

DCMS CALL FOR EVIDENCE RE MACHINES

December 2016

Response by Global Gaming Ventures (Developments) Limited

Introduction

Global Gaming Ventures (Developments) Limited ('GGVD') is a privately owned UK company which was established in 2010 for the purpose of developing new land casino projects in the UK. It is owned by its directors, Tony Wollenberg and [REDACTED] who are experienced UK gaming industry executives and is backed by Summit Partners LLP, a substantial US private equity firm.

GGVD is developing the new 'Large' casino in Leeds under the provisions of the Gambling Act 2005 and which will open in early 2017. An affiliate of GGVD holds the 'Small' casino licence in Bath which is expected to open in 2018. GGVD continues to examine a number of other casino projects in the UK (including some of the undeveloped Gambling Act 2005 licences) and would be interested in progressing some of these if improvements in the regulatory and economic environment make this commercially viable.

GGVD is committed to responsible operation of its properties. We fully agree that the fundamental basis of legislative and regulatory policy in the gaming field is to seek the optimal balance between legitimate personal and commercial freedoms and the protection of consumers (especially vulnerable consumers) and wider communities.

GGVD submits that insofar as it relates to machine numbers and maximum stakes and prizes in UK casinos, current legislative policy manifestly fails to strike the correct balance, however, because:

1. The UK is an international outlier in that all 147 UK casinos together have fewer slot machines than can be found in a single casino in culturally comparable jurisdictions such as the US and Australia
2. Though casinos are at the top of the regulatory pyramid, total slot machine numbers in UK casinos are limited to a tiny fraction of the numbers of devices to be found in other UK outlets such as LBOs and arcades
3. The number of B1 slot machines permitted in UK casinos has not changed for over 12 years despite rapid technological advance and the development of competitive gaming products such as on-line and mobile gaming
4. Gamblers who choose to visit a UK licensed casino, at the apex of the regulatory pyramid and with numerous protections, are limited to a maximum stake of £5 per spin and a maximum prize of £10,000 whilst they can gamble on any mobile device or PC for unlimited stakes and prizes
5. UK casinos, uniquely amongst leisure venues, are prevented from offering internet gaming on their premises.
6. The legislative framework is inflexible and fails to adapt to local or varied circumstances with the result that, for example, the Hippodrome Casino in London with several thousand visitors a day, has the same number of slot machines as a tiny casino property in a small town with less than 100 visitors per day.

We submit that there is no intellectual or public policy logic to the current machine entitlements. These ignore the Budd Committee recommendations in 2001 (which were largely accepted by DCMS in its 'Safe Bet' White Paper) and instead reflect the very curious and unsettled political environment leading up to the passage of the Gambling Act 2005.

The impact of this mess on operators, communities and consumers, is, however, substantial and continuing and it includes:

1. Only five of the fifteen new licences created by the Gambling Act 2005 have so far been opened, 11 years on from Royal Assent. This represents a disgraceful wasted opportunity for investment, jobs, tax revenues and modernisation of the industry.
2. Many consumers are over-paying for their gaming as the cost and inefficiency involved in providing live games makes it much more expensive to play tables rather than slots
3. Consumers are unable to experience the large scale casinos and types of games that are popular elsewhere in the world – 500,000 UK citizens visit Las Vegas every year and may legitimately wonder why no similar leisure product is available at home.

Intellectually, we believe that there is a strong case for reverting back to the original Budd Committee proposals and leaving it to operators to determine machine numbers in the light of consumer demand (but constrained, of course, by the requirements of local authority Premises Licenses, Gambling Commission licensing of operators and staff and the existing planning system).

However, it would appear that there are political constraints on what can be achieved and we accept that asking for such radical freedom is unrealistic.

Therefore, we propose below some relatively modest incremental changes that can be implemented by secondary legislation. These changes will permit modernisation of the industry, leading to extra investment and employment and additional tax revenue whilst also being demonstrably socially responsible and very limited in scope.

