

Review of Gaming Machines and Social Responsibility Measures

British Beer & Pub Association response
November 2016



Executive Summary

- The BBPA's objective is to ensure that Category C amusement machines in pubs remain attractive to the customer and are allowed the flexibility to develop in line with customer expectations in the future. This is to the benefit both of customers who play amusement machines, and the community pubs that offer machines. We believe our proposals set out in this response will help deliver this, neither causing problem gambling and with a strong sense of responsibility whilst at the same time not impacting negatively on social responsibility or problem gambling.
- In terms of stake and prize, the BBPA is calling for an increase in Category C stake to £2, and prize to £150.
- To allow the 'future proofing' of Category C machines in the face of changing customer behaviour and expectations, the BBPA is requesting a review to simplify the overly restrictive and complicated-complex technical standards for what is essentially an amusement machine.
- In the same vein, we are asking the Government to explore the option of contactless payment for Category C machines, given the significant shift in pub customers using card payments instead of cash for food and drink purchases.
- The BBPA is committed to updating its code of practice on the responsible operation of amusement machines.

Introduction

The British Beer & Pub Association is the UK's leading organisation representing the brewing and pub sector. Our members account for 90% of the beer sold in the UK and own around 20,000 pubs. We also operate a consultative forum comprising of over 200 licensees. The BBPA and its members have made representations on behalf of the pub gaming machine sector via both the Gambling Board of Great Britain triennial review system and DCMS since the introduction of the Gambling Act 2005.

The Association is grateful to the Government for listening to the concerns of the pub sector during the triennial consultation exercise in 2012-13, and as such very much supported the Government's action to revise the prize limits for Category C machines, (of which we estimate there are 40,000 in the pub sector alone), from £70 to £100. As part of this consultation, we are providing evidence highlighting the continuing evolution of the pub sector and customer demand and behaviour – and how the Government can help the machine offer in pubs reflect this. A major part of this will be

an increase in stake and prize limits, but we also wish to take this opportunity to highlight that other measures should be considered to ensure that Category C amusement machines remain attractive amusement machines for customers in the future.

The pub plays a vital role in community cohesion and social life in Britain. They remain one of the few places where communities can come together to socialise. The British pub has been part of people's lives for hundreds of years. First and foremost, they are businesses which serve their local communities and contribute much to the social life of each and every community. The pub sector has enormous potential to generate economic growth and create jobs. It can also play an important part in local regeneration projects, and has been at the heart of the regeneration of many of our key towns and cities over the last fifteen years. A major study undertaken by Oxford Economics in 2016 clearly identifies the significant local impact of the pub sector, and concludes that the pub sector is a major employer across the UK. The industry supports almost 900,000 jobs across the country, and one in thirteen young people currently working in Britain are employed in the beer and pub sector.

Across Britain, 30 million people visit Britain's pubs each month, with over 15 million people drinking beer. The income from an increase in prize for Category C machines will enable pubs to invest in the business and keep an important social resource viable. Land-based businesses such as pubs are highly labour intensive (as noted above) and thereby contribute to local jobs and profit in communities. They are also socially responsible and any gaming machine use is overseen by the licensee and their team.

The income derived from gaming machines is important to the economics of many pubs, and for some can have a key affect on their viability. The growth in competition from other gambling products over recent years has affected the pub industry's ability to match the level of machine entertainment increasingly demanded by its customers. Pub machines have found it more and more difficult to compete with more attractive gambling offers on the high street and via interactive media offered by mobile devices and the internet.

We would take this opportunity to stress that pubs wish to remain a soft gaming environment and have no wish to change the nature of their traditional offering. However, the stake and prize level currently on offer in pubs does not meet the expectations of the consumer. Allowing an increase (which is of course a maximum and pubs may not intend to take this up) would increase the flexibility of the games that could be offered on pub machines. Similarly, simplification of the technical standards and opening up pub machines to new and commonly used payment technology, such as contactless payment, would allow manufacturers to innovate.

Consultation Question Responses

Question 1: What, if any, changes in maximum stakes and/or prizes across the different categories of gaming machines support the Government's objective set out in this document?

Please provide evidence to support this position.

