

# chapter thirty four

## Funding the Gambling Commission and its Likely Workload

**34.1** In its report “The Gaming Board: Better Regulation”,<sup>1</sup> the National Audit Office identified a number of problems about the current funding of the Gaming Board. In our recommendations about the funding of the Gambling Commission we have drawn on that report and on the subsequent proceedings of the Public Accounts Committee. It is clear that its funding regime has restricted the Gaming Board’s ability to respond to the changing circumstances of the gambling industry. Our fundamental objective must be to ensure that the Gambling Commission has the resources it needs to carry out its regulatory and enforcement functions properly and to provide a good service to the industry in dealing efficiently with licence applications.

**34.2** This chapter examines the current costs of licensing and enforcement. It makes recommendations for the funding of the Gambling Commission and estimates its likely workload.

### Government supervision of the Gambling Commission

**34.3** Before discussing costs, it may be helpful to comment on an issue that is linked to the way in which the Gambling Commission may be funded, that is the question of which government department should supervise gambling. We would not claim any special knowledge in this area, but we would make some observations.

**34.4** Following the general election, responsibility for gambling has been transferred to the Department for Culture, Media and Sports. Before that occurred, it had been our intention to recommend that the Gambling Commission should report to the Home Office. It seemed to us that “supervision” is rather a broad and ambiguous word which could cover a range of tasks. In particular we would distinguish between regulation and sponsorship. We can readily accept that gambling is part of the leisure industry and that it would be appropriate for DCMS to sponsor it. However our concern has been with the regulation of gambling and, among other things, with the prevention of crime and harm to the vulnerable. That would appear to fall squarely with the responsibilities of the Home Office.

### The cost of licensing and enforcement

**34.5** The disparate nature of current gambling regulation makes it difficult to quantify the current costs of regulating the gambling industry in Britain. Although the funding of the Gaming Board is documented, it regulates only part of the industry.

**34.6** The current costs of regulating the gambling industry include:

- the cost of the Gaming Board
- some local authority costs related to the registration of lotteries and the issue of licences for tracks and racecourses
- court costs, including administration and hearings, for betting and gaming sectors (in England & Wales)
- local authority Licensing Board costs (in Scotland)
- police costs.

There are also the compliance costs borne by the industry itself.

**34.7** Apart from the cost of the Gaming Board, there is very little published information on costs of regulating gambling. The total cost of the Gaming Board’s operations, including the salaries and other expenses of the Board members, was £3.6m in 1999-2000. Local authority and Licensing Board costs are specific to each authority and no statistics are collected centrally. There is no reliable information on court or police costs.

**34.8** Whatever those costs currently are, we can say that in general we would expect the overall cost of regulating gambling to be higher than it is at the moment as a result of our proposals. Some existing costs will be redistributed, and in addition there will be new expenditure as a result of an increased level of enforcement activity by the Gambling Commission and the new regulation of bookmaking and on-line gambling.

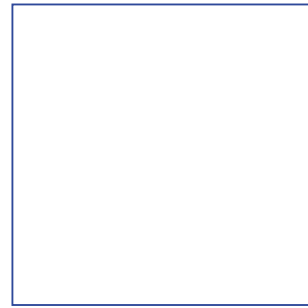
### Funding mechanisms

**34.9** In considering funding arrangements for the Gambling Commission we were mindful of our terms of reference which require us to

- recommend new machinery appropriate for carrying out that regulation which achieves a more consistent and streamlined approach than is now possible and which is financed by the gambling industry itself.

**34.10** We also took note of the recommendations made by the NAO in its report on the Gaming Board<sup>2</sup>. The NAO report was critical of aspects of the Gaming Board’s funding arrangements and said:

1-National Audit Office (2000) 2-National Audit Office (2000)



- the Gaming Board was failing to meet the Treasury's policy of full cost recovery. The Home Office (as the Gaming Board's sponsor department) should discuss with the Treasury action to recover the deficits on fee income incurred in previous years
- there was a lack of reliable data, particularly in relation to the recoverable costs of licensing justices and police authorities, so it was impossible to say exactly the extent of under-recovery. A reliable basis should be found for determining the costs of licensing and police authorities to be recovered from the gaming industry
- immediate action should be taken to eliminate the cross-subsidy of lotteries
- the cross-subsidy of the bingo and machines sector of the gaming sector by the casino industry should be eliminated.

34.11 We understand that, in terms of what is permitted within Treasury rules, there are three options for funding the Gambling Commission: grant-in-aid, trading fund or net running costs.

34.12 The Gaming Board has been operating on the basis of grant-in-aid from the Home Office. Over recent years the Gaming Board has made clear to the Home Office its unhappiness about the way it is funded and its strong desire to move to a more efficient method of funding. Although the Board seeks to recover its expenditure through the fees charged for certificates, registrations and licences, the money is surrendered to government and is not taken into account in setting the grant. Instead, the grant has been set by the Home Office by reference to what it can afford from its overall budget, meaning that the Gaming Board has had to compete against other demands on the Home Office. This has meant that some deregulation measures have not been able to be taken forward in part because the necessary resources could not be found.<sup>3</sup> We are anxious that the Gambling Commission should not be inhibited by similar constraints.

34.13 A trading fund is described as "a means of financing the trading operations of a Department, although a trading fund may also be a department in its own right".<sup>4</sup> The Forensic Science Service is an example of a trading fund. Organisations funded in this way normally operate in commercial or competitive environments. We do not consider that this would be appropriate in relation to the regulatory functions of the Gambling Commission.

