



# **The Social and Economic Impact of Casinos in the West Midlands Region**

## **Final Report**

March 2006

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for

**AWM**

Submitted by

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# EXECUTIVE SUMMARY

## Purpose of the Study

This report presents the findings of research undertaken by GHK into the social and economic impacts of casino development in the West Midlands. Commissioned by Advantage West Midlands (AWM), in association with the West Midlands Regional Assembly and Tourism West Midlands, the research sought to examine the impact of the development of a 'regional' or 'large' casino as described in the new Gambling Act (2005).

## Study Objectives

The aim of the study was to provide a broad assessment of the impacts of regional and large casinos and their sensitivity to the location of the casino in different types of location. Three types of location were examined: **city-centre**, **edge of centre** and **peripheral** location, and combined with three different catchment sizes based on drive times: 30 minutes, 45 minutes and 75 minutes from the selected locations. Catchments have been calculated for the peak PM time and for off-peak conditions.

The work was not intended to provide a detailed assessment of the impacts of any specific site or development proposal which is currently the subject of interest or discussion.

## New Legislation

The Gambling Act (2005) replaced most of the existing regulation of gambling in Great Britain and put in place a new regulatory system to govern the provision of all gambling in Great Britain, other than the National Lottery and spread betting.

The Act allows for a controlled increase in the number of casinos in Great Britain. An initial limit of 17 new licenses was imposed. Three categories of casino, classified as regional, large and small, with associated limits on the type of gaming activities, size of gaming and non-gaming areas and number and type of gaming machines permitted.

The location of these new style casinos will be proposed by a new independent Casino Advisory Panel. The Government expects that a regional casino will be a major development, offering clear potential for regeneration via the creation of jobs and the improvement of leisure facilities where they are wanted. It will provide not just a range of gambling activities, but may include hotel accommodation, conference facilities, restaurants, bars, areas for live entertainment and other leisure attractions.

The Advisory Panel's task is to recommend to the Secretary of State for Culture, Media and Sport the areas where the one regional casino and eight large and eight small casinos would best be located. The primary criterion, as laid down by the Secretary of State is:

- To ensure that locations satisfy the need for 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);

Subject to that, the Secretary of State has also asked the Panel;

- To include areas in need of regeneration (as measured by unemployment and other social deprivation data) and which are likely to benefit in these terms from a new casino;
- To ensure that those areas selected are willing to license a new casino.

Once the local authority areas have been selected, the prospective operators will seek licenses from the Gambling Commission, and premises licenses from the licensing authorities. Where there is more than one operator seeking a license then a competition will be held to establish which of the competing bids would contribute most to the local authority area.

## **THE SOCIAL IMPACTS OF CASINOS IN THE WEST MIDLANDS REGION**

### **Gambling and Problem Gambling**

There has been a range of studies that have been carried out in various countries into the link between gambling and problem gambling. This research shows that where average consumption of gambling by the overall population increases, so too does the incidence of problem gambling. It follows from this that an increase in casino gambling capacity which would result from a super casino in the West Midlands, would lead to an increased incidence in problem gambling.

Much of what is known about gambling in the UK comes from the British Gambling Prevalence Survey. The survey undertaken in 2000 is the first nationally representative survey of its kind undertaken in the UK. What is known about problem gamblers in the UK can be summarised as follows

- The prevalence of problem gamblers varies according to the type of gambling activity. The highest prevalence of problem gamblers was found amongst people who, in the last year, had played table games in casinos (8.7%)
- Men are more likely to be problem gamblers than women and the prevalence of problem gambling decreases with age – the highest prevalence of problem gambling is with the under 35's, and especially in the age range 16-24.
- The highest prevalence of problem gambling is in households with income levels of less than £15,600.
- The odds of an individual being classified as a problem gambler are
  - 1.73 times higher than average if a male
  - 2.44 times higher than average if either parent had gambling problems
  - 2.96 times higher if in the lowest income bracket.
- The average stake and losses as a percentage of income, is highest in the lowest incomes group

As far as we are aware there are no detailed figures on the prevalence of gambling in the West Midlands.

However, by employing the British Gambling Prevalence Survey and extrapolating its results to the West Midlands adult population the number of adults who are problem gamblers in the West Midlands may lie in the range 16,000 – 40,300.

Using the economic forecasts presented in this report, it is possible to suggest the level of possible increase in the problem gambling as a result of a regional casino.

