the local authorities themselves and while we clearly have an interest in them, we have no formal responsibility in their operation.

20. We will wish to review the impact of small and large casinos before making any judgement on how casino licensing should be treated in the future. The timing of any such review will depend on how quickly sufficient numbers of small and large casinos are in place to allow assessments of local impact in order to establish an overall picture.

21. Regional Casinos—The last Government proceeded with plans to award a regional casino licence with Manchester being identified as the location by the Casino Advisory Panel. However, following this they conducted a review of the regeneration benefits and decided that it would not be appropriate to continue as it was believed that a regional casino would only deliver marginal levels of regeneration once the social cost of increased problem gambling was taken into account.

104 Under the 2005 Act a Small Casino must have a minimum total customer area of 750 m² and will be allowed 80 category B gaming machines. A large casino must have a minimum total customer area of 1500 m² and will be allowed 150 category B gaming machines.
The process for the eight small and eight large casinos has continued and we are committed to reviewing the evidence of their impact before deciding whether to award more licenses. Given this it would not be appropriate to re-consider the case for a regional casino until this review has taken place.

22. Remote Gambling—The Gambling Act 2005 aimed to strengthen how remote gambling in Britain is regulated. However, experience since the new regime came into effect in 2007 suggests that system of regulating remote gambling from overseas based operators is not working as well as intended and is unsustainable. At present, there are different regulatory standards and approaches, and UK consumers may experience varying levels of protection depending on the operator they deal with. UK-based operators face unfair competition from overseas competitors who do not contribute towards regulatory costs.

23. Following the DCMS consultation on “The Regulatory Future of Remote Gambling in Great Britain”, which closed on 18 June last year, we are proposing that the Gambling Act 2005 will be simplified so that remote gambling is regulated on a point of consumption basis. This will mean that all operators selling into the UK market, whether from here or abroad, will be required to hold a UK Gambling Commission licence, increasing protection for UK consumers; supporting action against illegal activity (including sports betting integrity) and removing market distortions. These proposals will help to address concerns raised recently about problem gambling and help to plug a regulatory gap. In addition, an indirect benefit of the proposals may be to increase the options for possible reform of the Horse Racing Betting Levy.

24. We will be announcing the proposals to Parliament via a written Ministerial statement on 14 July 2011 and attach a copy of that statement.

25. Gaming Machines—Gaming machines have seen huge levels of innovation over the last 10 years. The introduction of category B2 machines (often referred to as Fixed Odds Betting Terminals) within bookmakers was controversial, with the Government at the time believing that they were illegal. They were regularised by the 2005 Act and have become an important income stream for bookmakers. B2 machines are popular products with the public as well as bookmakers. They offer the opportunity to play a wide variety of games in a familiar environment. Their flexibility also allows operators to innovate easily, ensuring that players do not tire in the range of games offered.

26. They have though caused consternation among sections of the industry more traditionally associated with machine gaming, particularly Bingo Clubs and Adult Gaming Centres (AGCs) which could only offer four category B3 machines per premises. They point to the higher stake limit which has allowed far greater innovation in terms of offering differing products e.g. roulette, blackjack. Concerns have also been raised by community and church groups about the possible impact of B3 machines on problem gambling, although the Government is not aware of firm evidence to support this view.

27. The previous Government acted on Bingo Clubs doubling their allowed number of B3 machines, but did nothing with regard to AGCs. This inevitably caused a reaction from AGC’s seeking to redress the balance. Many applied for Bingo Licenses, with little intention of offering bingo, but to offer the increased number of B3 machines. More sought to split existing AGC’s into different parts and obtains a separate AGC licence for each part, essentially allowing them to offer more B3 machines on the same site. Also some AGC operators have opened betting premises which allow them to offer B2 machines.

28. There is not necessarily a problem if operators wish to diversify in this way, but there would be concern if this were simply a device to offer higher stakes machines without the main gambling activity being offered that is on the face of the premises licence. We support the Gambling Commission in their application of a primary use principle, and their further work to establish acceptable limits.

29. To further discourage the unnecessary splitting of premises, the Government has sought to put gaming machine numbers on a more flexible and adaptable footing, whilst still retaining sufficient control of machines and numbers. We have introduced a change in relation to AGCs and Bingo Clubs. The maximum stake has increased from £1 to £2 and instead of a limit of four or eight category B machines per premises, each is allowed to have 20% of their total machine stock made up of category B machines.

30. We believe that these changes improve the regulation, allowing commercial freedoms without significant risk of increasing problem gambling. There will be calls for controls on gaming machines to be either relaxed or tightened, but in order to form a persuasive case either way we will need strong evidence that it would have a positive effect. In particular any further relaxation will need a high degree of confidence that it would not materially increase the risk of problem gambling.

**Post Implementation Evaluation Of The Gambling Act 2005**

31. In line with usual practice, the Government is required to submit a memorandum setting out an evaluation of the impact of legislation between three and five years after its enactment. For the 2005 Act, which came into force in September 2007, the Government would need to produce a memorandum not later than September 2012. The Select Committee has asked if DCMS could produce the memorandum to help inform its inquiry. We are happy to do this and the memorandum will follow shortly. This will include more detail of the various
reviews of aspects of the 2005 Act that have already been completed and will supplement the evidence in this paper.

July 2011

Written Evidence submitted by the Noble Group

1. Introduction

This response is lodged by the Noble Group, a substantial collection of businesses operating in all sectors of the "bricks and mortar" gambling industry in the UK. We are best known for our expertise in the operation of gaming machines through a large chain of AGC’s located from the South coast of England to Scotland’s central belt. In addition, we operate a small number of betting premises; a small chain of bingo halls comprising both “flat floor” facilities as well as smaller converted premises; we are developing a casino under a “converted” casino licence in Blackpool and we own and operate two of the country’s largest and most visited FEC’s, Brighton Pier and Coral Island in Blackpool.

We were heavily involved in discussions with and representations to Government during the passage of the Gambling Bill. We have subsequently been involved in numerous consultations in connection with aspects of the Gambling Act with both the past and present Governments and our evidence, in the context of the consideration of the appropriate location for what was intended to be the UK’s first Regional Casino, was substantially accepted by Professor Stephen Crowe and his colleagues on the Casino Advisory Panel ("CAP").

This response gives specific answers to the questions posed by the Committee:

How effective has the Act been in its core objectives

(i) Ensuring that Gambling is maintained crime free and conducted in an open and fair manner—ironically, those sectors of the British gambling industry of which we have direct experience (that does not include track betting) were probably as or more “crime free and conducted in an open and fair manner” under the Gaming Act 1968 (“the 1968 Act”) than under the Gambling Act 2005 (“the 2005 Act”). The Gaming Board was, like any such institution, open to criticism, but it discharged its relatively narrow and focused remit well. Its relationship with the industry was excellent. It was transparent in its operation and it might well be said that the 1968 Act was one of the finest and most effective pieces of legislation ever passed in the social context. It cut out the criminal infiltration of the casino industry (by the Mafia, the Krays and others) at a stroke, produced an effective regulator and a regime that was surprisingly flexible in its legal application over a prolonged period. Under the 1968 Act, the cost of regulation was, by contrast with the new regime, extremely economical. The 2005 Act has increased red tape and bureaucracy exponentially. The cost of that red tape is enormous (one of our divisions had a regulatory cost of approximately £11,000 per annum prior to the implementation of the 2005 Act and that figure rose to some £800,000 in the subsequent year). As members of BACTA, we do not share all the Association’s criticisms of the Gambling Commission, but we do believe that it has the typical modern regulator’s propensity to be over-conscious of the media and to attack soft targets when resources would be better focused on hard ones. The Commission’s dealings with the Agora Group are a case in point. Directors of that Group, now in administration, are on trial for serious fraud and have been prosecuted for offences under the 2005 Act. Some associated with it are still believed to be operating behind front companies which are setting up in competition with legitimate companies which are operating in competition with legitimate operators in numerous venues. The Commission must of course follow “due process” and is known to be investigating the individuals concerned, but in the meantime, the viability of legitimate businesses is being put in doubt by operators who have no place in a well regulated industry, based on integrity;

(ii) The protection of children and vulnerable people from the adverse affects of gambling—again, it is highly questionable whether the new regime is any more effective than the old one. Certainly, as a company, endeavouring to operate upon the basis of the highest standards, those standards are now exactly the same as those that we applied under the 1968 Act. Similarly, and long before the implementation of the 2005 Act, the AGC and FEC industry was largely responsible for the establishment of Gamcare. We now have the overly bureaucratic triad of the Responsible Gambling Strategy Board, the Responsible Gambling Fund and the GREaT Foundation, while Gamcare is reported to be in serious financial difficulty. As BACTA has made clear to the Committee, large sums drawn from an industry in a seriously depleted financial state are being dissipated on an absurdly top-heavy bureaucracy such that those limited resources are failing to reach the causes for which they are intended;

(iii) The updating of the legislative framework with regards to online gambling—the Act has failed in this objective. Ironically, the 1968 Act prohibited online gambling perfectly effectively. As others will agree, the failure of the legislation and, perhaps more accurately, the failure of banking regulation to control the use of credit cards in the context of online gambling, means that the uneven treatment of “bricks and mortar” gambling in the UK, in terms of both regulatory burden and tax, should be heavily criticised by the Committee.
The financial impact of the Act on the UK gambling industry

In this connection, the Committee will no doubt receive representations from all sectors suggesting that the impact has been prejudicial. As BACTA has advised, that is certainly so in the case of AGC’s and FEC’s, but the Committee should be wary of such representations from, in particular, the betting and casino industries. All “bricks and mortar” gambling premises were heavily affected by the Smoking Ban and continue to be so. Equally, the credit crunch followed by the recession and the continuing adverse general economic circumstances must inevitably affect all sectors. However, the impacts of the Gambling Act have not been uniform. The AGC, FEC and bingo sectors were particularly adversely affected by the loss of Section 16 and Section 21 machines. Their loss was uncalled for and has now thankfully been remedied as a result of the recent B3 review. It remains to be seen how easily the AGC, FEC and bingo sectors will recuperate from the problems of recent years as a result of this change. However, the casino industry has done extremely well. Outside London, while there are a small number of independent operators, the provincial casino industry is in effect a triopoly of Gala, Rank and Stanley. Those companies conducted an anti-competitive campaign in the closing days of the 1968 Act and successfully shut out a number of new entrants, arguing, at locations around the country that there was no demand for new casinos. As a result, while it is true that they are constrained from expanding the number of their casinos, they now enjoy an extraordinarily protected trade position (and have done so since 1 September 2007) and cannot now fairly assert that there is demand for more provision. Latterly and predictably, given their protected position insulated from competition, their commercial fortunes have seen a significant upturn. For instance, the Rank Group plc’s Trading Update for the 11 weeks to June 2011 confirmed that Grosvenor Casino’s like-for-like sales had increased by 13% (having already increased by 5% in the previous 25 weeks).

It should be remembered that the established casino industry received a doubling of both the number of machines and the permitted stakes and prizes applicable to them even before the 2005 Act was implemented.

More fundamentally, the betting industry has been “feather-bedded” against the more general adverse impacts of the smoking ban and the general state of the economy by the effective monopoly rights they have enjoyed in relation to FOBT’s/B2 gaming machines, on the high street. The last Government failed to take the opportunity to ensure that the 1968 Act under which FOBT’s were illegal. Unfairly, the betting sector has been allowed to maintain its effective high street monopoly of these machines since the former Secretary of State, Tessa Jowell, put them “on probation” in 2003. Virtually, every profit announcement of the publicly quoted betting operators, since then, has attested to the growth in machine earnings based on the industry’s effective monopoly rights to B2 machines.

For instance, Ladbroke’s Interim Management Statement for the three months to 31 March 2011 confirmed that the Group’s UK retail machine gross win had increased by a further 14.9%. This announcement is consistent with similar machine earnings growth that the mainstream betting operators have enjoyed in recent years. That growth has been substantially at the expense of the AGC sector which has been denied parity in terms of FOBT/B2 machines.

Yet high street LBO’s are not subject to any greater standards of scrutiny, regulatory control or social responsibility than AGC’s. Indeed, the Scrutiny Committee in examining the provisions of the Gambling Bill, recognised that AGC’s should have equivalent rights to install FOBT’s/B2 machines, but felt that because of the controversy then (as now) surrounding B2 machines, there should be a breathing space before any more were permitted. Seven years later, the betting sector maintains its extraordinary commercial advantage.

In the meantime, the AGC and FEC sectors have suffered continuing declines in revenue and profit to the advantage of the betting operators. There have been hundreds of AGC and FEC closures and more job losses. This has had the inevitable knock-on consequence of devastating the machine manufacturing industry in the UK.

The effectiveness of the Gambling Commission since its establishment and whether it represents good value for money

We refer to our comments in answer to the first question above. Save that it is too big, too expensive and too keen to justify its existence to the media, we support its general objectives and believe that its executives and officers are well intentioned and in most cases, keen to assist responsible operators. Our experience is that those who joined the Commission from the Gaming Board have a far greater grasp of relevant issues than later inductees.

The impact of the proliferation of offshore online gambling operators in the UK gambling sector and what effect the Act has had on this

A gain, please see above, noting that, as operators, we have no objection to “offshore” or other internet competition provided it operates on the same level playing field as the “bricks and mortar” equivalent.

Why the Act has not resulted in any new licences for casinos or super casinos

It is not correct to say that the Act has not resulted in any new licences for casinos. Although the triopoly of Gala, Rank and Stanley, acting uncompetitively in the run-up to the implementation of the Gambling Act,
The claims made for Regional Casinos by their proponents were heavily overstated (paragraph references below upon which Regional Casinos are predicated. Before the 2005 Act), 500 bingo halls and 145 casinos, Britain does not need destination gambling on the scale of betting offices (significantly more than before the 2005 Act), 850 AGC’s and FEC’s (significantly fewer than model is quite different particularly when all types of gambling are so widely available. With circa 9,500 inevitably depend on high levels of trade. In a small, tightly developed environment, like that of the UK, the casinos presently going through the licensing process. The fact that not all of those licences have been successfully snuffed out the attempts of new entrants to the sector, there are of course eight small and eight large casinos presently going through the licensing process. The fact that not all of those licences have been taken up is testament to the fact that there is limited demand for casinos in the UK.

The Super or Regional Casino debate was another matter. The concept of Regional Casinos in the UK is flawed. Regional or Super Casinos are viable in jurisdictions where betting and gaming is otherwise largely or completely prohibited. They require enormous capital investment (£150 million to £200 million) and must inevitably depend on high levels of trade. In a small, tightly developed environment, like that of the UK, the model is quite different particularly when all types of gambling are so widely available. With circa 9,500 betting offices (significantly more than before the 2005 Act), 850 AGC’s and FEC’s (significantly fewer than before the 2005 Act), 500 bingo halls and 145 casinos, Britain does not need destination gambling on the scale upon which Regional Casinos are predicated.

Indeed, as the evidence considered by the CAP, during the course of the Regional Casino debate, showed, the claims made for Regional Casinos by their proponents were heavily overstated (paragraph references below are to the CAP’s final report):

— (Para 91) “Overseas evidence [from Detroit, New Orleans and Dortmund] suggests that one casino of the size proposed in Britain in isolation may not always bring about regeneration.”
— (Paras 94–98) Much of the economic modelling presented to the Panel by Regional Casino proponents was flawed—(para 95) “Most of the proposals submitted showed a tendency to concentrate on supply side models when looking at regeneration benefits. Demand side models… were not used.”
— (Para 95) “Most [local] authorities [unreliably] assumed that since [the foreign casinos they referred to] would be profitable, British ones must be as well”: yet without huge displacement of trade from other competing, gambling and leisure facilities, the proposed Regional Casinos in the UK would be unlikely to generate sufficient profit to enhance regeneration.
— On the potential generation of jobs, the CAP was sceptical, pointing out that the higher employment generated by, for instance, some American casinos, was not matched by European comparators of which the CAP had experience.
— (Para 101) Again, the CAP noted that it was important not to view potential Regional Casino development in isolation, but to compare it to other regenerative development (which might produce less displacement and thereby create greater added value).
— (Para 118) In relation, for instance, to Blackpool, the CAP concluded that “In the light of our collective experience… we are therefore unsure that the Blackpool proposal would be as viable as other proposals before us. The small local catchment may lead to a suboptimal scale of both the casino and the development of the associated hotel and hence the regeneration benefit.” Fortunately, in the case of Blackpool, and affirming the CAP’s “… scepticism about the impossibility of a “Plan B” for Blackpool” [the Council’s position], the Council, under new leadership, has indeed pursued “Plan B”. As a result, the town is now enjoying levels of investment which had become a thing of the past during the many years of sterility induced by the Regional Casino debate (from 1999 to 2008). That investment includes the substantial refurbishment of Blackpool Tower and other prominent facilities in the town by Merlin, the second largest “attractions” operator in the world. It is to be hoped that the last Government’s sensible decision to shelve Regional Casinos in the UK will stand.

As the Committee will know, the primary motivation for the development of a Regional Casino would be the commensurate monopoly that the operator would enjoy in relation to Category A slot machines. Many of the other facilities offered by a Regional Casino, both in gambling and non-gambling terms, would inevitably be offered as loss-leaders. Atlantic City is a good example of the extent to which the opening of a small number of super casinos resulted in the closure of hundreds of smaller businesses in the restaurant and entertainment sectors. This pattern again reflects the concerns about displacement that so undermined the economic modelling put before the CAP by proponents of the competing bids.

The effectiveness of the classification and regulation of gaming machines under the Act

The recently confirmed B3 gaming machine review will do much to ameliorate previous errors (provided there remains no scope for Category A machines). However, the monopoly rights of the betting sector to B2 machines on the high street remains a problem. There is simply no basis for betting premises to have B2 machines when AGC’s are not so permitted. Either such machines should be available in AGC’s or alternatively, they should be removed from betting offices. Either way a level playing field, reflecting the need for “Primary Use” to be maintained, so that betting offices cannot become arcades and vice versa, should be restored. As BACTA has argued, the reinstatement of the triennial review of stakes and prizes is imperative as a means by which to restore stability to the market-place for both the manufacture and provision of gaming machines.
What impact the Act has had on levels of problem gambling
None.