The BBPA is calling for an increase in stake and prize levels as per the below:

Machine Category	Current Maximum Stake	Requested Maximum Stake	Current Maximum Prize	Requested Maximum Prize
C	£1	£2 (+£1 increase)	£100	£150 (+£50 increase)

We believe that the increases in stake and prize we are proposing for Category C machines meet the Government's objective of socially responsible growth, and at the same time will not impact negatively on consumers or local communities. In fact, we hope this response demonstrates that the proposed increases will benefit consumers and local community pubs, by giving consumers increased enjoyment of new and innovative amusements games. This will support pubs economically and increase their viability, as well as boosting the manufacture and supply of Category C machines.

The vast majority of the pub sector (c.80%) is made up of small businesses, with independent licensees in leased/tenanted and freehold pubs operating on tight margins. To illustrate this, please see a profit and loss account from the 2015 BBPA benchmarking report for tied tenants at figure 1.

Community wet-led

c. £5k turnover per week
All figures exclusive of VAT

	£	
Total Drinks Sales	4,589	
Total Food Sales	404	
Total Sales	4,993	
Cost of drinks	2,221	
Cost of food	165	
Total Cost	2,386	
Gross Profit	2,607	52% gross profit margin
		% cost to turnover
Wages & Salaries	713	14.3%
Rates	172	3.5%
Utilities	247	4.9%
Repairs & Renewals	80	1.6%
Insurance	55	1.1%
Marketing/Promotion/Telephone	75	1.5%
Consumables	19	0.4%
Waste Disposal/Cleaning/Hygiene	52	1.0%
Professional fees	66	1.3%
Bank charges	28	0.6%
Equipment Hire etc	6	0.1%
Interest on capital	24	0.5%
Other Costs	99	2.0%
Total Operating Costs	1,636	32.8%
Divisible Balance	971	19.5%

Figure 1: profit and loss account for community drink-led pub

As can be seen from the above, such a pub model is a highly marginal business. Operating costs are also under pressure from recent increases in the national minimum and living wages, mandatory auto-enrolment pensions for employees, the apprenticeship levy and business rates. Therefore, the income from amusement machines can be vitally important in keeping many pubs, including a number of community locals, viable. Many licensees have reduced staffing levels due to the current economic conditions. These licensees are working longer hours to plug this gap themselves and keep the business viable. By increasing the stake to £2 and also giving the option of a £150 prize, this will allow new games to be developed for Category C machines will keep the offer attractive to new and existing customers.

Additional income generated by the £150 prize would be welcomed by tenants as profit could be invested in staff that in turn would help the pub flourish. For managed companies, staffing levels are also increased or decreased dependent on profitability. Machines play an important role in managed pub profitability; protecting and growing

machine income will protect and grow jobs in pubs, operators and manufacturers. With regard to pub companies, an increase in machine numbers could create roles in account management within pub operating companies.