Summary of GGV's Proposal

We propose the following changes:

1. Allow Large 05 Act casinos to move from a 5:1 machine to table ratio to an 8:1 machine to table ratio (this being the ratio that was originally proposed by Budd)
2. Allow Small 05 Act casinos to move from a 2:1 machine to table ratio to a 3:1 ratio
3. Remove the caps of 150 and 80 on machine numbers for Large and Small 05 Act casinos respectively, thus permitting the live/automated gaming mix to remain unchanged even for larger properties
4. Allow Converted 68 Act casinos the same ratio of 3:1 for machines as for Small 05 Act casinos, with a minimum, grandfathered, allowance of 20 machines (regardless of the number of tables).
5. Entirely remove the existing £20,000 limit on Progressive Linked Jackpots (PLJ) and permit cross-casino jackpots by extending the linked progressive offering across a wide area casino network (WAN).
6. Permit casinos to offer limited internet gaming on their premises.

We also believe that a substantial increase in maximum stakes and prizes for B1 machines can be justified, with special additional provisions being made for high end casinos (and possibly higher staking areas in mainstream casinos). However, we accept that there may be higher legislative priorities in the short term and therefore we are not proposing this.

We propose instead that a limited trial of Category A machines be authorised subject to agreement of an operational structure requiring these be used only for 'carded' play by pre-registered customers. The results would then be considered for further roll-out in the next triennial review. In order to permit a critical mass of machines (thus commercially

justifying the investment by manufacturers and operators) we propose that this be done on the basis of an entitlement of 10 machines per casino.

Q1. 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.

We accept that there are higher priorities than increasing the stake and prize limits on B1 machines. Accordingly, we are not requesting this.

We have no view on stake and prize limits for other sectors of the gaming industry as we have no operations outside UK land casinos.

We believe that the existing limit of £20,000 on casino Progressive Linked Jackpots serves no useful purpose and is unreasonable in an environment where high prizes are offered in numerous other gambling channels. Therefore, we propose that this limit be removed entirely.

We believe that a trial of Category A machines should be authorised on the basis that such machines should only be usable by players who have pre-registered and who insert their player card in the device. The operational protocols and the detailed methodology for monitoring the outcome of the trial would need to be developed by agreement between the Gambling Commission and the casino industry. Since the machines would not be available for use by the generality of customers, these would need to be an additional machine entitlement in order to be commercially viable (i.e. not just a redeployment of an existing entitlement). The machine numbers would also need to be sufficient to make it commercially viable for manufacturers to develop the product. We therefore propose that each casino should be allowed to operate up to 10 Cat A machines as part of the trial.

Q2. 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.

Casinos stand at the apex of the regulatory pyramid. They have more staff, and better trained staff than any other gaming outlet. These staff, like their managers, are individually licensed by the Gambling Commission. UK casino operators, managers and staff are rightly proud of the high repute of their industry, both in the UK and internationally. British trained staff and managers can be found in senior roles in casinos around the world – often at the very highest levels.

British casinos monitor slots play by customers very carefully. Customers interact with gaming staff (especially slot hosts) very frequently during their visits – the staff are out on the floor, not behind a screen at the counter. Casinos want happy, repeat visitors. They do not want unhappy customers who are experiencing problems with their gambling.

Casinos are increasingly using sophisticated CRM features to identify and monitor customers who may be at risk in order to focus and supplement the efforts of local staff and management who interact with such customers. Large casinos have sitting out/quiet areas where players can easily take a break from play (either on their own or following a staff interaction). No interactions are possible for an on-line player using a PC or a mobile device and the environment in other, much smaller gambling facilities makes it less appealing to sit out.

We note that the recent report by Salford University based on tracked play by Grosvenor Casinos customers identified an average time spent playing of around 50 minutes per visit and a mean loss of £20. These figures support the view that for the overwhelming majority of casino slots players this is a legitimate, harmless and pleasant leisure activity which also generates investment, jobs and tax revenues.