2. Conclusion
We hope the Committee finds these comments helpful.

July 2011

Written evidence submitted by the Salvation Army

The Salvation Army is an international Christian church working in 125 countries worldwide. As a registered charity, The Salvation Army demonstrates its Christian principles through social action and is one of the largest, most diverse providers of social welfare in the world.

The Salvation Army appreciates the invitation to respond to this consultation process. We have worked closely on the issue of Gambling Policy with the Department of Culture Media and Sport and subsequently with the Gambling Commission over several years.

The Salvation Army is particularly concerned that the current trend towards the societal normalisation of gambling could lead to an increase in the number of people experiencing the highly damaging consequences of problem or pathological gambling, either directly or indirectly.

The Salvation Army has a long history of working with those whose lives are damaged by addictions, most notably to alcohol and drugs, and a number of those with whom we work also cite gambling among their addictions.

The Salvation Army welcomes that The Salvation Army The Culture, Media and Sport Committee has launched a new inquiry into gambling, looking in particular at the implementation and operation of the Gambling Act 2005.

The Committee has invited written submissions and has requesting views on the following issues:

- How effective the Act has been in its core objectives to:
  - ensure that gambling is maintained crime-free and conducted in an open and fair manner,
  - protect children and vulnerable people from the adverse effects of gambling,
  - update the legislative framework with regards to online gambling;
  - the financial impact of the Act on the UK gambling industry;
  - the effectiveness of the Gambling Commission since its establishment, and whether it represents good value for money;
  - the impact of the proliferation of off-shore online gambling operators on the UK gambling sector and what effect the Act has had on this;
  - why the Act has not resulted in any new licences for casinos or “super” casinos;
  - the effectiveness of the classification and regulation of gaming machines under the Act; and
  - what impact the Act has had on levels of problem gambling.

How effective the Act has been in its core objectives:

The Salvation Army believes that only by the intervention of civil society groups was the original Act saved from causing excessive social harm through the introduction of super casinos.

Since the Act has been introduced successive Governments have further liberalised stakes and prizes. The practice of online Gambling has never been adequately covered by the Act.

The financial impact of the Act on the UK gambling industry

The UK Gambling Industry remains wealthy and successful. Despite the ongoing debate about what the Act might or might not have done to its revenues it remains a disgrace that the voluntary industry donations to cover research into gambling and treatment of problem gamblers take so long to be collected and never seems to reach the target requested. The Gambling Industry can well afford the implementation of a compulsory levy. This would avoid the waste of time fundraising by who are tasked with tackling the social consequences of problem gambling.

The effectiveness of the Gambling Commission since its establishment, and whether it represents good value for money

The Salvation Army has always supported the Gambling Commission in its difficult work of holding a socially harmful industry to account. We would argue that now is not the time to be cutting the resources of
the GC nor merging it with the National Lottery Commission. The Gambling Industry can be compelled under the Act to pay a compulsory Levy and that ought to be used to fund whatever work the GC needs to do to help protect children and the vulnerable.

The Salvation Army as a member of the of the GC’s community liaison group would however also like to express concern that the GC has on occasion not been clear enough about its own position when the Industry has been found wanting. For example when the GC issued a tepid response to the large increase in problem gambling revealed by the most recent Gambling Prevalence survey it seems to have failed in its duty to stand up to the Industry and speak the truth that gambling proliferation is leading to higher levels of problem gambling.

The impact of the proliferation of off-shore online gambling operators on the UK gambling sector and what effect the Act has had on this

The Act did not deal effectively with online gambling as a problem area and seemed to place it in the “too hard” tray. We would maintain that measures such as blocking urls, enforcing regulation with banks regarding spending limits and breaks in play and the banning of credit cards so that no online gambling can be undertaken on debt would go some way to restoring control of this almost unregulated sector.

Why the Act has not resulted in any new licences for casinos or “super” casinos

There are no super casinos because of a lack of public demand, a press outcry and lobbying by churches and community groups. We have no wish for future super casinos and furthermore we would point out that the new “small” and “large” casinos that have been permitted under the Act have not gone unnoticed and they will be held to the highest level of scrutiny.

For example a new Casino recently granted permission to open at Westfield Shopping Centre near the Olympics is clearly in close proximity to major retail and shopping outlets and certainly does not fulfil the ideal of “a dedicated trip to gamble” or promoting a separation between casinos and other leisure facilities.

While The Salvation Army does not endorse prohibition in its attitude towards gambling Salvationists refrain from gambling themselves and urge those who do gamble to follow some simple steps to protect themselves. Gambling is as a leisure activity, not a means of making money. We urge gamblers to set a budget before gambling, to set a time limit to their gambling and to set time aside to gamble away from other leisure pursuits. “Casual gambling” can too easily become habitual gambling, particularly if it is easily to slip into due to geographic proximity to other regularly visited locations such as shops or entertainment complexes.

The effectiveness of the classification and regulation of gaming machines under the Act

This has been the Act’s most obvious shortcoming with machines being one of the most addictive forms of gambling and yet machine stakes and prizes being further liberalised since the Act became law. Most recently the regrettable decision of the Government to go ahead with liberalisation of B3 machines even AFTER the rise in problem gambling exposed by the most recent Gambling Prevalence survey.

What impact the Act has had on levels of problem gambling:

Tessa Jowell the Minister responsible for bringing in the Act said that any increase in problem gambling would be a failure.

The initial Gambling Prevalence survey set a baseline. The subsequent survey did not show a rise as the full effects of the Act had not taken hold. The most recent survey showed a marked increase in gambling and a corresponding increase in problem gambling. Problem Gambling is now up from 250,000-300,000 in the 2007 Gambling Prevalence Survey to 360,000-450,000 in the 2010 GPS.

The 2005 Act has resulted in an increase gambling and a subsequent increase in problem gambling. The Government need to take urgent action to address this situation and increase provision for treatment of problem gamblers forthwith.

The Salvation Army endorses the responses from:

- CARE: Christian Action Research and Education
- EA: The Evangelical Alliance
- QAAD: Quaker Action on Alcohol and Drugs
- The Methodist Church

The Salvation Army warmly thanks the Committee for the opportunity to respond to this inquiry.

July 2011
Written evidence submitted by the Local Government Group

About the Local Government Group

The Local Government Group (LG Group) is here to support, promote and improve local government. Local government is facing the most radical changes, as well as the most significant opportunities, in a decade.

We will fight local government’s corner and support councils through challenging times by focusing on our top two priorities:

— representing and advocating for local government and making the case for greater devolution; and
— helping councils tackle their challenges and take advantage of new opportunities to deliver better value for money services.

Key Messages

1. Overall councils experience of licensing gambling and betting under the 2005 Act has been positive in that it has increased local influence over the licensing of gambling.

2. However, some councils have experienced a growth in the clustering of betting shops. This has a significant detrimental impact upon those communities and councils do not have sufficient powers under the present licensing and planning regime to respond to residents’ concerns.

3. We are calling on government to implement the following planning and licensing reforms:
   — Review the 12-month consultation provision under the “Article 4” direction, which is a longstanding disincentive to its use by local planning authorities.
   — Consider allowing greater flexibility in the use class system.
   — Limit the Planning Inspectorate’s ability to overturn decisions made by democratically elected councillors.
   — Give councils the flexibility to inspect all relevant premises without a Police officer or the Gambling Commission present.

4. We would also welcome the opportunity to work with the Gambling Commission to investigate ways in which the licensing framework could be strengthened to take account of some councils’ concerns about saturation.

5. We strongly encourage the casino industry to continue to work with the new casino areas under the 2005 Act so that those areas can finally start to realise the long-promised economic benefits.

The Role of Local Licensing Authorities in Implementing the 2005 Gambling Act

6. Overall councils experience of licensing gambling and betting under the 2005 Act has been positive and it was a welcome consolidation of three previous Acts. It has increased local influence over the licensing of gambling and given councils useful powers to deliver their local vision for gambling and betting, helping to ensure the Act achieves its objectives.

7. In particular, the fact that the licensing authority itself is listed as a responsible authority under the Act gives it the power to comment on applications and call for reviews of licences. This gives licensing authorities more power to intervene in the event of the licensing objectives being undermined.

8. We do, however, think that there is a strong case for undertaking further work with government and the Gambling Commission into whether the licensing framework could be strengthened to address some councils’ concerns about saturation, which are not explicitly addressed in the Act’s objectives. The licensing framework could be tightened by, for example, strengthening the Gambling Commission’s guidance in these areas and the re-introduction of the demand test. We would also welcome further work on the problems of public nuisance in some areas. As well as crime, anti-social behaviour and public nuisance sometimes be problematic, and a no less disruptive or costly consequence of some gambling establishments.

9. Secondly, local licensing officers do not have sole powers of entry to inspect member only gambling premises and can only do so when accompanied by a Police officer or the Gambling Commission. We believe this is an unnecessary extra burden on councils and for routine and low-level inspection activity it is out of proportion and could undermine efforts to build positive relationships with local gambling establishments.

10. Whilst there will be instances where joint visits with the Police or Gambling Commission will be appropriate, this should not automatically be the case, and local licensing authorities should have the discretion to decide how best to undertake local inspection activity.
The Role of the Planning System in Supporting Sustainable and Vibrant Communities

11. Local authorities have an important role in ensuring social, environmental and economic well being of their local areas. Coupled with this there is often a widespread desire for local communities to have more of a say on the sustainability of their local shopping centres and high streets.

Use Classes

12. The government announced in the Budget a review of the use classes system. Government has recently published an issues paper for comments to feed into this review. 105

13. A number of local authorities have highlighted the problem (outlined above) of over saturation in their locality of betting shops and specifically cited the limited tools available to the local authority to shape their area in accordance with the wishes of local people. For example Liverpool, Hackney, Oxford City and Islington Councils all submitted proposals under the Sustainable Communities Act 106 which sought to provide local areas with greater flexibility through the planning and licensing regime to prevent over saturation and clustering.

14. A key concern, amongst these councils, is the designation of betting shops. Betting shops are class A2 which effectively means that in planning terms they are considered alongside building societies and banks. Currently restaurants, drinking establishments and hot food takeaways are able to be converted into betting shops without seeking permission from the authority. This can lead to a lack of local influence over the look and feel of high streets.

15. The localist principle is that local areas should have the tools available to shape their locality to reflect needs and priorities of residents and businesses. The LG Group will be contributing to the review of use classes and in particular will be investigating with our member councils more localist approaches to allowing greater flexibility in the use class system. One option, for example would be to allow local authorities to develop their own use-class frameworks which are more sensitive to local circumstances, on the basis of consultation with local people.

Article 4 directions

16. At present, the only way for a council to prevent such an establishment from being set up is to use an “Article 4” direction, which can be issued by a Council in circumstances where specific control over development is required. The government’s proposals to amend the compensation provisions for Article 4 directions will mean that local authorities would need to give notice of the withdrawal of permitted development rights for a year to avoid being at risk of paying compensation. The compensation issue is a longstanding disincentive to the widespread use of Article 4 Directions by local planning authorities. The 12 month notice provision, in our view undermines the effectiveness of this measure.

17. The issuing and monitoring of Article 4 directions is also a very time consuming, expensive and complicated for local planning authorities. Advising developers, agents and the public on the restrictions imposed and ensuring that the restrictions are enforced will require significant resources.

Local decision making

18. In acting in the best interests of local people and the area, elected representatives listen closely and carefully to the views of local residents and business and take these into account when setting out the planning policies for their area in their local plan and making decisions on individual planning applications.

19. All too often when a planning application has been refused the decision is appealed. The appeals system is managed by the national “Planning Inspectorate” which is based in Bristol. When an appeal against refusal of a planning application has been lodged, the Planning Inspectorate appoints a Planning Inspector to decide on the planning application. Effectively this means that the final decision on the planning application will have been taken entirely out of the hands of the local community.

20. Due to the large volume and range of cases that have to be dealt with, it can take a long time for a case to progress through the planning appeal system to a final decision. The Planning Inspectorate can also be costly for both the person making the appeal and the Council as there is often the need for professional representation by planning agents and/or lawyers. At present, the Planning Inspectorate can find itself having to deal with anything from a minor extension to a house to a multi-million pound retail park.

21. In order to give control back to local people and locally elected representatives, and in order to cut back on unnecessary expenditure being spent on planning appeals, the LG Group would like to see greater decisions vested with the local authority and the role of the planning inspectorate to overturn decisions made by democratically elected members limited.

105 The LG Group is not aware of any evidence that the planning system is causing undue delay or obstruction to change of use. Evidence we have received from our members suggests that applications for change of sue are overwhelmingly approved with important conditions attached to ensure that adverse affects are mitigated and development is both viable and sustainable. The Governments review can be seen here.

106 www.lga.gov.uk/lga/aio/7421967
Casinos

22. The Gambling Act 2005 allows for one regional “super” casino (subsequently withdrawn) and an additional 16 casinos (eight large and eight small). The 16 local authorities have formed a very effective network to share information, common approaches and good practice in relation to casino issues.

23. The Advisory Panel on new casino locations was asked to select a mix of areas that were “in need of economic development and regeneration and likely to benefit in regeneration terms from a casino”. Councils worked hard to submit clear business cases about how casinos would help to regenerate some of the country’s most deprived areas and how they would deal with any social problems which may arise from gambling, including supporting those at risk from rising personal debt and cracking down on gambling-related crime and anti-social behaviour.

24. However, we expressed serious concerns to the previous government about the timely and costly process followed by the Advisory Panel to select the new casino areas, which has contributed towards the delay with progressing them. The eventual decision not to go ahead with the regional casino in Manchester was an unacceptable cost to local taxpayers.

25. We understand the casino industry is lobbying government to allow dormant casino licenses issued under the 1968 Gambling Act to be portable between local licensing authorities. We are currently consulting our Member councils on this proposal and are happy to share the results with the Committee.

The Gambling Commission

26. Feedback from authorities indicates that the Gambling Commission has improved how it communicates and engages with stakeholders. The LG Group and the Gambling Commission are working together to maintain and improve their cooperation and coordination to ensure the co-regulatory mechanism operates effectively to minimise queries and issues arising from the trade about the application of the legislation by local authorities.

Off shore (Remote) Gambling

27. The Committee will no doubt be aware that the Gambling Act 2005 does not address the issue of off shore (remote) operators, such as gambling by internet provided by organisation based outside the UK. This is an area that has perhaps become more of a concern since the Acts design in 2005 and we look forward to seeing the outcomes of last year’s consultation on remote gambling.

Conclusion

28. Councils recognise that gambling and betting, and the establishments where it takes place, deliver economic benefits and make an important contribution to a varied leisure offer in many parts of the country. But democratically elected councillors must have the planning and licensing powers they need to enable them to shape the local gambling offer so that it strikes a locally appropriate balance between public protection, a varied high street offer and gambling as a driver of local economic growth.

29. We note that individual councils have responded to this call for evidence with focused submission on aspects that are of particular concern to them. We support their submissions as the specific issues vary in different localities.

July 2011

Supplementary written evidence submitted by Martin Cruddace, Betfair

Further to the marked-up edits the uncorrected oral evidence of Martin Cruddace to the Culture, Media and Sport Select Committee on Tuesday 8 November I wanted to write to clarify Betfair’s position regarding Q371 to Q373.

In Betfair written submission we stated “Betfair would only advocate such a step as long as the licensing system adopted is not one which limits or restricts the ability of any gambling operator licensed in the European Union (EU) to obtain a UK licence.” This was then discussed during the evidence session in reply to questions from Paul Farrelly MP.

By this statement Betfair means that if an operator is licensed by another EU member state then the UK should consider that it meets the required regulatory standards to operate in the UK. However, the granting of a licence from the Gambling Commission (“the Commission”) would still be dependent on that operator meeting the necessary regulatory application process placed on them by the Commission, which would most likely also include complying with any fiscal burdens. If these requirements were not met the Commission would be able to revoke the operator’s UK licence.

I feel this point was not made clear in the oral evidence session but I hope this note will clarify Betfair’s position on the issue.
If you have any questions, or require any further information, please do not hesitate to contact me.

November 2011

Written evidence submitted by Phillip Brear, Gibraltar Gambling Commissioner

Introduction

1. With regard to the Committee’s terms of reference, this paper addresses the UK Gambling Act objectives, remote and online gambling, and problem gambling.

2. The author is the Gambling Commissioner for Gibraltar and was Director of Operations for the UK Gambling Commission (2005-07), and Deputy Chief Constable of West Yorkshire Police (2000-05) with responsibility for Gaming Board liaison (2003-05).

3. Gibraltar hosts most of Europe’s leading remote gambling providers. Only 22 operators are licensed and based in Gibraltar. Seventeen have direct corporate, financial, legal or regulatory associations in the UK. Most of their brands are UK “household names”, many are also licensed in the UK.

4. Gibraltar is a significant contributor to the development of gambling regulation, liaising with HMG on relevant UK and EU gambling policy matters, and supporting gambling regulators worldwide.

5. Gambling law internationally is complex, quickly outdated, subject to the law of unintended consequences and supported by significant legal resources. Gambling statistics can be labyrinthine.

6. Whilst there are substantive public policy issues around gambling, discussions are shaded by special interests, confused principles and moral judgements. Regulators and governments are amongst those special interests.

7. Current UK policy proposals risk rolling back the clock in terms of UK consumer protections and the choice and value of the UK market, diminishing the resilience and competitiveness of the "UK associated" gambling industry, whilst the global industry is expanding but consolidating.2

8. The remote gambling industry is frequently characterised as homogenous, whereas it is highly differentiated by size, product, channel and spend. Online Gaming (casino, bingo, poker, slots, via a computer) is as different to betting on a mobile phone, as playing roulette via a TV is to betting by telephone (voice).

