

**REVIEW OF GAMING MACHINES AND SOCIAL RESPONSIBILITY MEASURES -  
A SUBMISSION BY THE ASSOCIATION OF LICENSED MULTIPLE RETAILERS**

The Association of Licensed Multiple Retailers welcomes the opportunity to respond to the Department for Culture, Media and Sport's call for evidence for its review of gaming machines stakes and prizes.

The ALMR is the national trade body dedicated to representing the interests of licensed hospitality operators – pub, club, bar and casual dining retailers – and our members run 23,000 outlets, including 6,600 restaurants, employing over 650,000 employees with a combined turnover of £69bn and combined GVA of over £30 billion. These range in size from independent single site operators to the largest national chains including well known brands such as Slug & Lettuce, Wetherspoon, All Bar One, Greene King, Café Rouge, Cote, TGIF and Carluccio, Tiger Tiger, Walkabout and Ministry of Sound.

Licensed hospitality is, however, an industry made up of small businesses, many of them independently owned and managed. Two-thirds of our members are small independent companies operating 50 outlets or fewer under their own branding, predominantly suburban community outlets. These are valuable social and economic assets – community centres, tourist attractions and significant revenue generators – as well as providing a well regulated and controlled environment for people to enjoy alcohol and other entertainments responsibly and socially.

With low net profit margins, these businesses face higher than average compliance costs and struggle with ever increasing levels of red tape. This is why machine income is so important to pub operators – particularly independent lessees or community pub operators – because it makes a direct and real contribution to the pub's bottom line. This is particularly the case with regard to the amusement machine category, where income has stalled since the last review of stakes and prizes in 2013 and smaller, particularly leasehold, operators have faced added complexity as a result of the introduction of Machine Games Duty. The 2013 uplifts boosted profits temporarily without increasingly rates of play or crucially harm. Our members manage the majority of the machine estate in the sector and we regularly survey their operations to assess the health of the amusement machine sector; these results are presented below.

**Market Overview**

Since the combination of the Triennial Review implementing changes to Cat C machine stakes and prizes and Machine Games Duty reforming the taxation system for the sector, the amusement machines category has partially reversed its previous decline but still failed to thrive. This is in large part the result of significant changes in the market for gambling and gambling products since the implementation of the Gambling Act and particularly the proliferation of internet betting and new FOBT machines on the high street have all increased the competitive environment for electronic leisure and entertainment offerings. It is the revolution in online gambling through smartphones and handheld devices which has had the single biggest impact on other, softer forms of gaming. The failure of pub amusement machines to offer an attractive stake and prize proposition throughout the period has seen a continued falling away of revenues derived from amusement machines.

Coupled with the increase in tax arising from the introduction of MGD in February 2013, and the resulting decline in machine income for smaller operators, and there is now evidence that community pubs choose to restrict machine numbers or remove them altogether as the income they attract does not compensate for the additional costs and red tape. The last Triennial Review sought to rectify this situation by increasing the maximum prize from £70 to £100 but this did little more



than slow the decline. This increase had no negative impacts – it led to rises in rates of play but not in problem gambling or any of its indicators – but differed from previous review cycles when uplifts had been followed by noticeable increases in play and profit which historically began to decline after the second year. In 2013, however, the uplift instead resulted in a decreased rate of decline – per-machine income has fallen by 20% in managed pubs and 3% in leasehold pubs since the Triennial Review – and the sector now needs support from government if it is to have a sustainable future.

The ALMR carries out a regular review of its members' gaming machine estate. This shows a sustained increase in machine density within the managed pub estate, from an average of 1.89 Category C machines per pub in 2012, ahead of the last Triennial Review, to 2.77 this year, a rise of 46% over 3 years. This rise does not reflect increased but rather decreased profitability per-machine obliging operators to expand the volume of machines in order to achieve similar results. Similarly, density within the leased estate is rising – though less dramatically – and now stands at a record high of 1.31 Category C machines per leased pub, an increase of 24% compared to before the 2013 Triennial Review.

Machine income is so important to pub operators – particularly independent lessees or community pub operators – because the operators share of the cash in box is net profit. The machine income therefore makes a direct and real contribution to the pub's bottom line. Any changes which adversely affect or damage that fragile income stream have a consequent and immediate impact on business viability. Equally, a positive change to improve the attractiveness of amusement machine play through increased stakes and prizes and efforts to modernise the regulations governing the machines will result in sustainability.