Q3. What other factors should Government be considering to ensure the correct balance in gaming machine regulation? Please provide evidence to support this position.

a. Consumer choice/freedom and benefit

Some commentators are contemptuous of slots play as a form of leisure activity. We consider this snobbery is ill-conceived and shows a patronising lack of understanding of what many ordinary people want to do. It overlooks and ignores the pleasure our customers derive from attending an attractive, welcoming, sociable and well-designed casino and once there enjoying the repeated gentle suspense and excitement of winning or losing on each spin of a machine.

Customers are perfectly well aware that over time they will lose money on their slots play. They may win on a particular session and doubtless this is what they are hoping for but their general understanding is that they are paying for the excitement and ambience offered by the casino in exactly the same way that they might pay for a ride on a roundabout in a funfair.

If there were more machines it is extremely likely that operators would offer improved benefits to players as they do in other jurisdictions – with only 20 machines it is not commercially viable to do this.

The strongest argument by far for greater freedom is that it is plainly wrong for regulators to insist that UK slots players experience a second rate product (by international standards) without the regulator putting forward clear evidence that harm would result from permitting more and better devices.

b. Player protection

Regulators should be required to demonstrate that there is at least some plausible player protection benefit from the restrictions imposed on the casino industry and the limitations on consumer choice which flow from this.

With over 30,000 B2 slots located in LBO's, with mobile and internet gaming available on over 30 million UK devices, why is it reasonable to restrict UK casinos to approximately 2,800 B1 slots? We submit that it is not.

Indeed, there are compelling arguments that the restrictions on machine numbers inevitably deflect some play to more expensive live gaming (where there is no restriction on the theoretical rate of player losses) or to arcades, LBO's or home or mobile gaming where there are generally fewer player protections.

c. Legislative consistency

Consumers are often baffled as to why machine entitlements vary from casino to casino. Why should a customer of Aspers Northampton have only 20 machines to choose from whilst Aspers Milton Keynes (just down the road) has well over 100? Why should the

relatively small AGC adjoining the Hippodrome have more machines than the Hippodrome itself?

d. Investment, jobs, city centre vibrancy, tax revenues

As we noted in our introduction, only five of the sixteen licenses created by the Gambling Act 2005 have so far been developed to opening. Well over a decade has been wasted (together with tens of millions of pounds) on trying to get these schemes built. The main reason they have not been developed is that the Gambling Act 2005 set table to machine ratios which do not reflect commercial reality. For example, the Small casinos in Dumfries and Galloway or East Lindsay would, commercially, have probably justified less than half a dozen live tables and therefore would have had 10-12 slot machines. This is hopelessly sub scale.

If the opportunity is taken to improve machine ratios to reflect commercial reality and changing technology then there will be substantial investment in new projects, refurbishments and expansion. NCF, on behalf of the UK industry, has repeatedly submitted evidence of the impact of this prepared by Ernst & Young. This would appear to have been ignored.

We submit that at a time of economic uncertainty, DCMS should be adopting a pro-business, pro-employment, pro-growth policy. In no other field of economic activity would government be deliberately encouraging use of low productivity intensively manned products rather than modern, efficient technology.

Q4. 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 propose the following changes:

1. Allow Large 05 Act casinos to move from a 5:1 machine to table ratio to an 8:1 machine to table ratio (this being the ratio that was originally proposed by Budd)
2. Allow Small 05 Act casinos to move from a 2:1 machine to table ratio to a 3:1 ratio
3. Remove the caps of 150 and 80 on machine numbers for Large and Small 05 Act casinos respectively, thus permitting the live/automated gaming mix to remain unchanged even for larger properties
4. Allow Converted 68 Act casinos the same ratio of 3:1 for machines with a minimum, grandfathered, allowance of 20 machines (regardless of the number of tables).
5. Undertake a limited trial of an additional entitlement of 10 Category A machines per casino to be authorised subject to agreement of an operational structure requiring these be used only for 'carded' play by pre-registered customers. The results would then be considered for further roll-out in the next triennial review.