9. Problem gambling and gambling related harm are ever present but difficult concepts around which there is limited agreement on measurement, prevention or treatment. Problem gambling has limited association with remote or online gambling and is frequently confused with impulsive, reckless or poorly judged gambling.

10. In terms of the “level playing field”, online and offline gambling have the same relationship as Amazon and bookshops, and iTunes and record shops. Online gambling is pure e-commerce. The cost base of the “remote” gambling industry of telephone (voice) betting and TV roulette “sits between” online and offline.

11. An inadvertent effect of the UK Gambling Act was to level the playing field between online operators based in Gibraltar, Alderney and the Isle of Man, and the operators based in more distant jurisdictions.

12. This “UK associated” industry has competed with and overcome those under regulated suppliers which were very active in the UK market up to 2007,2 providing UK consumers and beyond with a wide and competitive choice of safe, fair and responsible online facilities, to the UK’s benefit.

13. Whilst online operating costs cannot be reconciled with those of the offline industry, online access controls, consumer protections, fairness, security and record keeping do, or should, exceed those provided offline, or by TV or by telephone.

Online Gambling “Consumption” in the UK

14. Gambling Commission surveys4 have repeatedly found that up to 75% of the UK adult population (c 35 million people) say they gamble occasionally or regularly. 11–13% (c 5 million) say they gamble remotely (TV, telephone, mobile phone or computer). Around 0.7% (400,000) describe their gambling at the problem gambler level, with 0.3% (150,000) reaching “pathological gambler”.

15. The 16 to 24 age group has the highest rate of problem gambling. Paradoxically, the 18 to 24 age group shows the lowest the level of interest in gambling and one of the lower levels of interest in online gambling. Juvenile interest in gambling appears limited to “arcade” style slot machines and National Lottery products.

16. There has been no proliferation of remote gambling. The increase in remote gambling in the UK between 2006 and 2011,5 from 7% to 12%, is accounted for by increased use of National Lottery “online” facilities, rising from 2% to 6%, with the use of other remote facilities remaining stable at 5.6%.

17. Access to an electronic payment method and a suitable computer or mobile phone remain a significant barrier to online gambling. Telephones, mobile phones and TV are secondary channels for remote gambling.
18. There is limited cross spending between online and offline customers or between gambling products. Problem gamblers will “multi channel” but have limited affinity with online gambling.

19. In general, online gambling appears to be a focussed activity amongst a minority of the adult population, dependent on access to broadband and electronic payment methods. It is of limited appeal to those under 18, but attractive to some problem gamblers.

**UK Online Gambling Supply (Excluding the National Lottery)**

20. There is no history of online gaming being licensed within the UK. Up to 2007 it was not licensable and the gaming sites operated by UK brands were always located “offshore”.

21. Online and telephone betting has a more substantive history in the UK. The introduction of GPT in 2001 caused a handful of “offshore” betting operators to return to the UK, but then leave for commercial (tax) reasons in 2010–11.

22. Three online betting operations have reduced their UK based facilities since 2007 but retained a very substantial UK presence. All are plcs.

23. Between 40% and 60% of UK customers’ online gambling takes place with Gibraltar licensed operators. The balance of supply varies by product. Most UK online betting is based in Gibraltar, but most UK online poker is based elsewhere. The other “product verticals”; casino and bingo, appear about equally divided between Gibraltar and elsewhere.

24. The other significant jurisdictions are Alderney and the Isle of Man. Malta has a single substantial UK casino operator. UK based licensees provide less than 10%. Few other jurisdictions now supply the UK.

25. In 2007 DCMS reported that there were approximately 2,300 online gambling sites available to UK customers. At present, there appear to be fewer than 2,000 sites: 750 casino, 350 bingo, 350 betting and 500 poker. Some of these sites have very few users; no more than 100 have the lion’s share of the market. Many sites share the same servers/platform/software, and are brands under joint control or shared ownership (white labels), a minority are bespoke to a single operator.

**DCMS Consultation Paper March 2010**

26. The DCMS consultation paper of March 2010 described the nature of UK online regulation, the nature of regulation in the primary jurisdictions, and the relationship between British consumers, the Gambling Commission and the primary jurisdictions in terms many observers do not recognise.

27. The “Case for Change” chapter set out five main concerns: Deficient testing and operating standards; lack of transparency on complaints handling; lack of communication and co-operation between regulators; the absence of suspicious activity reporting to UK authorities; and lack of contributions to GREaT. These concerns were repeated in the DCMS written evidence to this committee.

28. None of these assertions appear to characterise the current, popular, UK facing industry, nor the experience of UK consumers, the Gambling Commission, the primary jurisdictions or GREaT. No supporting evidence was provided, the Regulatory Impact Assessment was incomplete, and none of the primary jurisdictions have endorsed these concerns as substantive issues.

29. Gibraltar offers UK consumers high online standards and open and effective complaints handling. Gibraltar also provides the Gambling Commission with swift and direct operational communications, ensures that the early provision of operators’ security, data and intelligence reports is the norm, and has sought to collaborate with the Commission. A higher proportion of Gibraltar operators contribute to GREaT than occurs within the UK.

30. The consultation paper described the nature and scale of the online gambling industry in a way that suggested the sector was not properly understood, eg indicating there are now 2,000 to 2,500 available gambling sites, but only 75 operators would be affected by the new policy.

31. The paper did not properly reflect the disparate and fluid IT and operational infrastructure of the industry or the acute price sensitivity of typical online gambling consumers, as evident in newly regulated EU jurisdictions, and demonstrated by the distorted UK online poker market (dominated by a high volume brand that accepted US players until blocked by an FBI/DoJ investigation).

32. The authors also appeared to give little account to the likely response of the industry still based in “second and third tier” jurisdictions, the emergence of new UK facing online suppliers elsewhere in the world, and on how the marketing mechanisms of the online gambling industry actually worked. The paper asserts that regulation, not the market, will determine customer choice, and most unlicensed and unregulated competitors will voluntarily “opt out” of the UK market.

33. Many observers believed the paper would be superseded following the change of Government. It did not appear to represent a sound base or process on which to build public policy.
The Gambling Objectives: Protecting the Young and Vulnerable

34. Gibraltar requires its operators to apply and develop all reasonable measures to ensure young people are: (a) not attracted to online gambling, (b) not able to register and partake if they are attracted, (c) not able to withdraw any winnings if they do partake, and (d) are reimbursed their lost deposits when discovered or revealed.

35. The effectiveness of these measures must be assessed together. We have limited confidence in “Mystery Shopping” exercises designed to test whether an adult can deceive a system into accepting a false date of birth to access low risk, low value gambling for a few days.

36. All allegations of underage gambling are individually investigated by the Gibraltar regulator. Any juvenile who gambles with a Gibraltar operator is entitled to a refund of his/her deposits. Only a handful of such cases emerge each year. It is our experience that few young people are attracted to online gambling and the registration and identification processes for depositing and withdrawing are strong deterrents.

37. National Lottery surveys repeatedly show 10% of UK children aged 11 to 15 claim to use their products (16 to 17 year olds may do so legally). There is no evidence, anecdotal or otherwise, that “other” online gambling generates a fraction of this type of interest from children.

38. The full suite of consumer protection tools are offered by Gibraltar operators. These include time or deposit controls, deposit increase controls, and short and long term exclusions. Gibraltar UK operators are all members of and trained by Gamcare and all contribute to GREaT.

39. Operators found to have infringed gambling protection regulations are required to reimburse customers. Repeated or deliberate regulatory failures would trigger a review of a licence.

40. Notwithstanding these protections, some customers are impulsive, reckless or lack judgement in their spending and will use multiple tactics to try and mitigate their gambling losses, in some cases suffering and generating gambling related harm.

Keeping Crime Out of Gambling

41. Gibraltar has taken a very restricted approach to licensing. Gibraltar gambling facilities are crime free in terms of supply. No Gibraltar operators are subject to the current US FBI/DoJ poker investigation.

42. Gambling is, however, subject to criminal abuse and dubious practices. These are most commonly associated with betting on specific sports (race/match/spot fixing) and poker (collusion). There are occasional examples of criminally acquired funds being used in all gambling sectors, and regular incidents of e-money/ card fraud committed against operators (charge-backs and chip dumping).

43. Gibraltar applies the EU third Directive on Money Laundering to all online gambling. The UK applies only a voluntary code to the betting sector and most of the UK gambling industry. The DCMS refer to this as “strong” arrangements. Gibraltar gambling regulations provide for criminally acquired funds to be returned to the victim. This provision is unique amongst regulators.

44. Information requests submitted to Gibraltar authorities by UK authorities are processed within a few days; Gibraltar betting and gaming operators proactively provide suspicious activity reports (SARs) to the UK authorities in compliance with the third Money Laundering Directive. Whilst conventional money laundering is easily identified and extremely unlikely, a number of SARs associated with the theft and loss of funds have led to UK arrests and prosecutions.

45. Despite repeated claims to the contrary, there is no known case in the gambling sector of lawfully requested information being declined, despite such requests amounting to “international information exchanges” of Personal Data, governed by other legal principles and conventions.

46. There is ongoing and historical evidence that the UK sports bodies most frequently affected by corrupt or suspicious betting are unable to address their internal licensing and regulatory weaknesses in an systemic manner. All suspicious betting reports by Gibraltar operators are screened by the regulator and tracked for interventions; these are rare, and some dubious practices appear condoned and endemic.

47. The current UK policy proposals will incentivise less well regulated operators to enter the UK market and move UK online betting outside the EU Money Laundering Directive. UK consumer protections and support will be diluted to the advantage of the corrupt and the detriment of typical, vulnerable and higher value customers. The UK industry will be weakened.

48. Under-regulated sites will win customers from regulated sites by way of higher affiliate commissions, better odds and bonuses and more generous “free” betting/gaming offers. These are the methods by which customers are acquired. Whilst few sites will be criminal in terms of the products offered or the protection of funds, some will be, and some will be criminally controlled or will ignore criminal activities.
The customer complaints process is fundamental to gambling fairness and openness. In contrast to other regulators, Gibraltar offers customers the facility to have any unresolved complaint independently examined, by the regulator. Complaints provide a unique and timely window into the operators’ activities and culture. Well informed or well researched customer complaints are as revealing as any regulator’s calendar inspections. Of the 175 UK customer complaints we received in 2011, only 25 (15%) indicated they had first contacted the Gambling Commission. Thirty went on to submit substantive complaint forms. Eight of these had first approached the Gambling Commission. Most customer enquiries are expressions of regret, very few amount to substantive or founded complaints. The Gambling Commission does not investigate general public complaints and has never sought our feedback.

Conclusion

UK consumers are the best served in the world in terms of the quality, choice and value in online gambling. They have one of the lowest rates of problem gambling. Local licensing in Europe has distorted markets and diverted customers to higher risk sources and payment methods. The returns to governments are
64. The UK associated operators are maintaining their competitive position in a global market through their use of the primary jurisdictions. They spend and invest heavily in the UK, which acts as the corporate hub through which they are able to expand into new and viable markets.

65. The competition for UK customers is between UK associated operators and the operators located in more distant places. The current arrangements allow UK operators to use their undertakings in the primary jurisdictions to win that competition.

REFERENCES
1 The 17 are: Ladbrokes, William Hill, Betfair, bwin.party, Betfred, bet365, 888, Victor Chandler, GalaCoral, Stan James, 32Red, Mansion, tombola, Probability, Gamesys, ProSpreads, IGT. 5 operators are not substantively associated with the UK: Digibet, Partouche, BetClic, SL.M invier, St.Endillion.
2 The committee will have received many estimations of projected growth in the online sector, within and beyond the UK; in some states it is stable or in decline, in others it is growing.
3 www.publictechnology.net/content/10835 At the inception of the Gambling Act DCMS announced that 1000 of the 2300 sites facing the UK would be “closed out” by the Act. Confusingly it then identified 1700 sites in non approved Caribbean jurisdictions.
4 www.gamblingcommission.gov.uk/pdf/Gambling%20Industry%20Statistics%202009%202010%20update%20-%20July%202011.pdf See page 6 reference to 2010 Prevalence Study, however these results differ slightly from the more recent Omnibus Study quoted lower down the same page.
5 www.gamblingcommission.gov.uk/PDF/Prevalence%202010.pdf Chapter 5, esp. Pages 76/77 and Tables 5.2 and 5.3 dealing with the problem gambling rate diminishing with age.
6 www.gamblingcommission.gov.uk/pdf/Survey%20data%20on%20participation%20-%20October%202011.pdf See Section 4.2 Table 1, gambling prevalence, generally, increases with age.
7 As 6, see Section 5.2 Table 3. Remote gambling is most popular in the 35 to 44 and 25 to 34 age bands.
8 As 4 above.
9 As 5, Chapter 2, esp. Page 21 and Table 2.1 deal with diminishing cross use of gambling products and the limited overlap between online and offline.
10 As 5, esp. Chapter 6, pages 94-95 and Table 6.4 deal with problemgamblers using users of multiple products and sources, with online gambling having limited association with problem gambling, compared to certain other sources.
11 As 5, esp. Table 5.2 and Table 5.3 dealing with the problem gambling rate diminishing with age. Remote gambling is most popular in the 35 to 44 and 25 to 34 age bands.
12 There is no definitive list of online gambling sites, and sites appear and disappear on a daily basis. A useful but invariably out of date source is http://www.casinocity.com/ which also acts as a traffic driver/affiliate.
14 As 13, see Chapter 3.
15 www.publications.parliament.uk/pa/cm201012/cmselect/cmcumeds/writev/gambling/m79.htm Paras 22-23.
16 www.thegreatfoundation.org.uk/oursupporters.html Gibraltar operators feature heavily in the lists of the largest donors to the GREaT Foundation, all are GREaT contributors.
17 As 13, para 2.7.
19 www.justice.gov/usao/nys/pressreleases/April11/scheinbergetalindictmentpr.pdf Two of the three brands under investigation were the leading brands in the UK and Europe, the third was more US focussed. One brand subsequently had its licence revoked when longstanding accounting irregularities were revealed to the regulator, the other two brands continue to offer poker to UK consumers.
21 As 4, see page 4 Fig 1. Most UK gambling sectors are not included in the UK Anti Money Laundering Regulations 2007 due to the UK not defining them as “casino” activities, despite betting facilities being a feature of most casinos in the world (except the UK) and the Directive provides for activities of equal or greater risk than those listed being included.

22 As 13, see Section 3.21. Effectively, only 75 UK licence holders are subject to the AML regulations, any other reporting arrangements are under a voluntary Code.

23 All online jurisdictions use a small number of accredited independent testing companies and subscribe to various agreed international technical standards.

November 2011

Supplementary written evidence submitted by The Bingo Association

Following the session, I wanted to clarify some of the statistics that arose around Gambling Commission costs as we fear that we may have unintentionally provided some incorrect data. We have now liaised with the Gambling Commission and confirmed that the current costs for a bingo operator are £100 for a “Ancillary Remote License” application fee and an annual fee of £25.

The Gambling Commission have also confirmed to us that there is no proposal to increase the cost of the Ancillary Remote Licence.

November 2011

Supplementary written evidence submitted by bwin.party Digital Entertainment Plc

I offered to come back to the Committee with the statistics on the number of our customers who self-exclude each year, following on from a question from your colleague, Jim Sheridan MP. From 1 January 2011 to the end of October 2011, 2,607 of our UK customers chose to self-exclude and to give you some comparable data, over the same period in 2010 the number was 2,133. According to the results of our research collaboration with the Division on Addictions of Harvard Medical School, only 10% of those players close their accounts because of gambling-related problems (Braverman & Shaffer, 2010). To put these numbers in context, we have close to [190,000] individual active customers in the UK. People may decide to self-exclude for a variety of reasons, having gaming-related problems may be one of them. Self-exclusion is just one of the many responsible gaming tools (self-tests, deposit limits, etc) that bwin.party offers its customers to help ensure they continue to enjoy gambling in a responsible way.

I would like to reiterate the fact that for regulated operators like bwin.party, problem gambling is bad for business and we are fully committed to addressing any issues experienced by our customers. We already offer a number of measures including self-imposed deposit limits or cooling-off periods as well as session timers and self-exclusion to help our customers control their gaming behaviour through tried and tested safeguards. The UK has maintained one of the lowest prevalence rates of problem gambling in Europe. This underlines the effectiveness of the British regulatory approach which strikes the right balance between an attractive online gambling offer and appropriate consumer protection measures that ensure that the vast majority enjoy gambling as means of entertainment, while the small percentage of those who may have gambling-related problems, are taken care of.

However, in some Member States, online gambling is not sufficiently or—on the contrary—overregulated so that customers are left to transact with operators that fail to offer the level of protective measures secured by regulated operators. We strongly believe that player protection is most effective if there are homogeneously high standards such as the European Committee for Standardisation’s Workshop Agreement on Responsible Remote Gambling Measures (CWA 16259:2011). These standards represent a sensible approach that can and should be adopted at an EU level and would represent an important step towards harmonisation of gambling regulations in the EU.

We believe that the UK framework is working well and delivering an excellent offer for consumers. There is a wide range of gaming products and services to choose from at competitive prices and problem gambling remains low. The unintended consequences of changing such a successful regime may include an increase in the size of the black market where consumers are less likely to be afforded the protections supplied by regulated operators.

November 2011
Supplementary written evidence submitted by The Methodist Church

Summary and Key Points

— The link between overall problem gambling levels and youth problem gambling is well established. Rises in the former are accompanied by rises in the latter, with the qualification that problem gambling (as a proportion of overall gambling) is generally higher among young people than the general population. Young males are at particular risk.

— In the absence of a comprehensive study, it is not possible to give a definitive, current analysis of youth gambling in the UK, but the combined implications of recent rises in overall prevalence and problem gambling prevalence, and international research findings around the effects of liberalised gambling framework, give grounds for serious concern.