## Response to Consultation Questions

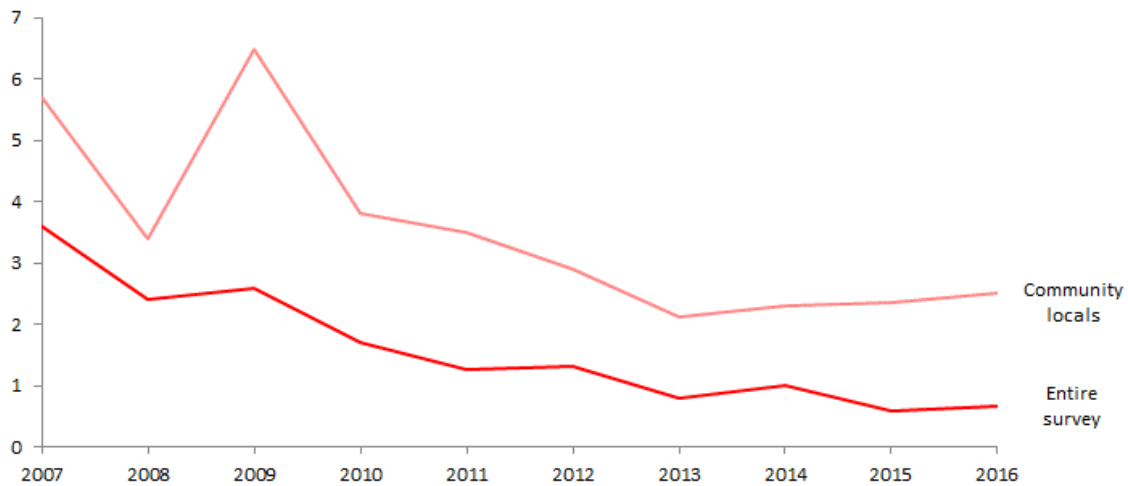
Whilst we understand that the scope of the consultation is wider, we have restricted ourselves to considerations relevant to the provision of machines in pubs, bars and restaurants.

**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.**

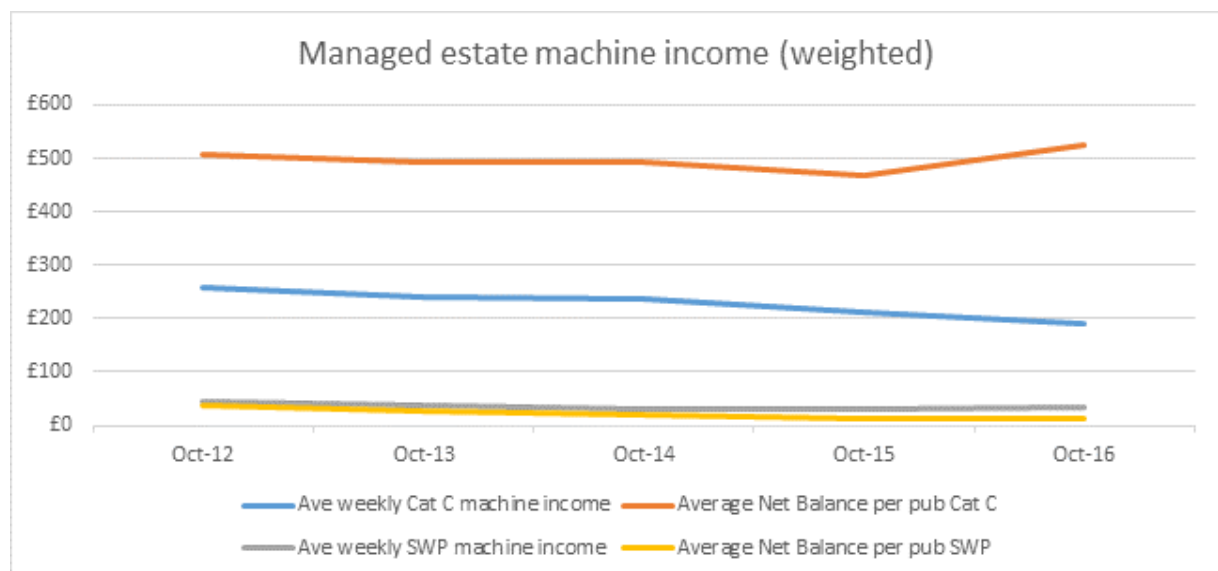
The maximum stake and prize for Category C machines should be raised to £2 and £150 respectively. The gaming offer in pubs has struggled to maintain its position in the face of rapid expansion of high-stakes gambling on the high street and the ever-increasing popularity of online gambling facilitated through smartphones. The last stakes and prizes uplift, in 2013, resulted in a slight increase in revenues (though not profits, due to the introduction of Machine Games Duty) but this has since been eroded by a combination of inflationary and competitive pressures. A £2 stake would maintain Category C machines' position as low-stakes gaming machines while also allowing for greater in-game variability and thus permitting game developers and machine manufacturers more avenues to attract and increase player interest. A £150 prize would similarly help to drive player interest without increasing already-minimal risk as it would represent a slight reduction in relation to the stake – at £1/£100, the player can win 100 times their stake, while at £2/£150 the player will be able to win only 75 times their initial bet. This would ensure that the games remain amusement products targeted towards casual players and not an attractive offer to problem gamblers. The change will meet customer expectations of reasonable and realistic prize levels and provide an attractive stake prize ratio to incentivise investment in the category.