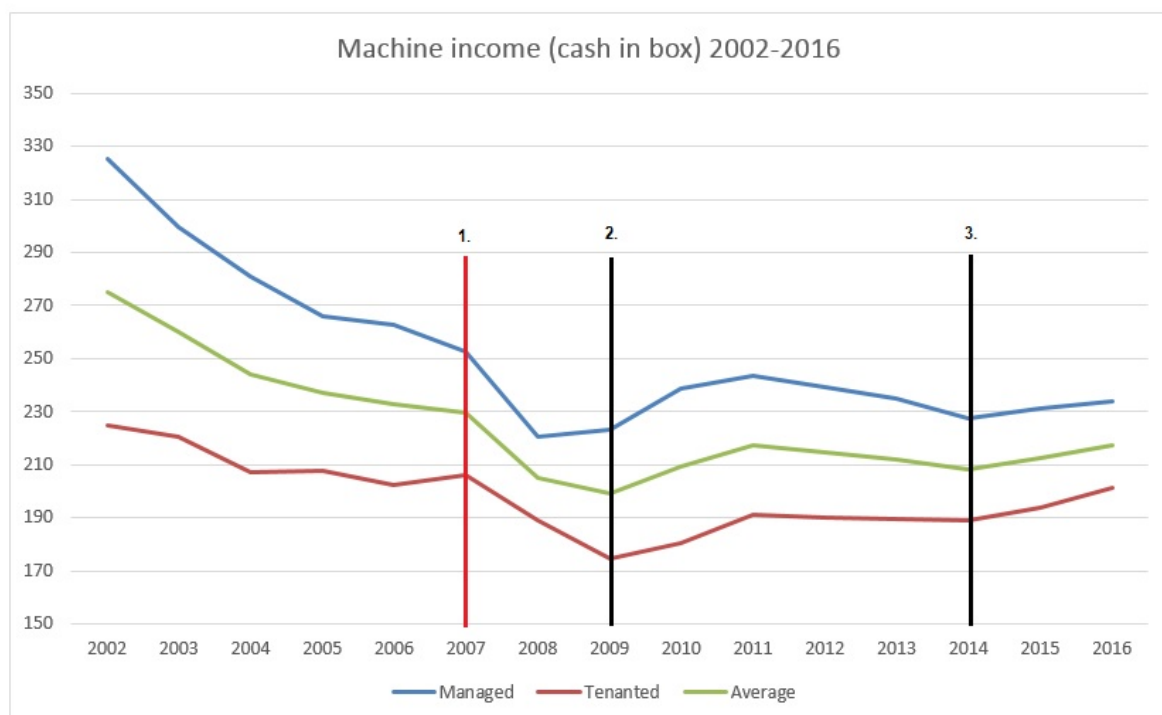


Figure 2: Category C machine income 2002-2016

The increase in 2009 to £1 stake and £70 prize did give an uplift to pub sector machine revenues (albeit spread over a longer time period for tenanted/freehold pubs than the immediate effect felt by managed operators). An uplift has also occurred after the increase from £70 to £100 in 2014, and based on this historical evidence we would expect to see an uplift as a result of an increase in stake and prize, and if no stake or prize increase a steady decline. This is also of course dependent on the other measures we proposed in this response to ensure that Category C machines in pubs are allowed to develop and become ‘future proof’.

An increase in stake and prize will allow manufacturers to develop games offering a greater variety of gaming / entertainment experiences for a customer whose choices have increasing competition from competing leisure offers. An increase will encourage innovation and flexibility of game design increasing consumer choice. £150 would represent the maximum prize and £2 the maximum stake, however operators would be able to offer many smaller prizes and stakes within this limit affording consumer choice as evidenced on other products offering higher prize opportunities – and even more so with the advent of video Category C machines. An increase in stake to £2 and prize to £150 is needed if venues offering Category C products are to have any chance of competing with other offers. This is illustrated by the sharp decline in Category C numbers sold by manufacturers over the last 10 years.

2005	46,000
2006	38,000
2007	42,000
2008	26,000
2009	22,000
2010	16,000
2011	16,000
2012	16,000
2013	16,000
2014	14,000
2015	13,000

Figure 4: Category C machine sales (number of units) 2005-2015

Question 2: To what extent have industry measures on gaming machines mitigated harm or improved player protections and mitigated harm to consumers and communities?

Please provide evidence to support this position.

Please see answer for Question 5 with regard to pub sector social responsibility regarding Category C machines.

Question 3: What other factors should Government be considering to ensure the correct balance in gaming machine regulation?

Please provide evidence to support this position.

Contactless payment

Currently, Category C gaming machines are by law not allowed to take debit card payments. Previously, this has not been an issue due to the low stake amusement nature of the machine and the fact that pub customers carried cash and coins to play the machine.

However, the rise of contactless payment in the pub sector has meant that less and less people are using (and therefore carrying) cash for food and drink purchases. According to 2016 Barclaycard research, tap and go payments in the pub and bar sector rose by 92% between September 2015 and January 2016 due to the increase in the contactless limit from £20 to £30 in September 2015. The same study found that 8 in 10 consumers used less cash than they did in the same period a year previously.¹

¹ <http://www.morningadvertiser.co.uk/Running-your-pub/Technology/Contactless-payments-up-92-since-September>

November 2016 research carried out by CGA Peach on behalf of the BBPA found that 56% of regular pub goers expected to have the option of using contactless payment when they visited the pub.

This trend is expected to continue into the future, with less and less customers carrying cash. Therefore, we would ask the Government to consult formally on the option of allowing contactless payment for Category C machines in the future.

Technical standards

The current technical standards for Category C machines are in our view extremely unwieldy and prescriptive for what is an amusement machine – especially when compared to the more flexible and readable standards for other areas such as remote gaming.

To allow machines and games to be developed that are attractive to the customer and allow flexibility for the future, we would ask the Government consult on a slimming-down and rationalisation of the Category C technical standards document, whilst keeping the core protections of the Gambling Commission objectives in place.