— Internet gambling and advertising, including gambling advertising, are changing gambling patterns in ways that pose particular risks to children.

— The changes to the regulatory framework and the Gambling Prevalence Survey threaten to make it harder to gather and act on the evidence the CMS committee rightly requires.

— The Methodist Church and its ecumenical partners continue to query the appropriateness of Category D slot machines remaining legal for children to gamble on.

Context and Introduction

1. In the course of oral evidence given by representatives of the Salvation Army, Methodist Church, Evangelical Alliance, Quaker Action on Alcohol And Drugs and CARE, Mr Collins and Mr Sanders asked a series of questions relating to faith groups' and charities' views on gambling advertising.

2. Mr Sanders (Q478) stated “You do see the difficulty that we are having: you have raised the issue of advertising, but you cannot come up with a single example of an advert that has caused a problem, you cannot cite any evidence at all that states that it causes a problem, and we have to deal with evidence in order to reach conclusions”.

3. The reply to this question set out two areas the CMS Committee would need to consider. The first, as mentioned, was the importance of drawing correct inferences from comparative studies of youth gambling and advertising. There was no opportunity in the oral evidence session to state the second point: the fundamental need to understand and question the normalisation of gambling, not just specific advertisements or industry practices, in making policy.

4. Over a decade of international research has established the nature of the links between gambling prevalence, youth problem gambling and advertising, and the way this research was conducted makes it clear that in its essentials its results are generally applicable irrespective of national boundaries.

The Effects of Gambling Advertising on Young People

5. The most recent (2009) and authoritative report is An Empirical Study Examining the Impact of Gambling Advertisements on Adolescent Gambling Attitudes and Behaviors: i

“Sixty-one percent of youth reported receiving spam gambling advertisements by e-mail and 96% had seen TV advertisements for gambling. The underlying perceived message is that winning is easy, the chance of winning is high and that gambling is an easy way to become wealthy. While most youth are dismissive of the messages and are aware of the risks associated with gambling, a large percentage of youth report that these messages prompt them to gamble. Rather than inciting non-gamblers to begin gambling, advertisements appear to serve the function of maintaining established gambling habits and were particularly problematic to youth with gambling problems”.

6. The serious risks of gambling advertising for those who are liable to problem gambling are underlined by a US study ii which found that:

“gamblers who had urges triggered by advertisements also appeared to develop pathological gambling soon after the onset”.

7. Research confirms that young people are particularly susceptible to gambling advertising:

“Youth are particularly attuned to gambling advertisements and have high levels of recall for these ads (Derevensky, Gupta, Messerlian, & Gillespie, 2004): iii

— Among other findings of a New Zealand study v were that “It was also reported that the younger the person, the more likely they were to remember some form of gambling advertising” (93% of those under 25 years; 76% of those over 65 years).

— A US National Gambling Impact Study Commission reported that lottery adverts target particularly vulnerable populations, specifically youth.

8. There has only been one survey that gave grounds for supposing that youth gambling in the UK (and youth problem gambling) may not be rising. The British Survey of Children, the National Lottery and Gambling 2008-09 vi found that problem gambling in youths, in the form of purchasing lottery tickets, had fallen since
2006. It also found that attempts to gamble and rates of gambling by other means including slot machines had fallen.

9. Despite the limitations of this survey, it is relevant because it shows that the regulatory effects of the Gambling Act 2005—including limiting the availability of gaming machines in non-gaming environments like fish and chip shops—may have had the welcome effect of lessening youth gambling (and by implication youth problem gambling). However, the positive side of this message is more than offset by the much greater evidence that problem gambling is increasing, that youth problem gambling is consistently higher than problem gambling overall, as well as the overall context in which advertising and Internet gambling have spread substantially since the time the survey was conducted. This supports the argument that regulation is effective and needs to be rolled out more widely.

10. To claim that advertising is not targeted at youths are at best disingenuous. The above quoted recent study from McGill University (see paragraph 5) states:

“The gambling industry maintains that ads for gambling products and services are not specifically intended for under age audiences; nevertheless, this study offers ample evidence that many ads can be assumed to have strong appeal to adolescents. Many of the themes described here are likely to have tremendous appeal to adolescents and young adults, even if they are not the primary target audience. Although in some cases, efforts have clearly been made to use older adults and adult references (such as office settings), there are many examples of signifiers likely to have strong resonance with youth viewers, such as ironic humour, and the use of quasi-adolescent characters and cultural references”.

11. There are numerous other relevant studies. If the CMS Committee requires further details and a more complete understanding of the causal relationships between advertising and youth problem gambling, leading authorities such as Professor Mark Griffiths of Nottingham Trent University or Professor Jim Orford of the University of Birmingham should be able to assist.

12. However the overall message is clear. These findings all underline the need to strengthen the use of the precautionary principle in advertising in view of its disproportionate effect on, and risk of harm to, on young people.

Social Media

13. The above would probably have applied to any substantial liberalisation of gambling advertising, even without the rise of gambling and gambling advertising online. But these developments pose additional risks for youths. There is an urgent need for more research around these areas: if the CMS Committee requires further information, CARE has particular expertise in the area of online gambling.

14. One noteworthy development is the creation of gambling opportunities for social media. As found in Downs’ 2008 pilot research in the UK:

“there were 25 Poker applications on Bebo (and over 500 separate poker groups) and in excess of 100 poker applications on Facebook (and over 1,000 separate poker groups). These poker sites featured some with real prizes, some with cash-play options, and all easily downloadable by those under 18 years along with many free trial games. The largest of these poker groups had over several thousand members and in one group surveyed, 15% of those in the group declared they were under the age of 18 years. Furthermore, gambling applications typically contain sidebar advertisements and hyperlinks to real gambling sites”.

15. Young people are usually at the forefront of uptake of innovative forms of social media, and the UK traditionally leads Europe in its engagement with new technology. As UK youth are disproportionately likely to come into contact with gambling and gambling advertising through the Internet and Social Media, the risk of continuing to allow children to gamble (uniquely in Europe) is clear.

The Global Context and the Relevance of Studies from Other Jurisdictions

16. In response to the growth of the gambling industry in recent decades, there have been various authoritative worldwide studies, with Canadian researchers playing a notable role. In oral evidence given to the CMS on 22 November 2011, Canadian and Australian studies were mentioned as particularly relevant because, while most of the studies were conducted in nations with broadly comparable national contexts and regulatory frameworks, lessons learned from Canada and Australia are likely to be more directly applicable in view of stronger cultural similarities.

17. It is important that the UK draw comparisons with research from other jurisdictions which have data on the effects of a liberalised regime and add to the international body of research by maintaining funding of and demonstrating engagement with, major studies. As mentioned, most if not all of the relevant studies are based on data from nations whose cultures are strongly comparable to that of the UK, and the research is generic enough to highlight those drivers which are likely to be shared by gamblers and problem gamblers of different nationalities and regulatory regimes.

18. There is no reason to suppose substantive difference or inapplicability of this research into the effect of advertising on youth gambling. The area where national difference is relevant may be around the prevention of continuing to allow children to gamble (uniquely in Europe) is clear.
and treatment of problem gambling. Analysing and where relevant implementing findings from comparable jurisdictions should be prioritised while the UK develops its own research.

19. Two major US studies found that:
   “Between 1984 and 1999 there was a significant increase in the proportion of youth who reported gambling within the past year as well as those who reported gambling-related problems” (Jacobs, 2000).
   “Clearly, adolescents represent a particularly high-risk group and are vulnerable to the development of gambling problems” (Derevensky & Gupta 2000).

20. The US study “Youth Gambling in the 21st Century: Prevalence, Impact, and Interventions” concluded that “The data demonstrates that most young people engage in gambling at a younger age, and gambling may serve as an initiation to other risky behaviors such as drug and alcohol use”.

21. Mr Sanders stated that “We know that in Australia, the liberalisation of gambling went far further than in this country, so it would not be a comparator” (Q479). This is true to the extent that the Australian experience cannot be used to argue in broad terms for or against liberalisation. However it is false to suggest that inferences about the overall effects of liberalisation or the causes of problem gambling among youths cannot be made. The scale may be different but the causal relationships must be acknowledged.

22. In addition, if the argument that UK regulation is about right involves a claim that Australian deregulation proceeded too quickly, then the Australian data should be considered to consider what excessively fast deregulation might look like and combine that learning with the maintenance of the precautionary principle.

23. In answering Mr Sanders’ Q479 by saying “Some of the studies are quite technical, but our first task is to make sure that the data and findings reflect the UK situation where research has not been done”, the intention was to encourage the CMS Committee to study the international evidence which is massive and to which I can only refer in this document.

24. On the assumption that the grounds for comparability—from a public health perspective—are so strong that the general points should be regarded as non-controversial, the Methodist Church would invite the CMS Committee to accept existing findings around the causes of problem youth gambling, recommend prioritising studies capable of capturing any differences relevant to prevention and treatment of problem gambling in the UK, and advocate caution in policy making and investment in research, prevention and treatment targeted at problem gambling in youths.

25. It is also important that work that has already been done on this subject is not lost. We would call the committee’s attention to/attach a paper produced by the Responsibility in Gambling Trust (RIGHT) in 2006, which was Responsible Gambling Fund’s predecessor. Its review (which includes relevant parallels between alcohol and gambling) and many of its conclusions are still valid.

**Normalisation**

26. The gambling industry has a strong incentive to normalise gambling and advertising inevitably plays a central part in this. The McGill study mentioned above states:
   “From a marketing perspective, the gambling industry, like the tobacco and alcohol industries, must ensure that a next generation of gamblers will emerge to replace the old one. Gambling corporations require continuity to maintain and increase their market share, and this can only occur with consistent and continuous normalization of gambling as enjoyable and benign entertainment. Moreover, evidence suggests that brand recognition is even more effective when it is introduced to children at a very young age (Buijzen & Valkenburg, 2004).
   For these reasons, it is critical to learn the lessons of the tobacco and alcohol awareness advocacy movements, which have had several more decades’ experience crafting effective guidelines to protect youth from potentially risky messages for those products. An argument that alcohol advertising targets youth simply because it is in so many ways undistinguishable from all other advertising that targets young people can be extrapolated here... (Austin & Hust, 2005).
   ...of critical concern in advertising any product that is potentially risky to the end user is the social climate of normalization that surrounds it, theoretically heightening audience’s receptivity to the product. A study of adolescents found that non-drinkers who showed high receptivity to alcohol advertising messages were more likely to try drinking than their peers (Henriksen, Schleicher, & Fortmann, 2007)”.

27. This shows that gambling advertising, as practiced, is hard to separate from the attempt to normalise gambling. Contra Mr Collins’ assertion during oral evidence on 22 November 2011, churches and charities in the UK have no blanket desire to ban gambling advertising, though shades of opinion exist around what might constitute appropriate advertising.

28. But before general criteria around advertising can be established or specific adverts considered, there needs to be a serious discussion of normalisation. And if, as the above research suggests, recent trends in advertising are inseparable from the attempt to normalise, and this in turn is likely to impact on youths disproportionately, then the normalisation agenda is itself in question.
29. Any industry policies with definite potential to cause harm to vulnerable communities are of deep concern to the Methodist Church. Just as the clustering of betting shops with hard gaming machines in deprived areas should be guarded against, advertising must guard against causing a serious increase in problem gambling among youths.

30. It may be argued that these two requirements would pose serious challenges to parts of the UK gambling industry. But this challenge must be met if the gambling industry is to demonstrate its social responsibility and comply with Objective 3 of the 2005 Act.

Summary and Conclusions

31. For this reason, particular extreme gambling advertisements are less of a current concern than the question of the means by which normalisation is being achieved. Socially responsible industry growth must aim at meeting legitimate demand whilst avoiding affecting the vulnerable adversely. Current trends gambling offer little assurance that this is the case and in the mean time, the presumption should be caution, not liberalisation by default.

32. In addition to the detailed evidence presented in this document, it is vital that Government recognise certain facts and wider threats:

- Children are at high risk of becoming problem gamblers and harms to children gamblers are particularly worrying, not least the risk of becoming an adult problem gambler.
- Children are susceptible to peer pressure, example and advertising and are particularly at risk in online gambling which is a growth area, inherently attractive to "Internet-savvy" youth, and advertised aggressively.
- Young men are at particular risk, for reasons explained in the various studies mentioned, including a propensity to risk-taking behaviour and an overvaluation of supposedly specialised knowledge.
- In this climate, the regulator must be empowered to limit industry reliance on business strategies which rely on profiting from risky forms associated with problem gambling and harm to vulnerable communities. These include but are not limited to clustering of gambling opportunities in vulnerable communities and advertising which will disproportionately affect youths.

33. One area which requires particular scrutiny is thus sports advertising, and the association between sport and gambling. Unlike some other forms of gambling it offers real-time betting on an already appealing activity and appeals to the belief in specialist knowledge. It is unrealistic to suppose that children can be protected from intensive gambling advertising associated with sport (both at sporting events and on television) reaching their adult family members. The paper produced by RIGHT (noted in paragraph 25 above) discusses the relationship between sponsorship and sports advertising and should be reviewed.

34. As mentioned in the oral evidence session of 22 Nov 2011, the 2005 Act should have been followed by a consistent attitude of caution when potentially deregulatory measures or changes to stakes and prizes were discussed and the collection of sufficient evidence before any making any substantial changes. In worrying contrast, policy changes since the 2005 Act seem to have been introduced without any evidence whatsoever and have all been deregulatory moves in response to Industry pressure based on financial considerations.

35. The ultimate risk of the current direction of travel is that of treating the UK population as subjects in a risky social experiment through leaving basic presumptions towards liberalisation unchallenged. Contra this laissez-faire attitude, the Methodist Church maintains that:

- There are basic questions about gambling advertising, which go beyond objections to particular adverts. These include concerns about the normalisation of harmful forms of gambling; advertising likely to affect children disproportionately; and the relationship of gambling to the Internet and social media.
- As expressed in Objective 3 of the 2005 Act, youth gambling is a special category. Prevalence of problem gambling is higher in children than adults and protecting children from developing gambling problems should be at the heart of the regulatory framework and a prime concern in any new policy making.
- There is every reason to believe that the key international studies are entirely applicable to the UK and that, sadly, liberalisation leads to rises in youth problem gambling. Understanding the grounds of comparability and analysing the causes of problem gambling are an important interim measure prior to conducting an adequate UK study.
- Rather than displaying limited engagement even with the existing studies and pressing on with liberalising policy willy-nilly, Government should return to the precautionary principle, following the letter and spirit of the 2005 Act. The 'data' should be not created artificially through inadvertently creating rises in problem gambling through a socially irresponsible deregulatory agenda.

36. There is sufficient evidence to support each of these claims, and the combined danger of not adopting them is that the evidence that the DCMS would consider adequate—a UK study—will not be done because it is not deemed important on a priori grounds and because funding is being withdrawn. Furthermore, even if it were done, the present direction of travel would be to keep liberalising until any measured changes were not
just real and statistically significant, but serious enough to be unequivocal. But by then, the damage done by deregulation might be too serious to be met by normal policy measures.

37. The first policy to review, in the light of these principles, is the ongoing legality of children gambling on machines that involve financial stakes and prizes. In view of current concerns around youth problem gambling, there are strong grounds for bringing the UK in line with the rest of Europe and making Category D slot machines legal for adults only.

References

i Jeffrey Derevensky, Alissa Sklar, Rina Gupta and Carmen Messierlian, from The International Journal of Mental Health and Addiction Volume 8, Number 1.

ii Grant, J E & Won Kim, S (2001).


v (Downs C. The Facebook phenomenon: Social networking and gambling. Gambling Social Responsibility Forum Conf, M anchester Metropolitan Univ, M anchester, Sep 2008.)


vii (See in Derevensky & Gupta 2000): www.ncbi.nlm.nih.gov/pmc/articles/PMC2533814/022-0130003, and www.ncbi.nlm.nih.gov/pmc/articles/PMC2533814/

viii www.napafasa.org/p/GPG/Youth%20Gambling%20in%20the%2021st%20Century.pdf November 2011

Supplementary written evidence submitted by GamCare

Education

We believe strongly that in the medium term it is vital that we improve awareness of the risks of gambling amongst young people and those that can influence them, particularly parents and teachers. The latest research suggests that there are already c60,000 12 to 15 year olds who are problem gamblers. The promotion of gambling products has become more pervasive, and so the teenager’s perception of gambling as an acceptable leisure pursuit is being reinforced with no effort to ensure they are equipped to gamble safely. Yet only 5% of parents recognise gambling as an issue on which their children need help and guidance. Nor is there any bespoke treatment provision for young people.

GamCare is already developing new services for young people, including a dedicated website, online forums and social networking. We have made two further proposals which we recommend to the Committee:

— That the Personal, Social, Health and Economic (PSHE) education school curriculum should specifically cover gambling. Our submission to the DfE’s consultation on PSHE (which closes on 30 November) setting out the case for this is attached. We would be pleased if the Committee felt able to add their support to our proposals; and

— That the industry, through the GREaT Foundation should urgently consider for funding the programme which we together with a number of expert partners have already designed to develop, test and deliver awareness education for 12–15 year olds. We would pilot this in 3 regions, evaluate the pilots and then be able to roll out the programme across the country. Each pilot requires in the region of £75k over two years, plus evaluation costs.

Industry Advertising

At present, under the terms of a voluntary industry code, most operators include the “gambleaware” website in their advertisements (broadcast and other media). On many ads the website reference is easy to miss, and the gambleaware website has only had very limited success. The Committee were keen to explore other options.

We recommend that all industry advertisements should carry the national helpline number perhaps with the message “Gamble responsibly. Need help? Call GamCare 0845 6000 133”. This might be instead of, or as well as, the gambleaware website. This approach has several advantages:

— It raises awareness that there are risks and provides a direct channel for help.
— It would reach the non-gambling partners or families of problem gamblers—people who are vital to both identifying and helping problem gamblers, and who also can be seriously affected themselves, but who do not visit gambling premises or websites themselves so are unaware of the helpline number.