- From the economic forecasts in Part C a regional casino will serve in the order of 166,000 gamblers in the region.
- An estimated 70% - 116, 000 of these will be new gamblers.
- Of these we can expect the number of problem gamblers to be in the range of 0.7% or 812 based on the relationship between all types of gambling and problem gambling
- However, the impacts are likely to be higher in relation to the specific type of gambling at casinos. Among existing gamblers then problem gambling by gambling activity varies
  - To around 7% in the case of table games in a casino
  - To around 3% in the case of machines
- If the relationship between gambling and problem gambling for casinos was taken to be 5%, then the number of additional problem gamblers would be in the order of 5800. At this level that would represent an increase in the number of problem gamblers in the region of between 14%-36%

The US Gambling Commission (NGISC) estimates a cost to society of \$715-\$1200 per problem gambler per annum at 1999 prices. This would equate to \$890-\$1440 at 2006 prices. Applying this rate to the estimated increase of 5800 in problem gamblers would equate to a cost of between £2.9m to £4.7m per annum.

### **Regeneration Impacts**

If a criterion for selection is comparative deprivation then a central and near central location in relation to major urban areas is more suitable. However, we also have to consider whether there are any grounds for supposing that there will be a differential impact on such deprived areas.

In relation to a large and complex operation such as a casino, it is highly likely that a significant proportion of the workforce will require level 2 qualifications and above.

What is evident is that deprived communities such as those in the centre of Birmingham are characterised by

- High levels of adults with no recognised academic or vocational qualifications
- Low levels of adults with a level 2 qualification
- Comparatively high levels of economic inactivity, unemployment and long-term unemployment.

On this basis it seems unlikely that many of the higher skilled and better paid jobs within a casino will be accessible to local residents in such areas without a specific and targeted training effort and the development of appropriate provision in the FE and private sector to meet these needs.

### **Accessibility**

Location is but one aspect of the accessibility and availability of gambling. Studies in Germany, the Netherlands, the USA and the UK have demonstrated a clear relationship between the availability of gambling opportunities and the prevalence of problem gambling.

In terms of the entertainment offered, as well as the characteristics of location, then more recent work in Australia has indicated that there are relatively high risks of adverse social effects associated with gaming machines in low-income areas.

Recent research by the University of Buffalo NY concluded that there is a link between problem gambling and proximity to casinos. Specifically it concluded that **individuals who live within 10 miles of a casino or in a disadvantaged neighbourhood are more likely to experience problem gambling**. While recognising that individual traits have a stronger relationship to problem gambling, nevertheless, the research found that those living in disadvantaged neighbourhoods had much higher rates of problem gambling than those that did not live in such neighbourhoods (10% c.f <1%).

### **Conclusions**

On the basis of what is currently known about the relationship between gambling, problem gambling and various socio-economic issues then in our view **the key social impact risks in relation to the establishment of a regional casino in the West Midlands are associated not with location relative to the city centre, but in specific locational attributes which will be site specific**. This view is based on the following

- It is known that an increase in the overall level of gambling will lead to an increase in problem gambling. We estimate an increase of 5800 problem gamblers in the region.
- The increase in gambling and in problem gambling will disproportionately impact on various groups which are at risk. These are:
  - Young people, especially young males, aged 16-24
  - Lowest household income groups

It seems clear from this that those living in a deprived area would be particularly at risk from being in proximity to (central city or edge of city) a regional or large casino.

- The risks of problem gambling are related to various aspects of Gambling access, many of which in theory could be used in order to ameliorate some of the social risks associated with a regional casino. This includes the conditions for entry. Gambling machines represent a particular risk to these and other groups in terms of gambling addiction.

- Without specific and targeting intervention in training, it is unlikely that the local workforce will be able to benefit greatly from the jobs that will be generated from a regional or large casino.
- It is not known what the potential impact of a super or large casino would be in relation to other government policies targeted at deprived communities such as Neighbourhood Renewal, New Deal, etc. However, given what is known from the British Gambling Prevalence Survey and other research, then to the extent that net expenditure on gambling displaces other household expenditure this is likely to undermine other government policies to support sustainable communities.

A more peripheral location in a regional context is likely to reduce the impact of at risks groups in the region, as well as the potential conflicts with government policies aimed at supporting sustainable communities.

