



24th March 2004

Cliff Young
Head of Lotteries and Machines Section
The Gaming Board for Great Britain
Berkshire House
168/173 High Holborn
London WC1V 7AA

Dear Mr Young

Triennial Review of Stake and Prize Limits for AWP and Jackpot Machines

The Association of Licensed Multiple Retailers (*ALMR*) welcomes the opportunity to submit evidence as part of the ongoing triennial review. As the only national trade body dedicated to representing the interests of pub and bar operators throughout the UK, we have focused our comments on the stake and prize limits applicable to AWP machines in pubs.

By way of background, the Association represents more than 90 companies – predominantly small, independent groupings – between them operating in excess of 30,000 outlets. That equates to around half the UK pub estate. Members include major pub companies such as Punch, Unique and Enterprise – whose pubs are operated as individual small businesses – national chains of managed operators such as Regent Inns and Laurel and the retail estate of regional brewers. However, the bulk of our membership is derived from small independent companies operating 50 pubs or less under their own branding.

Overview

The *ALMR* notes that this review will make recommendations in respect of both existing categories of machines and those proposed under the draft Gambling Bill recently published by the Department of Culture, Media and Sport. This would see all-cash AWP machines reclassified as category C gaming machines with a maximum prize of £25 and a maximum stake of 50p. This assumes that the current triennial review will not make any significant changes to the current regime for AWP machines. This is reinforced by the Gaming Board's letter of 17th December inviting evidence, which appears to rule out any increases.

The *ALMR* firmly believes that maintenance of the status quo in the present market conditions would be unacceptable and would see a further decline in the sector. This situation would only be further exacerbated if, as under the proposals for the new regime, the stake increased but the prize remains the same. In the face of new and increased competition from more attractive machine offerings under the draft Gambling Bill, no change would jeopardise the viability of many marginal outlets.

We therefore strongly recommend that the prize levels for AWP machines be increased to £50 and the stake to 50p. Failure to do so will see such machines fall further behind both in relative and real terms in the run up to the introduction of the new gambling regime.

This recommendation is in line with previous industry submissions over the recent triennial reviews. In 1997, research presented by the British Beer and Pub Association (BBPA) suggested that the prize regime was not meeting customer expectations. A £70 prize was felt to be more



appropriate by players and was equally not objected to by non-players. Acknowledging that this represented a substantial step-change, the industry recommended that the prize level be progressively moved to £50 over the course of the following three triennial reviews.

Whilst a move to a £50 would represent a significant increase in percentage terms, it is no greater than that proposed for other categories of machine under the Government's reform proposals. In absolute monetary terms, it still means that category C machines will be considered to be low stake and prize.

We note that implementation of the draft Gambling Bill may yet be some years away. The earliest date being mooted within Government is 2006 but experiences in respect of liquor licensing reform suggest that this may be optimistic. It is therefore feasible to assume that the new regime may not be in place before the next scheduled triennial review. **We therefore feel it is important that a further increase takes place at this time.**

In seeking to justify the above recommendations, we have structured our comments in accordance with the questions set out in the Board's letter of 17th December.

1. *Why would no increase, or one in line with inflation, be detrimental to the industry and/or to players?*

The *ALMR* believes that no increase, or one in line with inflation would be particularly damaging to the pub sector. We are in no doubt that the current trends in respect of a migration of players to enhanced high street gambling opportunities and thus decline in machine income will be accelerated, undermining the economics of many outlets. Further information on the state of the market at present and the competitive position of pub machines within it is set out in section 3 below. This situation will worsen if the Government's proposals for reform are introduced. An increase ahead of reform may help to address this and provide a shot in the arm to the sector.

Gaming machines are a vital and integral part of the pub offering and the financial contribution they make to profitability should not be under-estimated. A recent survey of *ALMR* members found that machine income normally contributed 30-40% of net profits, although this rose to nearer 80% in the independent tenanted sector. Community and rural tenanted pubs – those operated by self-employed small businessmen – rely more heavily on machine income, and in some cases it will equate directly to the final net earnings of pub and hence the earning potential of individual tenant.

These pubs tend not to enjoy a broad income base, being drinks-led. Machine income therefore makes a significant contribution to fixed running and overhead costs, and helps to sustain these outlets. It should also be noted that machine income is also used to subsidise investment in pub refurbishments and any erosion in it may, over time, limit investment in the industry as a whole.

This revenue stream is vulnerable. A recent survey conducted by Ernst & Young for Business in Sport and Leisure found that only 9% of people played pub machines often or sometimes; a further 13% played them rarely. Evidence from within the Association would suggest that 1 in 5 pub customers play machines but only a quarter of those will be core players. The implications of this for machine revenues are clear – if these players are attracted elsewhere it can have a devastating impact on profitability and even the viability of many outlets.



Competing attractions obviously include other forms of gambling, and in particular other machines. As the gap between the prize levels offered by pub AWP machines and other gaming machines widens, so the appeal of competing offerings increases. Over recent years, despite successive increases in prize levels, in real and relative terms AWP machines have fallen far behind. Since 1997, casino jackpot machines have seen a 400% increase and bingo jackpot machines a 100% increase. We have also seen the emergence of an entirely new breed of machines on the high street, Fixed Odds Betting Machines (FOBMs), offering unlimited prizes. Under the proposals for the new gambling regime, club jackpot machines – those located in the most similar situations to pubs – would see a further doubling of their prizes. Whilst all cash machines have seen a 150%, this has done nothing to lessen the gap between a £25 prize and a £250, £500 and £1000 prize.