— There is no extra cost involved.

We wrote to John Penrose in September 2010 recommending this as a “win-win” measure—non-regulatory, no costs, significant public benefit, and he replied saying he was seeking advice, but we have heard nothing since. (Copies of letters enclosed.)

**Expanding Face-to-Face Counselling**

At present we and our network of counselling providers provide face-to-face counselling covering c70% of Great Britain. In the uncovered areas—eg Wales, Cornwall, parts of Yorkshire—we can offer online counselling but this is often not appropriate or acceptable for the client. We hope that GREaT will give priority to face-to-face coverage across the whole of Great Britain in 2012. We have already assessed need across the country and would be able quickly to commission providers if funding were agreed. It would be helpful if the Committee identified this as a priority in their report.

**Improving Self-Exclusion**

Whilst the provision of self-exclusion facilities is effectively a requirement of the Gambling Commission’s licence, the Committee has heard from several sources about the inadequacy of current arrangements:

— Exclusion processes in retail outlets can be time-consuming and off-putting for players.

— Whilst an operator can circulate self-exclusion details to other outlets it has in the neighbourhood, there is no inter-operator co-operation. Thus to self-exclude from every betting shop, arcade, and casino in a given area a gambler has to deal with each individually.

— The operation of self-exclusion largely depends on the vigilance of staff and there are many examples of the system breaking down.

It is clear that the creation of a cross-operator self-exclusion system, ideally crossing gambling sectors as well, would be in the interests of the player and the industry. But there are many issues—to do with competition confidentiality, data protection etc—to be considered. So far the industry has not come forward with a proposal that works.

We are working with Salford University and a number of online operators on precisely these issues. We were approached to do so because GamCare, as an independent charity, can act as a trusted broker between the different operators’ interests, and also has a brand which is well-known and trusted by players. We would welcome the opportunity to expand this work and take it forward with the backing of Ministers and the Gambling Commission. Funding could be provided by GREaT.

**Why we do not advocate a statutory levy**

We are opposed to the introduction of a levy for three main reasons:

— we believe that all companies who benefit financially from gambling should be encouraged to contribute to the research, education and treatment programme; that includes a large proportion of the leisure sector, internet service providers, banks, and many, many others. But the legislation restricts a levy only to those who hold operating licences, which would unnecessarily constrain contributions as a whole, and so place a greater, and unfair, burden on those companies subject to it;

— a statutory levy turns voluntary contributions into “Government” money, bringing with it two risks: first, the bureaucracy and costs of collection and distribution rise inexorably (this was our recent experience of the tripartite system, which sought to behave as if it was handling a levy, with a consequent, and rapid, growth in bureaucracy and costs); and secondly, over time there is a real danger of the “hypotheccated” levy funds being diverted into, and lost within, HM Treasury’s general pot; and

— working on a voluntary basis with industry operators rather than with “pressed men” is much more likely to produce a healthy understanding and implementation of social responsibility principles and practices.

November 2011
Written evidence submitted by Quaker Action on Alcohol and Drugs (QAAD)

We set out the relevant evidence below and draw attention to the need for an independent research agenda.

1. Slot Machines and Adolescent Problem Rates

1.1 The studies to which I referred in oral evidence include a series undertaken by Susan Fisher during the 1990s. The last of these (Fisher, 1999) covered a large sample of 10,000 adolescents, and found that 5.6% of respondents experienced a problem with gambling on fruit machines and/or National Lottery scratch cards. Among those with problems, 62% had problems with machines, 17% with scratch cards, and 21% with both forms of gambling.

1.2 The Australian Productivity Commission’s recent update of its authoritative 1999 evidence review underlines again the risks arising to players from gambling machines: “[Gaming machines] account for around 75–80% of ‘problem gamblers’ and are found to pose significant problems for consumers in general” (Productivity Commission 2010).

1.3 Other jurisdictions do not allow those under 18 to play slot/Electronic Gaming Machines because of the risks associated with them. Iceland provides a recent example of a country that became concerned about illegal play by minors on slot machines in casual or unsupervised locations. A study of adolescent gambling was conducted, which reported that:

The results of this study support the link between EGMs and problem gambling, as EGM gambling was the most common regular (once a week or more) game played by adolescent problem gamblers (41%). The next most common were card playing (28%), scratch cards (25%), sports betting (22%), and gambling on the Internet without betting money (21%). (Olason, D, et al (2006). The study formed part of the evidence base that contributed to tighter controls.

1.4 One of the principal researchers in the UK is Professor Mark Griffiths, who has written:

“The main form of problem gambling among adolescents has been the playing of fruit machines. There is little doubt that fruit machines are potentially ‘addictive’ and there is now a large body of research worldwide supporting this.” (Griffiths 2007 p 12–13)

1.5 Griffiths has researched the effects of problem gambling on adolescents in UK studies, which he lists as:

“...truanting in order to play the machines, stealing to fund machine playing, getting into trouble with teachers and/or parents over their machine playing, borrowing or the using of lunch money to play the machines, poor schoolwork, and in some cases aggressive behaviour (Griffiths, 2003). These behaviours are not much different from those experienced by other types of adolescent problem gambling. In addition, fruit machine addicts also display bona fide signs of addiction including withdrawal effects, tolerance, mood modification, conflict and relapse.”

1.6 He concludes:

It is clear that for some adolescents, gambling can cause many negative detrimental effects in their life. Education can be severely affected and they may have a criminal record as most problem gamblers have to resort to illegal behaviour to feed their addiction. Gambling is an adult activity and the government should consider legislation that restricts gambling to adults only (Griffiths, 2007, page 13)

2. Higher Rates of Problems Among Children and Adolescents

2.1 The adolescent problem gambling rate found by Fisher (5.6%) was many times higher than the adult rate. Although there is some variation across countries, the general finding of higher levels of problems among adolescents than adults seems to be generally agreed. Valentine (2008) was commissioned by the Gambling Commission to conduct a review of the evidence relating to children and young people, and notes that: “Delfabbro et al (2005) suggest that the modal prevalence rate of young people’s gambling is over three times the prevalence rates of problem gambling in the adult population.” She summarises: “The prevalence rate of problem and pathological gambling amongst young people is higher than amongst adults and represents an emerging public health issue.” (Valentine, 2008, pp 9 and 13)

2.2 Problem gambling among children is of particular concern, both in itself and because it is associated with later gambling problems in adulthood. Valentine states: “The age of onset for problematic gambling in young people is estimated to occur around 10–11 suggesting that access to gambling at this age is of crucial importance.” (page 9)

3. Slot Machine Risks in General and the Nature of the Risk

3.3 Slot machines are of concern because they have highly reinforcing features (see also QAAD’s original submission for fuller evidence). Breen (2004) found that involvement with computerized gambling devices (such as video slots) is associated with a significantly faster onset of problem gambling in both men and women than are more “traditional” forms of gambling. He concludes:
Recent Evidence on Adolescents

3.4 Griffiths notes: “Research has indicated that the most addictive gambling activities are those (such as slot machines) that involve high event frequencies, a short interval between stake and payout, near miss opportunities, a combination of very high prizes and/or frequent winning of small prizes, and a suspension of judgment.” (Griffiths, 1993; 1999; Parke & Griffiths, 2006; 2007) (Griffiths, 2008, p9)

3.5 Recent research on the chemical processes in the brain activated during machine play is helping to unravel how their design promotes continued gambling. As regards the “near miss” feature, for example it is now thought that: “Near-miss outcomes recruited striatal and insula circuitry that also responded to monetary wins....Gambling near-misses were associated with significant recruitment of brain win-related circuitry and acted to increase desire to gamble.” (Clark et al 2009)

4. Recent Evidence on Adolescents

4.1 A study of Scottish children (Moodie and Finnegan, 2006) showed problem rates of 9% in an adolescent sample between 11 and 16 years of age.

4.2 Regular studies have been undertaken through the National Lottery Commission: the most recent conducted by researchers from the University of Salford and IPSOS Mori. This shows a fall in children’s gambling and problem gambling in 2008-09. However, the problem rate is still 2%—over double that of adults (IPSOS Mori, 2009). Problem gambling among children who had gambled in the last week (as opposed to the whole sample, which contained non-gamblers) remains similar, at about 9% or 10%. This is a disturbingly high proportion.

4.3 The rate of the fall in problem gambling in the survey reflects a similar rate of fall in the use of slot machines. The authors comment: “It is likely that this drop [in problem gambling] reflects falling levels of gambling and how it is addressed (Disley et al, RAND, 2011). This includes, amongst other important areas, an examination of recent evidence in relation to slot machines, including “situational features” such as where they are found and density. The report states:

4.4 This study also found:

— Children with more pocket money or earning more income were much more likely to gamble and, if they did so, rather more likely to display problem gambling traits.
— Children attending schools with more deprived student populations were slightly less likely to gamble than those attending schools with more affluent student bodies, but, where they gambled, were much more likely to display problem gambling characteristics. (page 12)

4.5 This and other studies (see Griffiths, variously, and Valentine, 2008) have found risk factors that include being male, having a parent who gambles problematically or parental condoning of gambling; early onset of gambling; engagement in/problems with substances; low self-esteem, impulsivity, ADHD, and delinquency.

4.6 In short, children who are vulnerable through social disadvantage are particularly at risk—though risk is also spread, as heavy and problematic gambling occurs in children who have relatively high levels of disposable income or pocket money.

5. Research on Slot Machines and other Areas of Risk

5.1 The Responsible Gambling Fund has developed a public-health focused agenda for research education and treatment. This has included a study that began mapping the distribution of gaming machines—work that needs to be built on to investigate any associations between local distribution and problem rates.

5.2 The RGF also commissioned a report to “map the gaps” in the evidence base relating to harmful gambling and how it is addressed (Disley et al, RAND, 2011). This included, amongst other important areas, an examination of recent evidence in relation to slot machines, including “situational features” such as where they are found and density. The report states:

5.3 However, because the relationship is a patterned one and these are not UK studies, the report identified this as a research gap “despite indentifying a considerable number of studies that look at the impact of situational features, this is an issue on which there is a limited evidence base to inform decisions in Britain.” (Disley et al, RAND, 2011, pp 13-14)

5.4 The report alludes to “black holes” of knowledge in some significant areas:

“...there are some issues where the problem appears to be a lack of research attention; for example, despite the prevalence of betting shops across Britain, no studies were identified that looked at these.” (page 9, our emphasis)
5.5 The Select Committee will recall that this relates to our strong concerns about B2 (FOBT) machines, which are located in betting shops, and reported in about a fifth of calls to Gamcare. Other areas identified as seriously under-researched were the effectiveness of corporate responsibility measures and the effectiveness of treatment responses.

6. Emerging Concerns: Internet Gambling and Adolescents

6.1 The internet has structural high-risk features similar to those present in the design of slot machines, with the additional risk of potentially constant access. The British Survey of Children found that 1% of children had gambled for money on the internet, but drew attention to “free” or “practice games”, noting that this involvement correlates with terrestrial gambling: “playing free online gambling games in the past seven days was the single most important predictor of whether a child had gambled for money in the seven days preceding their interview, and one of the most important predictors of problem gambling among those who had gambled...The findings underline the importance of further research...”  
   (IPSOS Mori, 2011, page 5)

6.2 Although correlation does not necessarily involve cause, and it is likely that on-line and terrestrial behaviour reinforce each other, the promotion of gambling to children even without real money is concerning (and some of these sites use virtual “munny”, which is likely to evoke similar responses—see Downs’ work). An early gambling pattern not only carries risks for current behaviour, but is likely to be carried through into adulthood.

6.3 Although current UK internet gambling rates are relatively low, the experience of countries like Iceland is instructive, where internet gambling is emerging as a problematic issue. In a recent study of 13-18 year olds, the problem rate generally was 2.2%, but 7.7% amongst internet gamblers (Olason et al, 2011). A proactive UK approach seems advisable.

7. Summary and Key Points Relating to Children

— In view of the documented risks of the early onset of gambling and the higher rate of problems among children, particularly those who are most vulnerable, we believe regulation should aim to make gambling an adult activity only.

— The strongest evidence relates to slot machines, both in terms of adolescents who experience problems, and the design features that promote continued gambling. These are significant risk features, even though stakes and prizes are restricted.

— No other jurisdiction allows children to gamble on slot machines and the UK should follow suit. If this evidence is considered insufficient, further studies on children’s slot machine gambling should take place to test the picture in more detail.

— Other forms of children’s gambling should also be researched, including emerging areas of risk such as the internet. The impact of advertising on children is another significant area identified for further scrutiny in a recent RGF paper. (Planzer and Wardle, 2011)

— “Free” and practice gambling accessible to/marketed to children (including via social networking sites) should be investigated with a view to phasing them out.

The importance of developing the research agenda

— The approach to research and regulation needs to be proactive and risk-led— which means identifying areas where there is evidence of harm or that it is likely, and investigating all methods of harm reduction. This process has been initiated.

— However, in some areas at least, there is an obvious conflict of interest between this approach and the financial interests of the gambling industry. Recent changes in the funding of research and treatment have largely removed the tripartite mechanism that managed this conflict and ensured the necessary level of separation.

— In particular, we are concerned that research into the influence of “supply side” factors such as distribution/accessibility and how these might relate to the incidence of problem gambling may not be continued. This has correctly been identified as a research gap that needs to be filled if public policy— and regulation— is to be appropriately informed.

— Since our appearance before the Select Committee, the five independent trustees of the RGF have stood down to make way for three representatives of the GREaT Foundation, who have industry backgrounds that include businesses involving slot machines, remote gambling, and bookmakers.

— Whilst the probity of the individuals is not in question, the need for robust structures that ensure an independent and effective research and treatment agenda needs to be assured. In particular, accountability for developing and carrying out this agenda should not be to the industry, but to those operating in the wider public interest.

We hope that this extra evidence has been helpful, and that the Select Committee will be able to address children’s gambling as well as wider concerns.
REFERENCES

Supplementary written evidence submitted by National Casino Industry Forum (NCIF)

During the oral evidence session which my NCIF colleagues attended your Committee members raised a couple of points that we promised to answer. The NCIF response is contained herewith.

Taxation

The issue of taxation is immensely complicated. There is no consolidated research focused on tax rates. Another problem is in comparing like with like; a lot of countries have different approaches to taxing casinos than that used in the UK, some have a Gross Gaming Yield (GGY) base with other fixed cost bands attached dependent on other factors and some use very different ways of calculating GGY. For example, German casinos are taxed at an apparently punitive rate of between 45% and 80%. However online gambling is illegal and German operators are state-run. This means a very different competitive environment exists for German casinos.
than that in the UK; also there is an element of supernormal profit from the effective monopoly that suggests a higher tax rate is appropriate. There is a similar picture in other Germanic countries such as Austria and Switzerland.

The approach in the US varies across states. Most have a gross gaming revenue base with rates that are on average between 20 and 30% although Nevada has a rate of 6.75%. Colorado, Illinois, Indiana and Iowa have graduated rates with a max ranging from 20% to 50% (and with admission taxes in some instances on top); New Jersey has an 8% rate plus an investment alternative obligation graduated across different rates. Again though, this in a place where the scale of geography of the United States means the casinos (other than the clusters in Nevada and other high roller destinations) are not necessarily competing with each other, and where online gambling is illegal.

Macau has introduced a GGY based tax of 35% with additional fixed charges of up to 2% and 3% for “social and economic purposes.”

Our concern is that as well as being subject to one of the highest tax rates in the world, the UK casino industry has its products and pricing mechanisms strictly but poorly controlled (the current review is three years late and is set to take more than 18 months) and is increasingly disadvantaged in its ability to compete with a mature domestic gambling market and the on-line market that this neither controlled in terms of product or price, nor subject to UK taxes.

The Profitability of Gaming Machines

The profitability of gaming machines is again a complex area. In the United States slot machines can contribute around 70% of a casino’s revenue. However, in the UK the situation is very different, in most high end, London casinos, the machine’s stakes and prizes are considered not to have any commercial value and therefore gaming machines are simply not even offered. Where machines are offered, they contribute on average around 10% of revenue.

Determining relative profitability, in relation to other generators of gaming revenue, ie table games is very difficult, depending on complex calculations around floor space, staff numbers, varying levels of taxation, machine cost, depreciation etc. However, to help the committee, we estimate that on the basis of 20 machines occupying an equivalent space as four mixed gaming tables in a similar operating environment with a similar customer base, there is almost parity on profitability.

Another proxy that could be used is to equate gaming machine revenues to “between 10-15%” of a casino’s total revenues [gaming and ancillary].

NCIF is concerned that our key messages regarding providing a modern innovative industry and meeting some of the Chancellors asks around the “growth agenda” are being stifled and failing to be acknowledged by DCMS.

The NCIF has demonstrated the following through the Ernst and Young report:

1. Current (casino) machine entitlements are not keeping pace with customer demand.
2. Less than 1% of all gaming machines in the UK are in the most controlled environment ie casinos.
3. The sector is not intending to replace table games with machines.
4. Machine entitlements (numbers, stakes and prizes) within UK casinos are amongst the lowest in the wider casino world.
5. Ireland is on the verge of asking for a 10:1 machine table ratio possibly capping tables at 15.
6. UK casinos are safe, fully supervised, well regulated and the most appropriate environments for socially responsible, leisure machine gambling.
7. Social policy is driving unmet customer demand for safe, leisure machine gambling, into less well supervised environments and into online environments where little to no supervision exists and where there are no common machine standards, stakes or prize limits.

Local Authority Casino Network (LACN)

We listened carefully to the evidence of the Local Authority Casino Network (LACN), the group representing the 16 areas that have been given the power (by virtue of the 2005 Act process) to issue new Large or Small licences. Some of the evidence the witnesses gave was verifiably inaccurate and we have sought briefly to correct the errors. I hope you will find this useful.