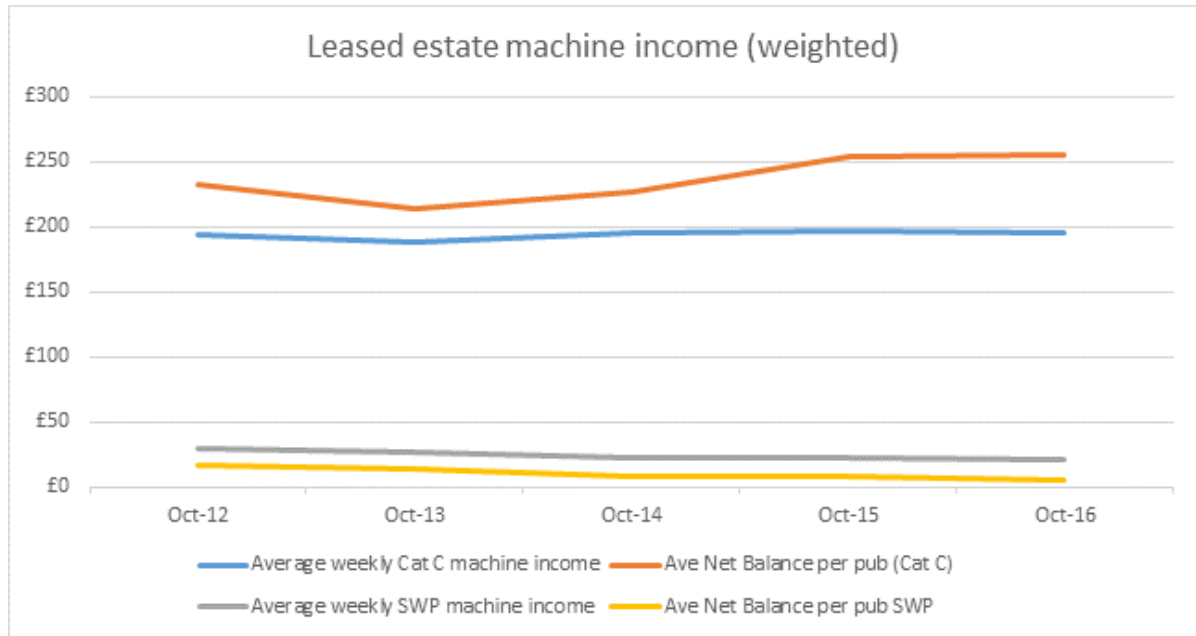
The ALMR carries out a regular review of its members' gaming machine estates and measures the contribution of machine income to total revenue as part of our annual Benchmarking Survey. Machine income was equivalent to 3.6% of turnover in the first benchmarking survey in 2007. It was 0.7% of turnover in this report, slightly up from last year's record low. Gaming turnover is particularly important to community locals, comprising 2.4% of turnover for the segment, compared with 0.6% across the survey. The trend in machine income as a share of turnover within the community local segment has also been downwards, though as one would expect with a smaller sample, the trend has been a little more erratic. The chart below shows the decline in machine income as a share of total turnover across the sample and specifically in community local outlets:

% turnover from machine income by report year



Although historical uplifts in stakes and prizes have delivered short-lived but tangible increases in play and therefore revenue, the last Triennial Review failed to create such an effect and instead only enabled the already-struggling category to maintain its position. As can be seen in the graphs below, this has led to a steady decline in per-machine income and precipitated two very different responses in the managed and leased sectors. Managed operators, who benefit from centralised operations with specialist machine divisions and have an inherent ability to spread profits or losses across their estate, have chosen to apply for permits to site more than the automatic entitlement of two machines on their premises. Meanwhile leased operators, who have less such support and may operate their machines under a tied model controlled by the landlord, are removing the machines entirely as evidenced by a decline in density from 0.58 ahead of the 2013 Triennial Review to just 0.24 in 2016. Uplifts for the maximum stake and prize for Category C machines would help to reverse the continuing decline in per-machine income – which is now under £200 in both managed and leased estates for the first time since the recession – by stimulating player interest in the amusement category and helping it to divert attention from the harder gambling products that are increasingly on offer on the high street.





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

The low-risk amusement gaming available in pubs has had its competitive position steadily eroded in recent years by the increasingly light-touch approach towards the regulation of the significantly-riskier Category B machines. This has resulted in a glut of high street machine gaming able to offer significantly higher stakes and prizes than pubs and has inevitably reduced demand for the lighter, low-risk gaming available from Category C machines. Although the stakes and prizes uplifts we have recommended above would help to reduce this disparity, pub machine operators should be given similar regulatory permissions. A premises on-licence for the sale of alcohol should entitle that premises to four machines instead of the current two. The requirement for the premises to notify the local licensing authority of its machines should also be scrapped – this costs £50 plus legal fees and VAT (so as much as £200) per premises – as this would reduce bureaucratic burdens for both operators and authorities. Raising the automatic entitlement to four machines instead of two would similarly save operators and councils money as it would remove the need for notifications of changes of machine numbers or siting. This would not increase the risk – alcohol-licensed premises are already able to apply for four machines just by paying a fee for a Licensed Premises Gaming Machines Permit and the average number of machines per pub has been climbing as revenue declines, such that the average managed premises has had more than two machines since 2014 and the average number in leased premises currently stands at a record high of 1.3 – but would reduce burdens and costs while freeing up local authority resources for more urgent matters.

The amusement category would also benefit from modernisation of its technical standards. The current technical standards stifle innovation as they oblige manufacturers and games designers to work within strict, prescriptive rules which impose often arbitrary limits on the machines' capabilities. Other categories of gaming machine, even in the hard gambling categories, are not so restricted and are able to rely on modern, technology-based standards instead. The chief barrier to the adoption of such standards for Category C machines has been the option to 'hold' winnings and potentially increase the maximum jackpot above the current limit of £100; we would be willing to forgo the 'hold' option – provided that the maximum prize is increased to £150 – in order to assure the Department and the Gambling Commission that the changes will not alter the fundamental character of Category C machines as form of soft gaming providing amusement to pub customers. Updated standards would allow the creation of new games which will help to stimulate player interest and therefore arrest the perennial decline in revenue without posing any risk to players, children or vulnerable adults.