No increase or an inflation-only increase would do nothing to maintain the interest of players and would fail to meet customer expectations. With instant access to casinos and newly legalised jackpot machines in high street locations such as licensed betting offices, it would fail to stem the flow of customers away from pub machines to other more attractive offerings. The impact of the introduction of FOBMs in licensed betting offices has graphically demonstrated what happens when machine players are offered a more attractive accessible alternative (this is expanded upon in more detail below).

A recent report published by the Henley Centre suggested that the new gambling regime would hasten a decline in traditional soft gambling opportunities. It went on to suggest that it left the pub sector “particularly vulnerable ... fairness and equity between markets seems to be missing”. A further increase in stake and prize levels may help to reduce the rate of decline.

2. *What benefits or advantages would be perceived by players of the machines as a result of the increase?*

As has already been noted, players were telling us in 1997 that their expectations were of a £70 prize. At that time, a £50 prize was considered acceptable by both players and non-players and it would therefore be logical to assume that the acceptability of this level will have increased over time as other prices and prize levels have increased. An increase along the lines recommended would therefore bring pub AWPs more in line with public expectations and help to curb the drift to other alternative forms of harder gambling.

It is worth noting in this context that research conducted by Ernst & Young on behalf of Business in Sport and Leisure found that 76% of respondents wanted more gaming machines in pubs. Just under 60% felt that gambling generally was an acceptable leisure pursuit and 46% believed it was harmless. These responses are indicative of a general desire for increased opportunities to gamble, rather than prize levels per se - but they do suggest that AWP machines have a broad based appeal. Anything which makes them appear more attractive to potential players will increase the likelihood that they will play.

3. *What changes in the overall gambling market have occurred in the last three years, and how do such changes justify the increase requested?*

Undoubtedly the single biggest change in the gambling market over recent years has been the explosion of FOBMs in licensed betting offices as a result of changes to betting duty. It is estimated that two-thirds of licensed betting offices now have FOBMs and that this trend has accelerated since the recent agreement allowing them to be legally sited. Increasingly, we have seen AWP machines in licensed betting offices being replaced by more lucrative FOBMs.



A large number of our members have reported a dramatic and sustained decline in machine takings in the eighteen months to September 2003. This period of decline coincides with the introduction of FOBMs and, having analysed relevant market information, we have concluded that these new machines are the principal contributor to the downturn in machine incomes.

Following an outlet by outlet review of AWP performance assessing the weekly average net balance year on year, our members have reported an average decline in machine income of between 6-10% which they believe is specifically linked to the introduction of FOBMs in nearby betting offices. This has risen to as much as 18% in certain types of outlet. Small high street outlets – the principal membership of the *ALMR* - are particularly badly affected as core machine players choose to play FOBMs rather than gaming machines in pubs. In the independent tenanted estate, which tends to be community locals and again, heavily dependent on machine takings, the decline appears to be in the order of 4-6% year on year.

This is reinforced by statistics set out in the Spring 2004 edition of *What Amusement Machine*, published by Painter Associates. Their information show an average decline in tenanted net machine income of 7.5% over the past year, with a drop in net weekly average takings from £134 in February 2003 to £124 in February 2004. The review goes on to reports that this decline is in keeping with similar trends in the managed house sector over the course of 2002/03.

Fruit machines contribute strongly to the individual pub's bottom line profit but the player base in each pub is relatively small and core players are undoubtedly being drawn away to more attractive FOBMs. Pub AWP's appear very poor value in comparison, a perception that will only be heightened if the stake and not the prize is increased, as is being proposed.

4. *What issues of problem gambling and consumer protection are or might be raised by the increase?*

We do not believe that any such problems will arise as a result of this increase in light of the actual changes in the high street market place and the proposed changes being introduced as a result of the draft Gaming Bill. The former mean that the context has changed significantly and that other forms of harder gambling are more readily available and more likely to attract problem gamblers. The latter means that the regulatory regime will be strengthened and existing industry best practice in respect of under-age play and supervisory controls will be placed on a statutory footing.

5. *What is the expected economic impact of the increase on manufacturers, suppliers/operators and businesses which site the machines?*

As has been already noted, we believe that such an increase will provide a boost to pub retailers who site these machines. At best it will see a reversal of recent trends in machine incomes, which show a decline year on year; at worst, it will halt the rate of decline. In all likelihood, it will serve to maintain and preserve the status quo and protect the existing revenue stream.

We further believe that an increase would provide a boost to the overall sector. The current low limits on stake and prize levels act as a disincentive to further investment in the AWP



market by manufacturers and an economic barrier to technological development. A more realistic prize level would provide a stimulus to innovation and investment, which could in turn be used to attract new players.

Conclusion

The Government's draft proposals for reform of the gambling regime will have a deleterious effect on the competitive position of pub gaming machines by increasing the accessibility and attractiveness of other forms of gambling. The playing field within which pub machines operate is already unlevel given the wide discrepancy between stake and prize levels of machines in different categories – the Bill will further distort this.

Pub machine incomes are already in decline following the introduction of FOBMs in high street locations. Pub AWP machines appear very poor value for money in comparison and this has resulted in a drift of core players and an average decline in income of between 6-10%.

In an attempt to redress the balance and provide a boost to the sector, the *ALMR* is recommending a further increase in AWP machine stake and prize levels to 50p and £50 respectively. Failure to do so will see the profitability and viability of many outlets threatened.

We should be happy to provide additional information as required.

Yours sincerely

N i c k
Chief Executive

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