Casino Development

A witness from the LACN said all but one of the 16 local authorities they represented had got through to Stage 2, or the Competition Stage of the licensing process and witnesses indicated a satisfactory level of interest in the process. This was an inaccurate misrepresentation of progress. The latest verified information is that seven of the 16 new licensing authorities have yet to set a date for the commencement of Stage 1 of the process.
Since September 2007, when the Act passed into law, only one Large casino has opened in Newham, one further Large licence has been granted in Solihull and a single open ended "Provisional Statement" has been issued in Hull for which there was no competition. No date has yet been identified for the opening of the Hull casino licence, which cannot be envisaged before 2014. No Small casino licences have been granted and one in Scarborough is currently subject to a legal challenge. The process has been pushed back "indefinitely" by a number of authorities. Meanwhile, the existing industry is expected to wait the outcome of this process before the Minister will consider any of its proposals.

The LACN stated in their written submission at Para 30 that:"

"in no case has an authority determined not to proceed with its casino project."

We understand this is incorrect as the position in Dumfries and Galloway has stated that a public referendum would be required before the process could continue.

Para 31(2) of the LACN submission refers to three further cases where Stage 2 was in process—of these Solihull was subsequently granted without competition to the one remaining applicant; Middlesbrough has still not closed the date for lodging Stage 2 applications as there is believed to now be only one applicant; and Great Yarmouth has extended the licence process to a total of 18 months so there will be no award until the spring. The indication the LACN clearly intended to give in July last year was that a further three licences would be awarded in 2011 (making it six of the 16) but there are still only three.

Para 31(5) is also misleading as this refers to another seven commencing the process within six months,—none have, with only Luton and Leeds about to commence Stage 1 six months later. Swansea and Wolverhampton show no sign of being anywhere near launching the process. Southampton is on record as saying the economic climate is not suitable to progress and Torbay and East Lindsey are reviewing whether to proceed at all.

At paragraph 55 of their written evidence the LACN state that the number of operating casinos has only increased in recent years as a result of the opening of small electronic casinos. This is also incorrect. During the period between April 2007 and March 2010 there had been a considerable number of closures and between April 2007 and March 2011 a total of 10 full-scale new additional casino licences opened. The number of operating casinos further increased in 2010–11 as a result of several electronic casinos opening to replace small uneconomic casinos that had closed as a result of the increases in gaming duty. A further four new additional casino licences granted under the 1968 Act are currently being fitted out and will be opening within the next 12 months with the Hippodrome London to open in the spring 2012.

Casino Network Submissions on Impact of Portability

The LACN at Para 56 states:

"the current picture of no fewer than 40 dormant casino licences demonstrates that casino operators took advantage of a window of opportunity afforded to them by government in the final days of the Gaming Act 1968 regime to bank licences which they had little or no immediate intention of using and for which there was no or inadequate local demand."

The argument advanced by the LACN may have some substance in relation to new entrants to the industry but in relation to the established operators only six of the licences obtained under the 1968 Act (five of which were granted before the guillotine on applications was announced) have not as yet been implemented, almost in every case as a result of the 1968 Act licence having been granted in areas that were subsequently negatively impacted by the award to the local authority of the ability to grant another, and more valuable, licences, under the 2005 Act. However, nine of the licences granted under the 1968 Act in other areas (including the four mentioned above) are currently in the course of development as full-scale casinos.

In the following paragraphs of their written evidence the LACN suggest that existing operators would wish to use the proposals on portability to move licences to areas that form the wider catchment areas for the 16 new licences. NCIF's members argue for very sound economic reasons in contradiction to the LACN opinion, that, it is the position whereby 10 of the 16 areas chosen by the last Secretary of State overlap with existing casino areas that gives rise to a strong case for allowing the unused licences to be moved away from the areas of the new 2005 Act licences, providing those "new casino" areas a greater chance to provide the regeneration benefits that will accrue from what is likely to be a reduced number of 2005 Act licences that will be developed. The fact that it is in the overlapping geographical areas that unimplemented licences have not been developed or are not currently operated provides cogent evidence that the LACN is flawed in its conclusions.

In paragraph 62 the LACN made the following statement:

"The Network is seriously concerned that permitting operators to move existing licences across boundaries will not only compete with 2005 Act casinos, but will provide a major disincentive to such operators to compete for the new licences, where to win the licence they will need to promise to provide benefits to the area of the licensing authority. Furthermore, the Network is concerned that the prospect of competition from portable licences will reduce the amount of benefit which competitors are prepared to offer in order to win the 2005 Act licensing competition. Even if operators decide not to compete with the 2005 Act licences with substantial casinos, they may decide..."
to operate low-cost, low-staff, highly mechanised e-casinos, producing little benefit for the area but reducing the potential profitability of 2005 Act casinos, and therefore the benefits which competitors can offer for those licences."

One of our main arguments is that the selection of 10 of the 16 being in existing areas means that there are considerable numbers of casinos that will not be able to compete against the new style casinos—so to suggest that existing operators will all want to move into the new casino areas has no economic or commercial foundation—indeed nearly half of the unimplemented 68 licences are in or immediately border one of the new casino areas—so if there is any evidence that the opposite is true we have it from the existing industry not developing its existing licences in those areas.

Taking this and Para 61 of the LACN’s written submission into account demonstrates their lack of comprehension of the Portability issue.

NCiF questions why 16 local authorities are permitted to prevent and effectively put a strangle hold on other Local Authorities, many that previously expressed an interest in having a casino (during the 2005 CAP process) and which still may wish to benefit from the re-generative elements ie jobs, revenue and construction which those 30 existing licences could provide.

The Stake and Prize Triennial Review

NCiF would like to draw to the Committee’s attention that at the time NCiF gave evidence to the Committee, no announcement had been made regarding a stake and prize review. In December the Minister announced a long overdue review. However, the anticipated time scale is 18 months. The industry will do all it can to speed up the process by responding promptly with data. However, we are astounded that a simple increase in the stakes and prizes on slot machines is a 19 stage process expected to involve four government departments and the European Union. This compares very unfavourably with the previous five stage process, which took between six and nine months. It is also inconsistent with both the process the Commission undertook to review its fee structure and the Treasury’s process for increasing machine gaming duty. By the time the review will have been concluded it will be approaching eight years since the casino industry had a pricing review.

There is a total imbalance in the business equation with the cost side—represented by fees and taxes—increasing, whilst the revenue side—stakes and prizes, is anchored by bureaucracy and political inertia.

January 2012

Supplementary written evidence submitted by William Hill

William Hill has commissioned both a legal and regulatory analysis on the online gambling market and economic modelling concerning the effect of a point of consumption tax (at various levels) on that market.

At the point the Select Committee called for evidence and at the time William Hill gave oral evidence to the Committee, this work had not been fully completed, the first report being used by Deloitte as a reference source for their later report.

Furthermore, we are aware that the Committee has received views from other gambling sectors and companies which make the case for harmonisation of gambling taxes (online and retail), on the basis that imposing the same tax rate for retail and online would in some way “level the playing field” between retail and online and in some way alleviate the regulatory, tax and commercial problems of the retail sector.

We are clear that the above proposition is a complete misnomer which will give no boost to retail and only serve to damage the online industry (certainly as far as sports betting and gaming is concerned). William hill has both a substantial UK retail business (75% of group revenues) and an online business. We are clear that whilst there is some limited overlap between retail and online currently the two businesses have largely different demographics.

Most importantly, it is important to note that online margins are around half those of retail because of the highly competitive nature of the online market.

Whilst DCMS policy to regulate offshore online operators is predicated on the basis of “increased public protection”, these two reports demonstrate that a double figure rate of taxation attached to regulation would increase rather than decrease public protection risk.

At a 15% rate what is currently a highly competitive and broadly well regulated online market (with margins half those in retail) would experience significant market disruption.

A number of smaller online operators would see their operating margins eroded to the point where market exit was almost inevitable. This could lead to some two fifths of UK consumers (at a 15% tax rate) migrating to the grey or black market as firms would still be able to target the UK market.

With no government having successfully established effective enforcement mechanisms over their online market (France being the most extreme example of grey market leakage—70%) a policy of imposing tax on top of regulation could open up the UK Government to the prospect of legal challenge under EU law as it
attempts a “controlled closing” of the UK gambling market (tax can only be a beneficial consequence of regulation and not the primary reason for closing the market).

The Gambling Compliance report shows that no European Government (particularly France and Italy) have been able to control consumer behaviour when those consumers are focussed on the best commercial offering which includes prices and a wide variety of markets.

The main findings of the Deloitte report are:

— The highly competitive online environment means that operators would be unlikely to be able to pass a significant proportion of any POC tax through to consumers.

— Given the low returns that a significant proportion of the smaller operators currently earn, even relatively low levels of POC tax could force some of the smaller firms to exit the online gambling market.

— International evidence from jurisdictions such as the US, France and Italy indicates that many of the regulations introduced in these markets have failed to prevent the emergence of a large unregulated sector. These examples highlight the potential for customers to switch between licensed and unlicensed sectors, and point towards some of the challenges that are involved in introducing effective measures to prevent this occurrence.

— Consistent with this, modelling by Deloitte suggests that, under a reasonable set of assumptions, and in the absence of effective enforcement procedures, a 5% POC tax would distort competition leading to as much as 13% of UK online gambling consumer revenues moving into the grey market. Up to 27% of business could move into the grey market at a 10% POC tax rate.

— The likelihood of this consumer response serves to raise concerns over the impact of the POC tax on the Government’s over-arching consumer protection policy objectives.

— Unless enforcement is effective, the growth of the grey market would also serve to reduce the scale of potential tax revenues. The modelling undertaken by Deloitte suggests that under ineffective enforcement scenarios the tax raised could peak at a 10% rate, with further increases in the rate leading to declines in revenue as the grey market attracts an increasing proportion of consumers.

**Key Implications**

— Effective enforcement of the tax and licensing regime are essential to achieving the consumer protection objectives of the policy and maximising tax revenues by limiting the size of the grey market. The ability of governments to overcome the challenges with enforcement will depend on a range of factors, including the degree of investment in enforcement measures, the legal framework and degree of multilateral coordination and cooperation by governments.

— The international examples indicate that enforcement is challenging, with no existing system proven to be entirely effective and some jurisdictions losing significant shares of the market to the unlicensed sector.

— For these reasons a cautious approach to the introduction of a POC tax appears to be appropriate. Setting an initial tax rate below 10% would be consistent with minimising the risk of promoting a grey market, while allowing:
  — Further evaluation of the impact of a POC tax on UK online gambling operators.
  — Lessons to be taken from the effects of new but relatively high POC taxes in markets such as Spain.
  — The development of effective enforcement mechanisms to limit the ability of grey market operators to target UK consumers.

It is possible for the UK Government to levy a lower rate of tax on online gambling operators than retail operators. A recent EU state aid case concerning the newly liberalised Danish gambling market found that the decision to have a lower rate of tax for remote gambling is in line with EU state aid law because the positive effects of the liberalisation of the sector outweigh potential distortions of competition.

Like others, we want a fair deal for our retail business in terms of tax and regulation, but achieving this through imposing an unsustainable tax burden on the online market is not the right vehicle.

We believe that the two reports in question, “Online Gambling Regulation (striving for sustainability, player protection and competition)” and the Deloitte report on the impact of a point of consumption tax are perhaps the first authoritative independent assessments that have been conducted in this sector.
They provide, in our view, important structural, economic, legal and regulatory information about the remote gambling industry which has also been shared with DCMS and the Treasury.

We would ask that this note and the two reports are tabled as evidence for consideration by the Committee.

January 2012

Supplementary written evidence submitted by the Gambling Commission

The Health Lottery

Thank you for your letter of 26 January.

The Commission’s legal analysis in relation to the issues which the structure of the Health Lottery scheme presented developed over the period during which the applications for operating licences were made and the scheme as launched was developed, and in response to those developments. At each stage it was based on a combination of discussions, case conferences and responses to questions put by the Commission (Commissioners and staff) to its internal and external legal advisers (both solicitors and Counsel) and comments by them on Commission documents.

The attached note sets out that developing analysis which constituted the legal basis on which the Commission took its licensing and compliance decisions.

Jenny Williams
Commissioner and Chief Executive

10 February 2012

LEGAL ADVICE NOTE FOR CULTURE MEDIA & SPORT COMMITTEE

Re: The Health Lottery

Introduction

1. The intended structure of the Health Lottery scheme (“the Scheme”) is that of multiple society lotteries promoted by an external lottery manager (“ELM”) under a single brand, in this case “The Health Lottery”. A lottery manager’s operating licence is held by Health Lottery ELM Limited and separate society lottery operating licences are held by each of 51 community interest companies (“the CICs”) each raising money for improved health equality in a discrete geographical area.

2. Each CIC has agreed to donate to The People’s Health Trust (“PHT”), a registered charity, 20.34% of the proceeds of each of its lotteries. PHT’s obligation to the CICs is to use these “good cause funds” for the purpose of advancing, “the promotion of health for the public benefit by increasing and supporting sustainable health equality in and for disadvantaged communities across England, Scotland and Wales” and to do so consistently with a strategy agreed with each CIC. When determining grant recipients PHT undertakes that the good cause funds received from each CIC will be restricted in their use to the geographical area represented by that CIC.

3. The principal legal issues which are specific to the Scheme arose first, in dealing with the licence applications and, secondly, monitoring the launch and subsequent operation of the Scheme. They concerned:

   — Whether each CIC met the definition in section 19 of the Gambling Act 2005 (“the Act”) of a “non-commercial society” such that, subject to the matters which section 70 of the Act requires the Commission to consider (essentially the licensing objectives and the suitability of the prospective licensee) licences could be granted to them.

   — Whether, and if so at what point, the CICs risk compromising their status as non-commercial societies and/or contravene relevant provisions in Part 11 of the Act by knowingly enabling the ELM to profit from running their lotteries.

   — Whether the Scheme, as operated, is in truth a series of distinct society lotteries or, conversely, a single lottery scheme. One (important) significance of this question is that if each Scheme draw were to be considered as a lottery promoted on behalf of a single licensed society the proceeds of each draw would fail to be aggregated when assessing whether there had been compliance with the section 99 mandatory conditions of that society’s lottery operating licence and, in particular, the aggregate annual proceeds limit of £10,000,000. (And, of course, if such single lottery were being promoted on behalf of an unlicensed entity it would be unlawful.)

At the Licensing Stage

The Community Interest Companies

4. By section 98 of the Act a lottery operating licence may only be issued to a non-commercial society, a local authority or an external lottery manager (“ELM”).
The definition of a non-commercial society at section 19 of the Act is:

“(1) For the purposes of this Act a society is non-commercial if it is established and conducted—

(a) for charitable purposes,

(b) for the purpose of enabling participation in, or of supporting, sport, athletics or a cultural activity, or

(c) for any other non-commercial purpose other than that of private gain.”

And by section 353(1) of the Act a society “includes a branch or section of a society”.

5. Each of the CICs is a separate legal entity registered at Companies House and regulated by the CIC Regulator under the Companies (Audit, Investigation and Community Enterprise) Act 2004. At the time of their applications for licences the objects of each CIC were stated in its Articles of Association to be:

“... to carry on activities which benefit the community and in particular (without limitation) to:

(a) raise, invest and grant money for improved health equality;

(b) to carry out any other activities consistent with the company’s status as a community interest company.”

In the form of declaration (CIC 36) which it had to file on formation of the company, each CIC had stated that its activities would provide benefits to people living in a particular, named, geographical area.

6. The fact that each CIC had the same directors, operated from the same premises and that the Memorandum and Articles of Association of each was in common form was not in itself a reason for considering them not to be independent entities or for refusing to licence them as separate non-commercial societies. The CICs had been accepted as separate by the CIC Regulator. Nor was the fact that a large number of “regional” CICs had been created so as to facilitate the possibility of generating proceeds from a series of draws during a year greater than the annual limit permitted by statute for lotteries promoted in reliance on a single society’s lottery operating licence. The Commission’s analysis was therefore that each CIC was a non-commercial society within the definition in the Act and thus eligible for licensing.

Proposed Business Model

7. When licensing a gambling operator (including a non-commercial society wishing to promote lotteries), the Commission is required to have regard to the licensing objectives enshrined in the Act and to form and have regard to an opinion as to the applicant’s suitability to carry on licensed activities (for which purpose the Commission may in particular (and does) have regard to the integrity, competence and financial circumstances of the applicant and other persons relevant to the application). The Commission takes account of the applicant’s proposed business model, and would not, for example, licence an operator planning to run lotteries (or offer any other gambling product) which it was obvious would be illegal. However, it is not legally necessary for the operator to have a fully worked out scheme at the point of licensing or for their outline proposals to be fully compliant so long as they are intended to be, and capable of being, compliant.

8. The Commission considered, and indicated to the applicants (both CICs and Health Lottery ELM Limited), a number of legal concerns over the outline scheme regarding:

— the need for the lottery draws to be on behalf of the separate CICs and not comprise a single lottery in reality promoted on behalf of some other (unlicensed) body;
— the need for a lottery participant to understand the nature of the separate lotteries in which they participated: to know which good cause they were supporting. (This would also be relevant to the fair and open licensing objective);107)
— the need for the CICs to be genuinely separate in the way they operated in practice; and
— the financial arrangements between the CICs, PHT and Healthy Lottery ELM Limited, given the need to satisfy the requirements of the mandatory conditions imposed pursuant to section 99 of the Act limiting the level of proceeds and maximum prize and ensuring that at least 20% of each lottery’s proceeds were applied to the purposes of the promoting CIC.

9. The Commission’s legal analysis was that the proposed Scheme was capable of being run in a legally compliant way; the decision on whether it was when in operation would depend crucially on the way in which the CICs conducted themselves, their legal and financial relationship with their ELM and the way in which the lotteries were marketed. There were no hard and fast rules; the Scheme would need to be considered as a whole. Subject to complying with basic legal requirements (such as the minimum 20% return to good causes) and with little guidance in decided cases it would be a matter of fact and degree whether the Scheme was in the Commission’s judgment, compliant.