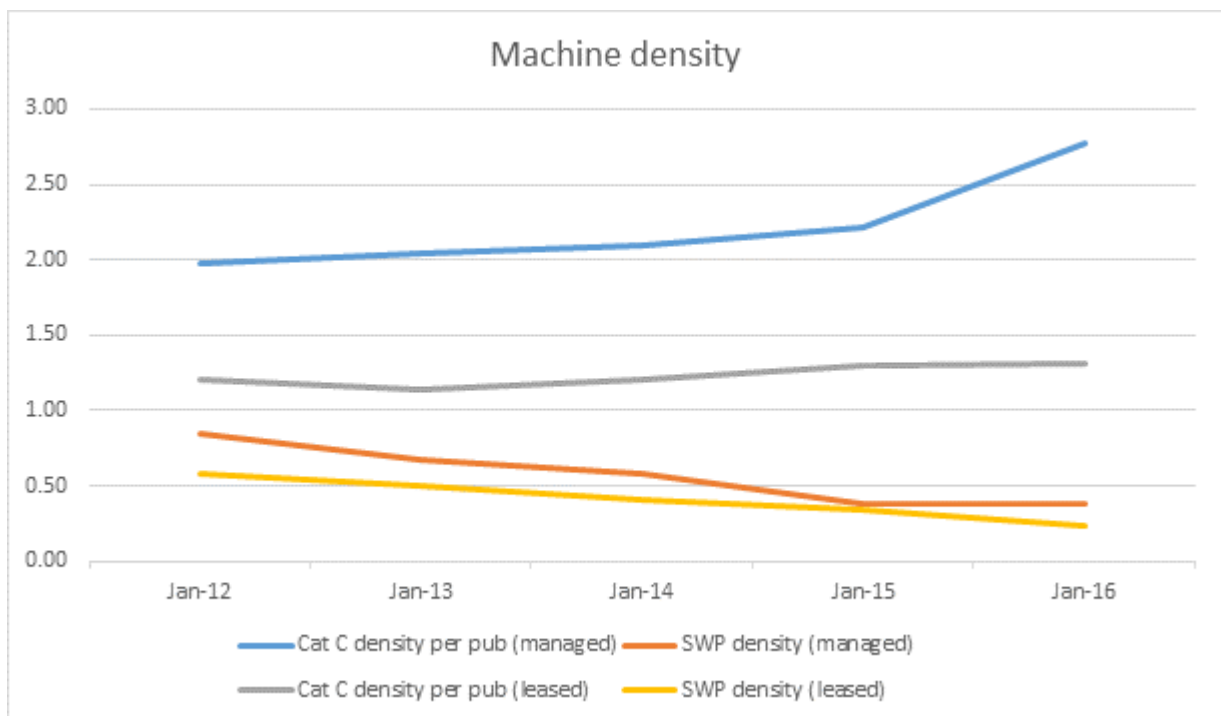
Similarly, the regulations preventing the use of card and particularly contactless payment systems for Category C and D machines should be reviewed with the intention of removing them entirely. Card payments overtook cash as the primary form of payment in 2015 and contactless payment grew by 246% in the last year; contactless spending in pubs has increased by 92% since the start of 2016. As the use of cash declines, opportunities to use pub machines will too as customers will not necessarily have change to spend on the machine. Category C and D machines are recognised as a safe, low-risk form of amusement gaming and data published by the Gambling Commission shows that Category C "fruit machines" are not associated with problem gambling. The government should remove restrictions which will make it increasingly difficult for a struggling category of low-risk gaming to sustain itself and allow the sector to modernise.

Since the last Triennial Review in 2013, operators and manufacturers in the amusement category have taken significant measures to reinforce the sector's defences against underage gaming. Machines now display screens warning against underage gaming – analogue machines have been

fitted with signage and logos advertising the same message – and enhanced training materials have been circulated amongst operators to ensure that they can detect and prevent underage gaming. Licensed hospitality operators have a proud record of age security and have taken additional measures since the 2013 review to ensure that all staff are aware of the age rules around gaming machines, including imposing a voluntary ban on under-16 gaming on Category D and other machines which are legal for children. The last Triennial Review did not result in increased rates of play or harm and the government can be confident that uplifts for the stakes and prizes of amusement machines will not have a negative effect on children or vulnerable adults and will not lead to an increased risk of problem gambling.

**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.**

The machine gaming permissions automatically attached to a premises alcohol on-licence should be expanded from two to four, and the requirement to notify the local licensing authority should be scrapped. This requirement is inconsistently applied and results in needless expenses for both the council and the operator. A notification costs £50 even though it requires the council to do nothing while a permit costs £150 then £50 a year despite again requiring no work from the licensing authority. With the addition of legal fees, it can cost an operator upwards of £300 just to maintain their legal entitlement to operate low-risk gaming machines. There is no risk to players, children or vulnerable adults and no association with problem gambling. Licensed premises are safe, supervised environments with trained, responsible staff who are already required under the terms of their alcohol licences to protect children and vulnerable adults from harm.



The ALMR's surveys of its members' machine estates show an increasing trend towards greater numbers of amusement machines on each site operating them. The average number of machines in a managed pub (currently 2.77) has stood above two since 2014 while the average number of machines in a leased pub (currently 1.31) has been rapidly climbing over the same period. This reflects not an increased profitability from the machines but rather a decrease; operators are having to install greater numbers of machines, with the commensurate permit costs, to maintain tight profit margins. Removing the cost and bureaucracy of the permit system would not only provide space for profit but would also allow smaller leased operators, who do not have in-house machine specialists and may be reluctant to risk spending up to £300 on permits to install greater numbers of amusement machines, to maximise the benefits of their licenses and ensure that they are competing on a level playing field with their larger business peers.