## **THE ECONOMIC AND PLANNING IMPACTS OF CASINOS IN THE WEST MIDLANDS REGION**

### **Focus and Structure of the Impact Assessment**

The impact assessment has been directed to assessing the impacts of regional and large casinos on the economy of the West Midlands Region. The impact assessment considers:

- the market potential and the demand for casino accommodation, and sensitivity to location
- displacement of spending to identify the net additional expenditure, and sensitivity to location
- the impacts on regional employment and GVA taking into account leakage and displacement effects
- A brief review of the possible planning issues raised by proposals for a regional casino and/or for additional large casinos.

### **The Market Demand for Regional and Large Casinos in the West Midlands Region**

#### ***Current Market Position***

The reported number of visits to casinos in the Midlands and Wales was 2.5m in 2004/05. Based on the respective populations of the West and East Midlands and Wales, approximately 1.1m of these visits were made in the West Midlands, with an average number of nine visits per visitor per annum and an overall turnover of £39m.

#### **Future Market Demand**

##### ***Description of Approach***

The potential future demand for regional and large casinos in terms of the number of annual visits can be estimated as a first approximation from the potential number of participants in the resident population in the region, and from the number of tourists in

the region. This can then be modified by defining catchment populations for selected locations based on assumed maximum drive times for casino visitors.

### ***Resident Gambling Envelope***

The estimate of the potential ceiling of resident participation in casino gambling combines the data from the Prevalence Study with Census data on the adult population by the same age groups to identify the participation by age group and gambling interest type. The approach seeks to understand how an average increase to an adult population participation of 10% might be distributed, and how higher rates might be justified in terms of multiple and moderate interest gambling types.

The participation of the relevant population has to be translated into the number of visits per year to casinos from the resident population. Non-gamblers are assumed not to visit. Minimal interest gamblers are assumed to visit once a year, moderate interest gamblers four times a year and multiple interest gamblers nine times a year. The resulting envelope of residence based gamblers is 10.3m visits per year.

### ***Tourist Gambling Envelope***

The approach calculates the number of visitor days in the region each year, by age group; applies the Prevalence Study results to assign the number of visitor days by gambling interest type to identify the potential number of participants by age group. It is assumed that tourists will more actively participate than residents since the pursuit of a leisure experience is more to the forefront of activity. The number of visits per year by gambling interest type is used as a weight to indicate a higher propensity to visit of tourists compared to residents. The tourist gambling envelope indicates a ceiling of 1.3m visits per year from regional tourists, excluding tourist visitor days derived from regional residents.

### ***Potential Demand***

The combined envelope of 11.6m potential casino visits per year, of which residents provide 89% and tourists 11%, provides the basis of an estimate of the feasibility of accommodating different types of casino in the region. In summary, as drive times increase so does the catchment population. Catchments increase away from the city centre, with larger catchments for the edge of centre location, and periphery location compared to the city centre.

The estimate of the potential number of different types of casino that might be accommodated is based on dividing the combined envelope by the number of visits required by each of the three types of casino to be feasible. In summary:

- In the absence of any catchment considerations and using the combined gambling envelope up to 6 regional and 21 large casinos could be accommodated in the region
- With a 30 minute drive time the scope to accommodate casinos declines to 3 regional and 11 large casinos in the city centre, and at the periphery, the larger catchment for the edge of centre location would accommodate 4 regional and 13 large casinos
- With a 45 minute drive time the increase in catchment would accommodate 5 regional and 18 large casinos in the city centre location, with capacity for an additional regional or large casino at the other two locations

- With a 75 minute drive time the increase in catchment would accommodate 11 regional casinos in each of the locations and between 36 and 38 large casinos.

## **Assessment of Market Displacement**

### ***General Approach***

The approach assesses the extent to which expenditure in a new casino might be expected to represent additional spending to the region. This requires analysis of the type of visitor, and in particular the extent to which new gamblers are resident in the region or are existing tourists. This in turn requires consideration of the extent to which the population in each of the catchments is resident in the West Midlands. It also requires consideration of the origin of tourists using the tourist authority data.

The estimate of displacement has also to consider the treatment of existing gamblers. To the extent that a new casino attracts existing gamblers from currently operating casinos there is no displacement of expenditure from other non-casino related activities. However, from the point of the regional economy this expenditure can not represent additional spending. Existing gambling is therefore in effect a source of deadweight in the calculation, occurring whether a new casino is built or not.