107 Subsequently each CIC has changed its Articles such that (to take Health Equality Community Interest Company as an example) the objects are stated as:

“. . . to carry on activities which benefit the community in the London Boroughs of Kensington and Chelsea, Hammersmith and Fulham, Ealing, Hounslow, and Hillingdon areas of England (‘the Community’) and in particular (without limitation) to:
raise, invest and grant money for improved health equality in the Community, and carry out any other activities consistent with the company’s status as a community interest company.”
10. It was clear that while the proposed business model and marketing scheme, if made compliant—as it was capable of being, would in effect circumvent the annual proceeds limits set out in section 99, there was nothing in the Act to prevent this or in the licensing objectives to justify the Commission in taking steps (for example by imposing licensing conditions—or even refusing to licence) to remove the scope for circumvention. It was, however, made clear in the licensing application process that although the Commission did not see itself as having any basis for closing what might be perceived as a loophole, it was open to the Department to take steps to reinforce the policy objective underlying the annual proceeds limit.

**Post Licensing and Scheme Launch**

11. In the period post licensing, and particularly after the change of ownership and control of Health Lottery Limited (which necessitated an application to the Commission for continuance of the ELM’s licence), the Commission reviewed and developed its legal analysis in response to the emerging shape of the planned scheme. More widely, the Commission was concerned that those wanting to take advantage of the apparent loophole should understand the constraints on marketing lotteries under a common brand and in light of its developing analysis and in response to questions raised by third parties developed the guidance referred to in paragraph 17 below.

**Can Bodies such as the CICs Qualify as Non-commercial Societies?**

12. A non-commercial society must not only be established for a purpose falling within section 19 of the Act but also must be so conducted. Thus, one significant issue is whether, in circumstances where (as is the case in respect of the Scheme) bodies such as the CICs have been established by or in collaboration with the ELM which intends to manage their lotteries, that ELM is a company which seeks to make a commercial profit, and the ELM receives a fee for managing each lottery, those bodies continue to qualify as non-commercial societies.

13. It is a mandatory condition of societies’ lottery operating licences that at least 20% of the proceeds of any lottery promoted in reliance on the licence is applied to a purpose for which the promoting society is conducted. Further, section 260 of the Act creates an offence of misusing the profits of a lottery. If a lottery promoter states, on lottery tickets or in an advertisement for the lottery, a fundraising purpose and then uses any part of the profits of the lottery for any other purpose he commits an offence. Section 254 of the Act provides that profits of a lottery for this purpose are the proceeds of ticket sales less amounts deducted by the promoters of the lottery in respect of (i) the provision of prizes, (ii) sums to be made available for allocation in another lottery in accordance with a rollover, and (iii) "other costs reasonably incurred in organising the lottery". Thus, it is only monies appropriated for prizes or to pay costs reasonably incurred in organising a lottery that may lawfully be deducted in arriving at the sum which must go to the “good cause”.

14. One argument the Commission considered was that in a structure such as the Scheme the CICs cannot meet the statutory definition of a non-commercial society because they are inevitably established and conducted (at least in part) for the purpose of generating profits for the ELM. The Commission’s view, however, is that it follows from the fact that a non-commercial society is permitted by the Act to use a professional external lottery manager to make the arrangements for its lotteries that societies may contribute to the commercial success of an ELM as a by-product of paying to the ELM (in reimbursing its outlays and in meeting its fees) costs reasonably incurred in organising their lotteries. The statutory test (derived from sections 254 and 260 referred to above)—one might say the acid test—in any particular case is whether, in all the circumstances, the costs incurred are reasonable.

15. Thus, fees of a particular amount paid to an ELM by non-commercial societies whose lotteries are being managed as part of an arrangement such as the Scheme (in respect of which the ELM has provided a major marketing launch and sustained advertising at considerable financial risk to itself) might represent reasonable costs in the early years of the scheme but cease to do so when the ELM has recovered its initial investment costs and ongoing management expenses are more modest.

16. If a society were set up for the specific purpose of creating a commercial profit for investors in an ELM that would take it outside section 19; commercial success of an ELM as a by-product (even an inevitable one) of the operation of a successful lottery scheme on the other hand did not in and of itself make the CICs non-commercial. Nor, in the Commission’s view, would their creation on the initiative of the perspective ELM necessarily do so either.

**One Lottery or Many?**

17. In August 2011 the Commission published an Advice Note in order to provide guidance to society lottery promoters, ELMs and others about the factors the Commission would be likely to take into account when making decisions whether the requirements of the Gambling Act were satisfied in respect of a particular multiple-society lottery scheme. A copy is attached. It was based on the Commission’s legal analysis of the factors that would determine whether multiple lotteries were being promoted under a single scheme or, in fact and law, a single lottery was being promoted. The Commission was clear that it was legally entitled, in fact
required, to look at the substance of any such scheme and its marketing and not just at form\textsuperscript{108} though at the same time it should not be over ready to find schemes artificial if they promoted the purposes of the licensed societies.

18. In drawing up the Advice Note and in considering whether the lotteries comprised in the Scheme are genuine separate lotteries the Commission’s legal analysis drew on the only relevant case law on the consideration of possible sham society arrangements in order to benefit from lotteries, namely R v Royal Borough of Kensington & Chelsea ex parte Blennerhassett (unreported judgment of Hidden J delivered on 19 July 1996). That case was decided under previous legislation (the Lotteries and Amusements Act 1976) with a slightly different definition of “society”. There were said to be 100 lotteries determined by a single draw and run by 100 separate branches of the National Hospital Trust. There is no legal objection to more than one lottery being determined by a single random event (eg: a draw) but in Blennerhassett the lotteries had a common entry form and the player could opt for which “branch” he wanted to benefit from his ticket price, unless it was over-subscribed. The judge held that the branches were not separate at all, they performed no function other than to act as a vehicle for the running of the lottery by the Trust; they were a paperwork façade.

19. Whilst each of the CICs has a contract with PHT which governs the distribution of the good cause funds, there are material differences between the Scheme and the arrangements in Blennerhassett. In Blennerhassett the proceeds of a single lottery draw were applied to 100 branches; in the Scheme each draw is associated with a different CIC (subject to a second, or possibly third, becoming involved because of a freeze on ticket sales for the first) and their involvement is on a rotational basis.

20. In considering whether or not an arrangement such as the Scheme involves one lottery or many the Commission bears in mind the licensing objectives in section 1 of the Act, in particular ensuring that gambling is conducted in a fair and open way. Therefore, in addition to being satisfied that any particular draw comprises (on technical legal and accounting analysis) the lottery of a separate society (or societies if more than one society’s lottery is determined by the outcome of a particular week’s draw)— and in the case of the Scheme tangible differences between the CICs such as different names, different geographical areas supported and separate financial arrangements helped substantiate the case for the separation being real—the Commission also, for reasons of fairness and openness, requires it to be clear to the consumer that there are separate society draws. Consumers need to be able readily to find out, if they wish, which particular society is participating in which draw.

21. If such an arrangement were to be regarded as a single lottery then it would be necessary to consider on whose behalf the lottery was being promoted and whether that person held an appropriate licence or whether they and/or those involved in marketing the lottery were committing an offence under section 258 or section 259 of the Act of promoting or facilitating a lottery.

**Formal Structure of Scheme and Agreements between Parties**

22. The Commission’s analysis of the rules of the Scheme and the accounting arrangements between the CICs, the ELM and PHT is that they are consistent with a lawful scheme comprising multiple society lotteries. So far as the statutory maxima set out in the mandatory licence conditions are concerned, no one Health Lottery draw will result in either the maximum prize limit or the maximum single lottery proceeds limit being breached. If the lotteries are genuinely separate, and promoted for each of the 51 individual CICs in rotation, then neither will the aggregate annual proceeds limit be exceeded. On this analysis despite the fact that Scheme produces an arrangement that can be branded and marketed nationally in respect of draws which, over a year, may generate more than £10,000,000 it is permissible under current statute.

23. The Act provides both the Commission and the Secretary of State with powers to set licence conditions. One such power the Commission has is to attach a condition requiring all the arrangements for a particular society’s lottery to be made by an ELM. In such a case the mandatory conditions which apply to a society’s lottery licence would equally apply to the ELM’s licence such that the annual proceeds limit would bite on all the lotteries promoted by that ELM compendiously. The Commission has considered whether it should impose such a condition in the case of arrangements such as those comprised in the Scheme in support of the National Lottery. However, it has concluded that given its section 22 duty to permit gambling insofar as it thinks it reasonably consistent with the licensing objectives, and its view that (subject to paragraphs 24 and 25 below) there is nothing in the Scheme to put at risk those objectives, it would not be appropriate to do so. Indeed, such a condition would be liable to successful legal challenge. The Commission’s analysis suggested, however, that the Secretary of State’s condition setting powers were not constrained in the same way as the Commission’s by the licensing objectives in the Act.

**Promotion Requirements**

24. As noted above, in deciding whether the Scheme is legally compliant, the Commission takes into account both the formal agreements and the underlying reality in the context of the licensing objectives. The most challenging legal issue for the Commission in considering schemes such as the Health Lottery has been to

\textsuperscript{108} See, for example, the House of Lords in Singette Ltd v Martin [1971] AC 407 where Lord Pearson said, at 423: “... In deciding whether a competition is a lottery or not a realistic view should be taken and regard should be had to the way in which the competition is actually conducted.”
decide whether its arrangements are compliant with the promotion obligation flowing from the mandatory condition in section 95(5) that:

"Where a person purchases a lottery ticket in a lottery promoted by an non commercial society in reliance on the licence he receives a document which—

(a) identifies the promoting society,
(b) states the name and address of a member of the society who is designated, by persons acting on behalf of the society, as having responsibility within the society for the promotion of the lottery, and
(c) either—
(i) states the date of the draw (or each draw) in the lottery, or
(ii) enables the date of the draw (or each draw) in the lottery to be determined".

25. On the face of it this condition might be thought to permit a lottery to be promoted in such a way that it was not until the participant had bought his ticket that he became aware of the identity of the society on whose behalf the lottery was being promoted. However, the Commission considers the better interpretation, given the indications in the Act, including the use of the present tense in section 99(5) itself, which suggest that the purchase and receipt of the document referred to are envisaged as happening at the same time is that it is a requirement of the promotion of a lottery that the potential participant knows (or at the very least has a genuine opportunity to discover) in whose lottery he will be participating before he purchases his chance. Furthermore, it would also be necessary in terms of the second licensing objective for the consumer to know that they were purchasing a ticket for a lottery draw on behalf of a society distinct from the marketing brand.

Conclusion

26. In conclusion, the Commission’s legal analysis suggests that when faced with novel developments of this sort what it is required to do is to consider whether the way in which the parties involved are conducting their affairs is in reality as well as formally consistent with the legislation, including the licensing objectives. This is what the Commission has sought, and continues to seek, to do in relation to the Scheme. But, as outlined above, the Commission cannot properly go beyond the legislation, and specifically licensing objective imperatives, to secure objectives such as limiting the proceeds raised for a number of societies by means of a common marketing scheme. The Secretary of State does, however, have the power to impose conditions which go wider than the Act’s licensing objectives.

February 2012

Further supplementary written evidence submitted by the National Casino Industry Forum (NCIF)

Since NCIF gave evidence and the Committee concluded its sessions, Aspers’ new Large casino at the Westfield Shopping Centre in Stratford in East London has opened. We understand that the Committee has visited the casino. This development and some ambiguity in other evidence presented to the committee persuade us that there are a number of points of clarification we should address.

There was written evidence from the “Casino network”—the organisation representing the 16 Local Authorities (L.A.’s) that hold the right to issue the 16 2005 Act licences, which is blatantly protectionist, wrong in fact and with which we profoundly disagree.

The economic mechanism which controlled the supply of casino licences under the 1968 Act—the “Demand Test”—was effectively abandoned in 2001. This followed the government’s acceptance of the recommendation of Sir Alan Budd’s committee that the demand test should be abolished in favour of a free market approach. In anticipation of broad deregulation the Gaming Board ceased objecting to applications for 1968 Act Casino licences on the basis of an absence of a proven unmet demand. The outcome was that between 2000, when 123 casino licences were in existence, to the end of the 1968 application process in April 2006 around 60 of the extant 186 licences were granted in the 53 permitted Areas without consideration of demand.

Currently, 146 of those 186 licences are in operation. A further 10 of the 40 non-operating licences are in various stages of development and may open in the coming months. Some existing operations may close. At least 18 licences have operated in the Permitted Areas in which they were granted and have closed, trapped in areas where the supply side is saturated, the local demographic has changed or some other factor—including the grant of a 2005 Act licence—has eroded the economic basis for their development. Licences are “locked in” while other interested local authorities are “locked out” causing the market to fail. Only 13 licences have never opened.

Meanwhile, demand for casinos in other non-permitted areas, which would generate investment, jobs and tourism is unmet because licences are not portable.

There was also oral evidence from the Casino Network, in response to a question from the Chair, that is simply not credible.
One witness said:

"...in terms of the process itself, a lot of the authorities are moving forward and we are confident that the 16 will be developed."

"I think there is one authority that obviously did not get to the competition stage but the rest are all proceeding to stage 2."

Those statements are at best optimistic in the extreme and at worst totally misleading. At least six of 16 LA’s have stated that they have no plan to progress the licence process at all. Only one licence was subject to a proper competition and is operating. Of the remaining nine; two LA’s have just begun their process, three have gone to legal challenge, four licences have been granted but have not been developed and of that four only one is in a genuine development process.

Considering the Act passed into law in September 2007, and only one of the 16 licences has opened in over four years, we suggest any optimism is misplaced. The existing industry is being held back to await the outcome of an “experiment” which is never going to be concluded because there never was a realistic mechanism to ensure it would begin.

The failure in the market was compounded by the Independent Casino Advisory Panel process. As Richard Caborn MP, acknowledged this panel was a failure; the industry would say an unmitigated disaster. The ICAP identified the 17, subsequently reduced to 16 areas for new casino developments as part of an ill-defined experiment to test the regenerative benefits of casinos.

The primary criteria for selection of locations as defined by the DCMS were:

- to ensure that locations provide the best possible test of social impact (which may require a range of locations of different kinds such as seaside resorts, edge of town developments or inner city centres);
- to include areas in need of regeneration (as measured by employment and other social deprivation data) and which are likely to benefit in these terms from a new casino; and
- to ensure that those areas selected are willing to license a new casino.

The ICAP included no less than 10 existing Permitted Areas with operating 1968 casinos in the 16 locations it identified.

The outcome of the ICAP choice is negative both to the commercial health of the industry and has proven unfit for on all three of primary criteria of the DCMS published intended purpose.

- No mechanisms have been established, planned or even suggested either by DCMS or the Gambling Commission to determine how a LA is supposed to measure the social impact of a new 2005 Act casino from existing gambling products. Where a new casino is established in an existing Permitted Area with other casinos and licensed betting offices (LBOs) offering the same products—albeit in fewer numbers—any chance of separating out the causal effects is less still.
- Benefit, in terms of investment and employment, can only be identified and quantified if it is incremental and does not displace or replace existing benefits. For that to happen the market must be prepared to make additional investment in the identified areas without harming existing businesses. That has not happened.
- The willingness to licence must be aligned to both the LA’s expectation of economic benefit and the industries willingness to invest. The fact that only one licence has been developed and six LA’s have de facto opted out of the process is evidence of the failure of the choice to meet the third criteria.

The industry would assert that the evidence is clear: the market has failed, and in our opinion can only be reinstated by introducing the portability of licences and a single style of casino.

This artificially constrained and flawed market also fails the consumer.

The legislation has created within casinos a very limited number of the safest (Richard Caborn’s evidence) environments in which to gamble, but has failed to redistribute the most popular products in sufficient numbers to meet the demand. Less than 1% of gaming machines are to be found in the safest place to gamble casinos. Recent changes to legislation mean that the percentage of machines in casinos is likely to decrease further as the betting industry, bingo and the arcade sectors increase the supply of higher stake and prize machines on the high street.

Not only is the percentage decreasing but the offer to consumers is increasingly confusing, with some casinos premises (1968 Act) being able to offer no more than 20 machines, whether or not they offer table games at all and others offering either up to 80 (2005 Act Small) or 150 (2005 Act Large) machines with bewildering ratios of machines to tables.

It cannot be right that a casino in a shopping centre in East London can offer facilities to local shoppers that are significantly different to those attempting to meet the demand of tourists in, for example, Central London.
We believe a simple ratio of five gaming machines to one table for all casinos would clarify the consumer offer and to begin to rebalance the market failure.

We have noted the evidence from on-line operators and other witnesses about the growth in popularity of on-line and other electronic products and repeat that casinos are recognised as the safest places in which to gamble and should therefore have access to the products that are attracting the largest audiences.

The benefits are that casinos offer real, not virtual, environments, in which conduct can be monitored, and consumer protection can be at its most stringent and the return to the exchequer most rewarding.

We believe that casinos should be allowed to offer the most modern gaming products in keeping with other jurisdictions and market forces.

Finally, when the Minister, John Penrose MP gave evidence he said, in response to a question from Damian Collins MP, that the increase in stakes and prizes for B3 machines was a manifesto commitment by the Conservative Party which he felt obligated to honour. It is not clear that such a manifesto commitment exists in the public domain. Our concern is that the hierarchy of values and protections has been eroded unnecessarily.

In our opinion the hierarchy of stakes and prizes and products be re-established, with casinos at the top of the pyramid, and a more appropriate and swifter stake and prize review process be established.

Summary

We believe that if our key proposals outlined below were implemented then the land based casino industry could make a significant contribution to the Government’s growth agenda:

— portability of licences and a single style of casino;
— a simple ratio of five gaming machines to one table for all;
— casinos are allowed to offer the most modern gaming products; and
— casinos are re-established at the top of the pyramid of stakes and prizes and a more appropriate and swifter review mechanism is established.