We consider that these changes are incremental and modest. They maintain the principle of a 'mixed diet' in UK casinos but they will permit operators to improve their offer to customers (including development of additional 05 Act casinos).

There is no reason to believe that these changes would impact player protections. If anything, the provision of additional supervised machine gaming in casinos will help customer who might otherwise be forced to deflect to more expensive live gaming or to less well protected mobile or on-line gaming.

Casinos will remain at the top of the regulatory pyramid and their improved commercial prospects will permit them to fund increasingly expensive regulatory requirements (e.g. those surrounding AML and social responsibility).

We refer you to the Ernst & Young report supplied by the National Casino Forum on behalf of the industry. This identified an additional £150 million pa of GVA to the UK economy, 1,000 jobs and £65 million pa of tax revenues resulting from a suite of changes similar to those proposed in our submission.

We note that somewhat similar changes were supported in the 2013 report of the Culture Media and Sport Select Committee on the Gambling Act 2005.

We have informally discussed the prospect of such changes with the Gambling Commission over many years. We believe that the Commission supports the broad idea of reforming and modernising machine entitlements.

We note that with regard to the caps on machine numbers, the DCMS has often referred to the importance of a balance between live and automated gaming. We fail to see why, in the largest casinos exclusively, this balance needs to be tipped back towards live gaming by capping slot numbers. There is no logic to this cap and it is already of practical importance in Aspers Stratford, the largest of the new casinos.

We hope that, in time, our new casino in Leeds will also attract sufficient customers to justify more than 30 live gaming tables. We would certainly wish to install more than 150 slot machines, however, in order to provide the machine mix that we believe our customer want. Moving to a (still modest) 8:1 ratio and removing (or at least raising) the cap would be of immediate commercial value to us, helping to justify the substantial investment in the city and the regular stream of future payments we will be making to Leeds City Council under the provisions of the 'Schedule 9 Agreement' under the Gambling Act 2005.

Q5. What has been the impact of social responsibility measures since 2013, especially on vulnerable consumers and communities with high levels of deprivation?

We are committed to socially responsible operation. We have recently founded and fund the Leeds Responsible Gaming Forum, a body chaired by a former senior official from the Gambling Commission. LRGF brings together the casino, the local authority and other interested parties (such as the police, churches and charities) to exchange information and views on matters related to responsible gambling.

We are active members of the National Casino Forum. We supported and continue to support the NCF 'Playing Safe' initiative launched in 2013. We are members and supporters of SENSE, the NCF supported national self-exclusion scheme for players launched last year.

We support the Gambleaware (formerly the Responsible Gambling Trust) and other charitable bodies.

We are firmly of the view that casinos are at the top of the regulatory pyramid and take more and better steps to protect players than any other gaming sector. We wish this to continue and are committed protecting the small proportion of our customers who experience

problems whilst continuing to provide a great entertainment experience to the vast majority for who it is harmless fun.

Q6. Is there anything further that should be considered to improve social responsibility measures across the industry? Please provide evidence to support this position.

We believe that technology can provide the key to better player protection by identifying the 'at risk' group and allowing a greater focus on personal management interactions with these players.

However, to develop this technology the industry needs a substantial increase in machine numbers in order to fund the necessary development work and to facilitate the gathering of data.

We submit that a limited Cat A trial for carded play would provide an opportunity to research algorithmic identification of vulnerable players. Such a trial would need to be of a sufficient scale which would allow the technology to be developed by manufacturers— say 10 machines per casino.

Q7. 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 refer you to the answer supplied by the National Casino Forum on this point.

We have nothing to add other than to say that we believe that gambling operators should be fully free to advertise their products as long as they do not target children or vulnerable people and the advertisements are responsibly designed in compliance with the relevant codes of practice.

Q8. Any other relevant issues, supported by evidence that you would like to raise as part of this review but that has not been covered by questions 1-7?

We encourage speedy action. Other countries seem to be able to legislate for change much faster than the UK.

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