The share of visits to a casino from existing gamblers is difficult to estimate. We have assumed that since the expected overall increase in participation constitutes a three fold increase, that 30% of visitors would be existing gamblers. Clearly, as the size of any new casino increases, the share of gamblers who had not previously visited a casino would be expected to increase.

### ***Calculation of Displacement***

The calculation of displacement combines the resident and tourist analysis in proportion to their presence in the gambling envelope. Within the envelope, 89% are residents and 11% are non-regionally resident tourists. The principal source of displacement, having removed the regionally resident tourists, is the expenditure by new gamblers resident in the region. This is the main determinant of variations in displacement between locations and according to different drive times.

We have calculated the displacement effect excluding existing gamblers and then recalculated the displacement effect assuming that spend from existing casino gambling constitutes a deadweight effect and hence reduces the net additional economic impact of investment in a new casino.

Defining the share of spending by existing gamblers as deadweight significantly reduces the net additional spending associated with a new casino. In the city centre, using a 30 minute drive time, only 8% of spending would be net additional, derived from non regional tourists. At the other extreme, with a 75 minute drive time, 37% of the spending at a peripheral location is net additional to the region.

Following the changes in the catchment population from one location to the next, the net additional spending is slightly larger at the edge of centre and peripheral locations compared to the city centre, and larger at the periphery compared to the edge of centre location.

The assessment of displacement also takes account of the real increases in leisure spending that might be expected to occur between now and the opening of new casinos.

## **Economic Impact**

### ***Employment***

The main results are:

- Gross direct employment for regional and large casinos of 1,275 and 340 respectively
- Net direct regional employment after allowing for deadweight (spending by existing gamblers) and displacement associated with new gamblers is 140 to 500 for a regional casino and 40 to 130 for a large casino depending on location and catchment
- Total net additional regional employment after allowing for multiplier effects is 200 to 700 for a regional casino and 50 to 170 for a large casino depending on location and catchment

### ***GVA Impact***

The main results in summary are:

- Gross direct GVA for regional and large casinos of £36m and £10m respectively
- Net direct GVA after allowing for deadweight (spending by existing gamblers) and displacement associated with new gamblers is £4m to £14m for a regional casino and £1m to £4m for a large casino depending on location and catchment
- Total net additional regional GVA after allowing for multiplier effects is £6m to £25m for a regional casino and £1m to £5m for a large casino depending on location and catchment.

The economic impacts are larger if the casino is able to attract visitors from outside the region (implying drive times over 45 minutes). Impacts are also slightly larger at the periphery location compared with the other two locations although the differences are small compared to the impact of different drive times.

### ***Improving the Tourism Service Offer***

The regional casino, based on 5,000 visits per day, generates approximately £50m of net additional spending to the region per annum. This compares with approximately £60m to £80m of net additional spending for the largest shows at the NEC (ITMA and the Motor Show). Additional benefits might be expected where the casino is able to generate additional bed nights and associated spend. However, the large dependence on residents rather than tourists means that these potential benefits are comparatively modest.

## **Planning Issues Raised by Casino Proposals**

### ***RSS Policy***

Policies in RSS11, in particular policies PA10 and 11 provide some criteria for considering possible regional casino developments. Policy PA10 (Tourism and Culture) encourages both the improvement of existing provision as well as the creation of new

facilities subject to the capacity of infrastructure and the environment; it seeks to increase the 'offer' of the region; in suitable locations well served by public transport; that contribute to urban or rural regeneration.

Policy PA11 (The Network of Town and City Centres) seeks to focus large scale leisure developments (i.e. those of 5,000sqm or more gross floor space) in the network of named centres. Policy PA10 includes in its list of current facilities the National Exhibition Centre, 'Eastside regeneration in Birmingham', indoor and outdoor sports stadia. These policies provide a context, albeit not totally prescriptive, for considering possible regional casino developments.

### ***Potential Impacts***

The planning impacts will obviously be determined by scale and location. The economic and social impacts as described in this report provide evidence of both the scale of impacts and their sensitivity to broad location. This suggests that the social impacts are highly dependent on the specific site chosen for the development. The economic impact indicates that the impact is largely determined by the size of the catchment, which is largely a function of drive times, rather than the broad location.