February 2012

Written evidence submitted by bet365

We welcomed the opportunity to contribute our thoughts in relation to the Select Committee’s Gambling Enquiry in the evidence session in November. In case it is helpful, we are just writing now to set out some further background information about our Company, along with a brief commentary on some of the key issues for bet365 and the industry, which the Committee has been considering.

We would be very grateful, therefore, if this could be treated formally as further evidence to the Committee’s enquiry from bet365.

bet365—Background and Market Position

Market position
— bet365 is one of the world’s leading online gambling groups with over 7.5 million customers in over 200 different countries.
— bet365 is the largest online sports betting operator in the world, as measured by reference to International Accounting Standard’s definition of income.
— Winner of eGaming Review Awards 2010 and 2011, including Operator of the Year, Best Website Performance, Sports Betting Operator of the Year, and In-play Sports Operator of the Year.

Background
— The website was established in 2001 and initially provided Sports betting products only.
— As the business expanded and developed, it introduced various additional types of products and services to its website including poker, casino, games and bingo (together “Gaming” products).
— bet365’s Sports products have always, and continue to be, licensed in the UK and run from Stoke-on-Trent.
— Gaming products have always been licensed offshore due to historic restrictions in the UK.

Financials and UK Employment
— For the year ended March 2011, bet365’s gross win was £422 million (Sports £316 million) on amounts wagered of £8.5 billion, with full year March 2012 forecasts currently being a gross win of £585 million (Sports £435 million) on amounts wagered of £11.0 billion.
— In terms of revenues, around 75% derives from our Sports products.
— Approximately 75% of our revenues are from customers based outside the UK.
— The Group employs over 1,900 staff in Stoke-on-Trent, with a current annual wage bill in excess of £60 million.
— bet365’s betting and gaming business saw EBITDA of £118.1 million for the 12 months ended March 2011.
— bet365 pays approximately £130 million in annual taxes in the UK—including corporation tax and non-recoverable VAT—of which betting duty compromises broadly 50%.

UK Betting Duty Taxation—Change in Basis to “Point of Consumption”
— The current UK betting duty legislation requires a “UK-based operator” to pay betting duty on all of its worldwide betting transactions, not just on UK-based players. This legislation is both out-dated and commercially prohibitive to a global operator being based in the UK.
— Certain overseas countries are currently introducing “Point of Consumption” based taxation regimes. Such regimes reflect modern global business and seek to have the effect that in such territories, operators taking a licence in that country are required to pay taxes on betting transactions made by customers in that territory, as defined by the local regime.
— The UK gambling industry has seen all major online operators, except bet365, relocate overseas. This is clearly not in the interests of the UK economy as these overseas operators do not now pay any UK betting duty on UK players.
— Given the nature of bet365’s global Sports business, the current UK betting duty legislation is prohibitive to bet365, or any operator with an international business, having the UK as its base. Currently bet365 is paying duty on not just its UK customers, whilst everyone else is not, but also on all its overseas players. A “Point of Consumption” tax is necessary to address this issue, and enable bet365 to remain in the UK with a commercially viable business.
— The Point of Consumption basis, coupled with sensible regulation, would result in the major operators taking up a licence in the UK, with consequential increases for UK tax revenues, and would also encourage companies to base themselves in the UK.
— bet365 remains committed, as far as it is commercially possible, to continue paying its fair share of UK taxes (including betting duty on UK and telebet customers, along with UK corporation tax and VAT) and continuing with its significant contribution to local employment.
— However, for the continued viability of bet365 remaining UK-based, the introduction of “Point of Consumption” based taxation measures in the UK will be essential, given bet365’s unique position in the marketplace, as the only major UK operator. We believe that these changes will also be in the best interests of the UK regulatory environment, as well as HM Treasury.

The Future of UK Licensing and Regulation
— For bet365, the issues of taxation is the main commercial issue. As far as UK regulation is concerned, in the main we believe the regime established by the Gambling Act has worked reasonably well—though (primarily for taxation reasons) other online operators have clearly not chosen to locate and be licensed in the UK.
— Should the regime change along the lines proposed in the DCMS White Paper, we believe bet365 will be well-placed to satisfy likely UK licence requirements on our Gaming products, and any conditions regarding advertising, as we currently do for our Sports business.

We hope that you find the above useful for the purposes of the Select Committee’s Gambling Enquiry, but please feel free to contact us if you require any clarification or additional information.
March 2012

Further supplementary evidence submitted by the National Casino Industry Forum

As your deliberations close and you turn to preparing your report, may we bring to your member’s attention and just emphasise four key points that we believe are terribly important to the future of the UK on-shore casino industry and in particular to the growth agenda.

We were attracted to simply referring to your own statement in 2005, when considering the economic impact of the then Bill when you said the proposed law:

“... will halt the investment plans of many UK and overseas companies in their tracks. It will undermine the economic plans of many local authorities. It will have a significant economic impact and it will undoubtedly lead to loss of money, investment and jobs”.

What the UK on-shore casino industry is saying in evidence to your committee agrees that you were correct, that is indeed the outcome and we go further and directly to what ministers have recently stated:
"The UK Government is not tasked with creating growth, but is tasked with creating the conditions for growth".

The UK casino industry wants to contribute, is ready to do so and needs only minimal support from government to allow it to generate jobs, investment and revenue and to work with local authorities to deliver growth.

At the outset, the industry is acutely aware that the "elephant in the room" is responsible gambling. However, if that were, based on empirical evidence, an insurmountable obstacle to change, ministers would not, in the last 12 months have approved other changes to gambling legislation that have allowed thousands more gaming machines at higher stakes and prizes onto the high street. You heard evidence from former ministers that casinos are the safest places in which to gamble.

Responsible gambling is what on-shore casinos offer.

Please help us ensure that the unnecessary obstacles in the 2005 Gambling Act are removed (NO changes to primary legislation required) and we are permitted to contribute to Britain’s economic recovery by providing real jobs for real people.

**Gaming Machines**

Though, there is overwhelming international evidence that increased gaming machine numbers in controlled and regulated conditions have no impact whatsoever on problem gambling (we are commissioning an academic peer review of the existing research to help provide even greater comfort to the government) and as Tessa Jowell and Richard Caborn said in their evidence to your committee, casinos are the "safest place in which to gamble", less than 1% of all the slot machines in the UK are to be found in casinos. That percentage is diminishing daily as more and more machines are installed in LBOs and in bingo and arcade premises and the on-line offers become increasingly accessible and sophisticated. Thousands more products have emerged since we presented our evidence.

The casino industry deserves the opportunity to offer modern, competitive products in the safest environments and where they contribute to the exchequer.

As far back as 1996 the Home Office was recommending (in their consultation document—append para 5.5.5)\(^{109}\) that casinos be entitled to two machines per table. We have asked for a ratio of five machines to one table in line with the large casino format. We suggest a process that allows 1968 Act casinos that qualify as either Large or Small casinos in terms of space and facilities offered should have the same benefits as those licensed under the 2005 Act. There are also features available on gaming machines—like linked jackpots—that are actually on the face of the 2005 Act that government could implement to help the industry to safely compete which are unimplemented.

We believe that harmonisation of the 1968 Act and 2005 Act proposals is now imperative. We hope you will recommend the government define and immediately begin a harmonisation process.

**Harmonisation of the Industry**

When we presented to the committee just four of the eight Large licences had been granted. The updated figure is now five licences issued. The process to grant a licence in a sixth area (Leeds) has just commenced and is scheduled to run well into 2013. However, only one Large premises is in operation (Aspers at the Westfield Shopping centre in Stratford) and on current assessments, we do not anticipate any more than one of the granted licences becoming operational in the next 12 months. Full build out of the issued Large licences is not expected until at least 2015. None of the Small licences have been granted and they continue to look commercially unattractive.

There is no “end game”. Local authorities cannot be compelled to offer the licences. Businesses cannot be compelled to bid and operate them in unfavourable locations and un-commercial terms. Consequently, any “wait and see” policy that holds the existing industry in stasis until “all the 2005 Act licences are developed” is no more than political prevarication and action needs to be taken now to prevent market failure and to secure growth based on the 1968 Act estate.

**Portability of Licences**

We have won support for our portability proposals from some local authorities who would welcome a casino licence being transferred to their area. Others have indicated that they wish to have the power to decide, even if, for now, their decision would be not to have casino gaming. The issue is about localism and freedom of choice. Though the number of casino licences cannot grow—in fact it has reduced by one surrendered licence—portability would encourage more and better development of the existing estate.

We have revisited the 1996 Home Office consultation paper which recommended the creation of a further 13 Permitted Areas. Clearly now that Permitted Areas no longer exist, creating new ones is not an option.

\(^{109}\) Not printed.
However, we have appended the original report to this submission because it clearly demonstrates that more than 16 years ago, the government believed the time was right to change over-restrictive controls on casino locations. In 1997 the only substantive concerns the then Gaming Board had around the recommendations on both more Permitted Areas and increased machine numbers were resource issues. The Gaming Board also reported that:

“The Board does not believe that it should oppose the proposals in the consultation paper (slots and more permitted areas) on the grounds of their impact on the small minority of the population who suffer or potentially may suffer, problems with the gambling activities...”.

Unfortunately, those recommendations were in effect put on ice whilst Budd reported. In 2001 Budd recommended even greater freedom! Since then nothing has happened.

We urge you to recommend that the government revisit these regulations which are an anachronistic inhibitor to growth and the cause of market failure.

**Modernisation of Product**

There are two aspects to modernisation:

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- The first is to allow casinos to offer digital representation of gambling paraphernalia, like and dice etc.
- The second is to allow casinos to offer on-line products.

Whilst, we accept that the second would provide casinos with more “gaming devices” and thus might require additional legislation to control the number of on-line devices a casino could offer, the former simply seeks to address the technological changes that have occurred since the Act was first drafted. We live in a digital age—except in a casino where cards must be made of card!

The existing legislation helps on-line casinos draw revenue from the UK exchequer into less controlled environments and undermines British jobs.

A part from the inherent dreariness of the legislation which prevents casinos in the UK from offering what can be found everywhere else in the world—and the impact on UK plc as a tourist attraction—the modernisation of products would allow the industry to invest in modern equipment that would be capable of providing more and better data on machine usage, a facility the Gambling Commission and the Responsible Gambling Trust would welcome.

**Responsible Gambling**

Sadly, it is impossible to have any discussion about casinos without constantly referring to responsible gambling. Let us remind the committee that the gambling industry has done everything that Budd asked of it and more and that Budd asked what he did as one side of an equation that saw really substantial deregulation. We have not enjoyed deregulation on a scale even approaching that which saw the current safety measures as necessary. The propensity of the British public to gamble is one of the highest in the world while problem gambling in the UK remains at one of the lowest. That must indicate that the industry has identified the need for proper consumer protection measures and is doing the right things!

May 2012

**Supplementary written evidence submitted by the Department for Culture, Media and Sport**

At the recent Select Committee I promised to write to you about whether the “Full Tilt situation” could happen in Britain, specifically Full Tilt's failure (to date) to pay back players' deposits.

At the time of the implementation of the Gambling Act in 2007, the Gambling Commission considered it was disproportionate to introduce requirements for the British-based betting or remote gaming industry to hold a financial reserve. Gambling contracts made since 1 September 2007, however, are legally enforceable under the Gambling Act 2005.

The Commission did consider whether it would be proportionate to introduce requirements for the betting or remote gaming industry along the lines of the casino reserve (an amount set aside or guaranteed or covered by insurance to cover the maximum liability the operator was likely to have to players) to ensure players could withdraw their deposits and winnings. There was, however, very little evidence that, without such prescription, the betting industry or the remote gaming industry had failed to honour liabilities to players. Indeed, in a number of insolvencies the purchaser of the brand had honoured the liabilities to players.

The Commission concluded that, on balance, there was not a cost/benefit case for requiring the then newly regulated sectors (betting and remote gaming) to offer total protection for player funds, not least because it would push up costs and leave less regulated or illegal sites with a competitive advantage which would make it potentially easier for them to tempt players. Instead, the Commission required operators to explain to players...
to what extent and how their funds were protected. The intention was that consumer pressure, and operators competing to show their corporate social responsibility credentials, would help improve the overall level of protection offered. It is also worth noting that, while the casino reserve was initially maintained, there were concerns from the sector that the reserve was an increasing burden. The Commission looked carefully into the risk of a casino not honouring its liabilities to players and concluded it was extremely small and subsequently removed the requirement for a reserve on the grounds it was a disproportionate burden on the industry.

The Commission had become aware, even before Full Tilt hit the headlines, that remote players thought they had more protection than they did in reality and tended not to consider the risks to their funds when choosing an operator. The Commission has therefore been considering how to make consumers more aware of the risk they run in leaving funds on deposit with an operator, whilst being more prescriptive with operators about the way they look after player funds and what information they give players. The Commission is expected to reach a conclusion later this year, taking into account the report by Peter Dean for the Alderney regulator into lessons learned from the Full Tilt issue.

I hope that clarifies the situation we discussed at the Select Committee hearing. I share your concerns about the present position, but pending the results of the Commission’s review, we run the risk of introducing measures which might not be necessary, feasible and proportionate. I’m sure we are all awaiting the Commission’s conclusions with great interest and concern!

7 March 2012

Supplementary written evidence submitted by the Association of British Bookmakers

Machine Games Duty (MGD)

Whilst I know that your formal inquiry into gambling has come to an end and you are probably now considering the possible findings to a report I wanted to bring to your attention recent developments which are particularly pertinent to the future of the betting industry.

As we outlined in our written evidence to the committee we have an on-going concern as to the impact of high regulation and high taxation on our sector.

As you will no doubt be aware the Treasury announced a new rate of Machine Gaming Duty in this year’s budget. Despite assurances made during your Committee’s Inquiry into the Gambling Act that the new rate would be fiscally neutral for the industry, the rate that was introduced was 20%. This is significantly higher than the rate we had calculated as being fiscally neutral for the industry and has an extra bottom line cost on our business sector of over £300 million over the next five years.

At the same time, the Treasury also announced a consultation on Place of Consumption Tax for remote gambling. The rate that has been proposed, at 15%, will also have a very significant impact on the betting industry.

We remain very concerned that at a time when the UK Government wishes to encourage growth and job creation, the betting industry faces an increase in taxation, without any sign of deregulation or innovation. The increased taxation will have an impact on our sector’s ability to grow and develop and will threaten job creation.

I am happy to provide further information should you wish but I wanted to bring these issues to your attention so that I hope you and the committee can take them into account in your wider deliberations.

June 2012

Further supplementary written evidence submitted by the Association of British Bookmakers

I am writing to you following the evidence we provided to the select committee on the inquiry into the 2005 Gambling Act. We refer to our position on the effectiveness of the dual-licensing system. I would like to draw your attention to the Gambling Commission’s recent licensing authority statistics. They show that betting shops are highly compliant and responsible businesses. They also raise important questions about effectiveness of the current dual-licensing system and the justification for charging operators so much in licensing fees.

For the period 1 April 2010 to 31 March 2011, 212 licensing authorities made a total of 1,649 pre-planned visits to betting shops, which equates to around one in every five betting shops. 152 licensing authorities did not visit a single betting shop and only 65 visits were made as the result of a complaint. In 87% of percent of cases, including the complaint visits, no return visit was considered necessary and no local authority reviewed or revoked a betting premises license.

Despite this, many local authorities charge the maximum permitted premise license fee of £600 per shop per annum, generating extra income rather than merely covering costs. And as far as the customer is concerned there is no noticeable benefit. The fees appear to be charged on the basis of probable costs involved for local authorities irrespective of whether annual compliance visits are carried out.
The number of visits made by the Gambling Commission to operators, which was obtained through a freedom of information request, paints a similar picture. For the period 1 April 2010 to 31 March 2011 the Commission made 1226 compliance visits to betting shops. Three quarters of those visits were made to the big five operators and, following those visits, no enforcement action was considered necessary.

The Gambling Commission’s fee structure is particularly onerous for smaller operators and discourages them from expanding their businesses. We recently visited an operator who runs 15 shops and pays an annual fee of £7,413 for an operator’s license. If the business opens just 1 more shop the fee jumps to £17,914. Before the introduction of the 2005 Gambling Act (the Act) the operator made a one-off payment of £125 for a new shop license and then £25 every three years to renew it—so just £8.33 per shop per annum.

The dual-licensing system, introduced by the Act, is largely responsible for the massive increase in license fees. It is also more bureaucratic and less efficient. Problems arise due to the fact that the high street betting industry is regulated both by local authorities and a national regulator. At an operational level it is often unclear where the local authorities remit ends and the Commission’s remit begins, and vice versa. This leads to “overlapping” and sometimes inconsistent enforcement activity.

The ABB would like the Government to consider the merits of one Primary Authority to deal with our industry’s licensing compliance issues. This would not affect decisions around the granting of licenses, it would simply ensure consistency of approach in compliance policy. At least two major operators already have a Primary Authority for health and safety regulation.

We would also like to see a risk based system of regulation, with licensing authorities taking an evidence based approach to compliance, rather than carrying out compliance visits as a “tick box exercise”.

The cost of betting licences, as outlined above, has become a major issue for operators. Many have seen their licensing fees increase a hundredfold since the Act. Three in every 10 betting shops make less than £22,000 a year and, faced by a significant tax increase in the form of Machine Games Duty, 11,000 jobs and 2,600 shops are at risk. Just this week, after many years of trading, a small operator in Cornwall went out of business.

Our industry, which contributes over £1 billion in tax every year—about £400 million more than we make in profit—and supports 100,000 jobs, faces numerous barriers to growth. However, none are more onerous—in terms of cost and bureaucracy—than the dual-licensing system.

I would be grateful for any support you can give us to ensure that the dual-licensing system is reassessed and license fees reduced. Do please contact me if you would like any further information or to discuss my letter in more detail.

June 2012