Deregulation/ 'red tape'

Pubs have a right to have up to two machines on the premises. The Gambling Act 2005 allows pubs two Category C or D gaming machines as of right. There is a requirement to register this right and pay £50 and re-register and pay the same sum again, every time the (Licensing Act 2003) Premises Licence holder changes. Since having up to two machines is a right under the Act, there is an argument as to why a notification has to be applied and paid for at all. Certainly if this is to happen, it should be a one-off cost, as the Local Authority is then aware there may be machines on the premises and does not need to be re-notified every time there is a new tenant/licensee (with the impact falling on small businesses, as managed companies will not have this issue).

With regard to permits, when completing the application form the licensee must, “specify the number and category of gaming machines in respect of which the permit is sought” (paragraph 2(c) of Schedule 13 to the Act. In other words, and as interpreted by some Local Authorities, the licensee must state how many Category C machines he or she requires and how many Category D.

Should the licensee then wish to vary the proportions of the respective machines e.g. change from say, 2 Cat C and 3 Cat D to 3 Cat C and 2 Cat D, he or she has to make an application to vary and pay a fee. This is cumbersome, causes delay and restricts the ability of the licensee to vary his offering to meet customer needs and to try out new machines in one or other categories to get the most popular mix; which is not necessarily the higher stake and higher pay out machines, as what works will depend on the nature of the premises. As a solution, we would like to see the guidance/regulations clarified to make clear that local authorities do not need to be consulted about the mix of Category C or D gaming machines and that as long as the operator retains up to two machines, that flexibility about their mix is left to the licensee.

Question 4: What, if any, changes in the number and location of current gaming machine allocations support the Government's objective set out in this document?

Please provide evidence to support this position.

We have no comments regarding current siting of machines.

Question 5: What has been the impact of social responsibility measures since 2013, especially on vulnerable consumers and communities with high levels of deprivation?

As stated above, Category C machines in pubs are amusements machines - ancillary to the primary purpose of why people visit pubs; meeting friends, eating and drinking. We are not aware of any evidence that shows amusement machines in pubs are the cause of any increase in problem gambling.

In the event of any concerns about social responsibility issues as a result of a stake and prize increase for Category C machines, we maintain that there are now more protections in law than ever before. The Gambling Act 2005 has considerably strengthened the responsibilities on businesses in this respect through the introduction of statutory Gambling Commission Codes of Practice and the minimum age limit on playing Category C machines. BBPA members have led the way in ensuring that underage access to gaming machines in pubs (already a heavily regulated and supervised environment) is restricted – previous advertising of the 2009 and 2014 increase in prize to £70 and £100 prominently featured 'no under 18s to play' messaging, in addition to the Gamcare helpline number.



Example of £70 prize advertising featuring social responsibility messaging (2009)

The BBPA publishes a code of practice for responsible operation of machines for its members.² This covers making staff aware of the law surrounding underage access to gaming machines, having an age verification policy in respect of gaming machines, and highlighting the Gambling Commission code of practice regarding underage play. The code of practice also ensures that amusement machines are sited within the pub so that their use can be supervised, either by staff whose duties include such supervision (including bar or floor staff) or by other means. Pubs operating machines with a permit (i.e. more than two machines) are directed towards the Gambling Commission code of practice regarding the siting of machines on alcohol licensed premises. The code will be updated to reflect any changes to stakes and prizes, and the latest Gambling Commission codes and information.

The BBPA and its membership have traditionally supported and promoted responsible gambling, initially via GamCare and latterly through the more recent arrangements put in place where contributions are collected by the Responsible Gambling Trust. The Association and members have contributed in proportion to the amount of gambling involved in the sector, and continue to support research, education and treatment into problem gambling. There is no evidence to suggest that an increase of prize for Category C machines would affect problem gambling.

Question 6: Is there anything further that should be considered to improve social responsibility measures across the industry? Please provide evidence to support this position.

Please see answer to question 5 above.

Question 7: Is there any evidence on whether existing rules on gambling advertising are appropriate to protect children and vulnerable people from the possible harmful impact of gambling advertising?

We have no comments on this question.

Specific questions: Operator (end user)

- Do you expect there to be an increase in spend or the same spend across a greater number of machines?

Please see answer to question 1.

- Please provide details on how the changes in stakes and prizes contributed separately to the changes in spend and can you outline any assumptions made and on what basis you believe these to be correct (e.g. based on market data or past trends)

Please see answer to question 1.

² <http://www.beerandpub.com/industry-briefings/bbpa-code-of-practice-on-gaming-machines>

- Can you provide the average machine earnings varying by places (e.g. public houses) not licensed by the Gambling Commission? Can you provide current and projected earning over the next three years?

Please see answer to question 1.