34.14 Organisations that operate on the basis of net running costs tend to be those that provide a service, but do not operate in an open market. An example is the Passport Agency, which has sole responsibility for

issuing passports. We consider that net running costs would be the appropriate form of funding for the Gambling Commission. Income from licensing fees and renewals will need to equal or exceed the total running cost of the Gambling Commission. Although the Commission will need to have a strong efficiency regime, this method of funding should mean that it has some flexibility to take a longer-term view in developing its functions and more readily to respond to changing circumstances.

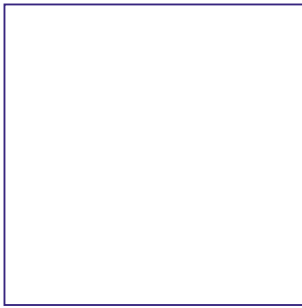
34.15 Operators applying for licences or renewals would be charged a non-refundable application and licence fee to cover the cost of the process and the cost of their licence. Each sector would be self-funding, and the licence fees would need to include a charge to cover the policing of the system. This would pay, for example, for investigating and prosecuting unlicensed traders. **We recommend that the Gambling Commission should be operated on a net running cost basis.**

#### Devolution implications

34.16 The principles underpinning the regulation of gambling are the same across Great Britain. It would clearly be desirable for the Gambling Commission to operate across Great Britain, though regional offices may need to be set up from which to make visits and inspections. Regional offices could mean that there were differences in staff or accommodation costs around the country. However, we do not consider that such regional differences should be reflected in different fees being levied in different parts of Great Britain. That could adversely affect the central functions of the Gambling Commission and moreover, there can be no stronger a case for setting different fees in Scotland than there is in the north of England. The fees therefore should be set centrally. Some of the economic efficiency of establishing a single regulatory body would be lost if a similar Commission had to be established in Scotland on a much smaller scale. **We recommend that the Gambling Commission should have responsibility for regulating gambling throughout Great Britain. Fees should be set centrally and not devolved to Scotland.**

#### Likely workload

34.17 We have tried to make some broad estimates of the Gambling Commission's likely workload. They are based largely on the existing number of registrations or licence holders. We have not attempted to refine the figures quoted below and they should be regarded as no more than a very general assessment of the likely numbers.



## Casinos

- 34.18** There are currently 123 casinos in Great Britain. Without prejudice to any recommendations we might make, we asked the Gaming Board<sup>9</sup> for its best estimate of how numbers might increase. The Board told us that in 1995, when the Home Office was considering whether to increase the number of permitted areas, Rank plc commissioned research which indicated that, assuming there were no other changes to the regulatory environment, a population of just over 100,000 was needed in the area surrounding a casino to make it commercially viable. Using that criterion and based on population statistics from ONS, the Board suggested that about 100 new casinos might open. That would give a total of some 220 casinos.
- 34.19** The Gaming Board surmised that if advertising and casino slots were permitted and the demand test was also abolished, that would be a major boost to the industry. They suggested that it would be reasonable to suppose that the number of casinos might double. That would mean there would be some **450 casinos** in Great Britain. We have used that figure to consider how many individuals the Gambling Commission might need to license.
- 34.20** The Gaming Board currently licenses some 5,000 dealers, inspectors and supervisors. We have proposed that the number of categories of licence should be reduced and we have assumed that that might reduce this figure to around 3,000. Adjusting that figure to take account of the assessment of 450 casinos would suggest that around **9,600 dealers, inspectors or supervisors** would need to be licensed. In addition, there might be about **800 casino managers** and a more modest increase in **casino executives to, say, 50** (from the 12 currently licensed each year).

## Bingo

- 34.21** There are currently about **740 bingo clubs** operating in Great Britain. We would not expect our proposals to make a big difference to that number. That would suggest that the number of bingo managers requiring a licence would remain at much the level it is now. There are currently about **100 bingo managers** licensed each year.

## Betting

- 34.22** Rounding up, there are **8,800 betting shops** in Great Britain. We would not expect that number to change very much as a result of our recommendations. There are **59 racecourses, 61 greyhound tracks, and 119 point to points**. In addition, there will be other tracks that hold track betting licences issued by local authorities. The Gambling Commission will be licensing the operators of these tracks, and this will be new work compared with the Gaming Board.
- 34.23** There are **3,791 bookmakers** and we would expect that figure to remain fairly constant. **Betting shop managers** are not currently licensed and we have made an assumption that some **20,000** may need to seek a licence over perhaps a five-year period. There may be about **12 betting brokers** and **7 public ticcacs**, who need to be licensed for the first time.

## Lotteries

- 34.24** The Gaming Board currently licenses **7 External Lottery Managers** and registers **4,321 societies lotteries. 2 local authorities** are licensed to operate lotteries. We have no been able to make any assessment of the number of societies lotteries currently registered by local authorities, which under our proposals would be registered by the Gambling Commission. We assume that the number is high, and we have suggested in chapter 28 that there may need to be administrative action to extend registrations to avoid an unmanageable influx of work in the first year or so.

## Pools

- 34.25** There are **3 pools operators**. We would not expect this to change significantly.

## Gaming machines

- 34.26** No arcade operators are currently licensed by the Gaming Board. We expect that some **2,000 arcade operators** will need to be licensed by the Gambling Commission. The number of those who **sell, supply or maintain machines** is likely to remain at around the current level of **773**.