The preferences of casino operators for types of location were briefly discussed in our limited round of consultations. They suggest that a major consideration is the current and planned entertainment offer, and the scope to build on an existing destination location. It is considered that regional casinos will be unable to replicate some US experience and provide the basis of a new destination location – they will need to be based in or adjacent to existing entertainment centres.

There are a number of developments being mooted in the region, some of which are substantially larger than the scale of regional casino examined in the economic assessment. For these larger developments the ability to accommodate visitors, and especially car parking, is a major consideration. The preferences for large scale surface car parking, combined with the broader range of facilities planned in addition to the casino, suggests that an edge of centre or peripheral location would be more attractive to operators.

The major impact that would need to be considered in planning terms in addition to the tests of social, regeneration and economic impact, would be the effects from transport. The assumption is that visitors are largely car based, with potential environmental impacts. Given the possible 'bunching' of visits over Friday and Saturday nights, there are potential impacts on local road congestion. However, operators will be seeking to mitigate this by spreading visits over the week.

Finally, depending on whether the casino is located in the city centre, there could be significant impacts on the evening economy, with a regional casino potentially accounting for a significant share of evening visitors.

### ***Competition and Derivation of Planning Gain***

The decision on which local authorities will be chosen as sites for the new casino operations will be taken by ministers acting on advice from an independent Advisory Panel, which will receive representation from Regional Planning Bodies amongst others. Once the local authority areas have been selected it will be for prospective operators to seek licenses from the Gambling Commission and premises licenses from

the licensing authorities. Where more than one operator is challenging for a premises license within a single authority an open competition is to be held to enable the local authority to ascertain which of the competing applications would result in the greatest benefit to the authority's area.

It is expected that the competition will be critical in determining the specific range and composition of benefits, and the range of planning impacts.

### Conclusions

**The investment in a regional casino represents a major development**, not withstanding the potential associated investments in accommodation and other leisure facilities. A casino attracting say 5,000 visits a day (nearly 2m a year) will require an investment of £150m and directly employ over 1,500 people. Current proposals being discussed in the region are potentially even larger. Large casinos, despite their name are much smaller requiring an investment of say £10m and employing 400 people.

**However, the economic impact is much smaller than implied by the headline figures.** The jobs and investment are supported by the spending of casino visitors. To the extent that this spending is made by residents or tourists who would otherwise have spent this money in the region in other casinos, or on other forms of gambling or leisure activity then the jobs and investment take place at the expense of (displace) jobs and investment elsewhere within the region.

**The displacement effect is large**, but depends on the drive time and catchment size which a regional casino is expected to capture. With a comparatively short drive time of 30 minutes, only 8% of the spending in the casino would be additional to the region, the rest would have been spent anyway in the region. With a 75 minute drive time, nearly half of the catchment population live outside the region, so the displacement effect is smaller; but even so **only a third of the spending is additional to the region; with a 45 minute drive time only a fifth (20%) of spending is additional.**

**The size of the catchment is much more important than the location** (city centre, edge of centre, periphery) in determining the level of displacement and hence impact. **There is a slightly lower level of displacement at the periphery** (and hence a larger economic impact) compared to edge of centre, and slightly less at the edge of centre compared to a city centre.

**The net additional employment generated in the region from a regional casino is between 200 and 700 FTEs.** The larger figure is based on a 75 minute drive time at a periphery location, the lower figure is based on a 30 minute drive time in a city centre location. The respective figures for **net additional output (GVA) in the region are £20m and £6m per year.**

To put this impact in context, the net additional spending associated with a regional casino is approximately £50m per year, with a 75 minute drive time. **This impact is less than would be expected from the largest events held at the NEC.** ITMA and the Motor Show both generate spending well in excess of £60m (generated in a much shorter period). In other words **a regional casino would have the approximate impact of a single very large event** (but not the largest events) at the NEC.

The casino might have an impact through retaining or attracting additional bed nights from visitors. However, **only 11% of the casino visits are from non-regional tourists**. Any significant impact would therefore have to come from retaining tourists, especially business tourists who might otherwise go elsewhere. **The impact of the casino on the decisions of national conference and exhibition organisers on their choice of location has not been assessed.**

**The planning impacts** beyond the social and economic impacts studied in detail **appear to relate largely to transport**, and especially the issues of increasing car based trips and parking requirements. There are also potentially significant impacts on the night time economy of a city centre were the casino to be located there. **The final determination of the impacts will depend on the specific location, and on the competition for the premises licence.**