EXPLANATORY MEMORANDUM TO

THE GAMING MACHINE (CIRCUMSTANCES OF USE) REGULATIONS 2007

2007 No. 2319

and

THE GAMING MACHINE (SUPPLY & C.) REGULATIONS 2007

2007 No. 2320

1. This explanatory memorandum has been prepared by the Department for Culture, Media and Sport and is laid before Parliament by Command of Her Majesty.

This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Description

This memorandum covers two sets of regulations which control a number of key aspects of the way in which a gaming machine is made available for use, or supplied and installed.

(a) The Gaming Machine (Circumstances of Use) Regulations 2007 ("the Circumstances of Use Regulations") contain rules about how machines are to operate from 1 September 2007. They are designed to deliver appropriate and proportionate safeguards for gaming machine players. They apply to any operator who offers a gaming machine for use.

(b) The Gaming Machine (Supply &c.) Regulations 2007 ("the Supply Regulations") contain rules preventing a gaming machine being supplied or installed if it is designed or adapted to permit money to be paid by credit or debit card.

These Regulations complement the wider regulatory regime for gaming machines established by the Gambling Act 2005 ("the 2005 Act") and related secondary legislation.

3. Matters of special interest to the Joint Committee on Statutory Instruments

These Regulations are being laid during Parliamentary Recess. This results from the need to notify both sets of regulations to the European Commission under the Technical Standards Directive (Directive 98/34/EC, as amended by Directive 98/48/EC). Under that Directive, the Regulations had to be notified in draft, with a stand-still period of 3
months, before they could be made. Notification could not take place until the regulations were well-advanced. The stand-still period for these regulations ended on 1 August 2007.

4. **Legislative Background**

4.1 These two sets of Regulations have been made as part of the programme of work to implement the 2005 Act, from 1 September 2007. They are the first use of these powers.

4.2 The 2005 Act establishes a new system of regulation for gaming machines, which replaces the previous system of regulation under Part III of the Gaming Act 1968 (c.65). The new system will control where gaming machines can be made available for use, how they are manufactured and supplied, and the circumstances in which they can be used, including age limits for use.

4.3 Section 235 of the 2005 Act contains a new definition of gaming machine: “a machine which is designed or adapted for use by individuals to gamble”. That section also provides for a series of exemptions for certain forms of equipment from this general definition (subsection (2)). One of these exceptions is that a domestic or dual-use computer is not a gaming machine by reason only of the fact that it can be used to participate in remote gambling. *The Gambling Act 2005 (Gaming Machines) (Definitions) Regulations 2007* (2007/2082) define domestic and dual-use computers for the purposes of the Act.

4.4 Section 236 requires the Secretary of State to define four classes of gaming machine (A, B, C and D). *The Categories of Gaming Machine Regulations 2007* (SI 2007/2158), were made on 23 July 2007, pursuant to these powers and following Parliamentary debate.

4.5 Part 4 of the 2005 Act establishes a series of offences concerning underage gambling. From 1 September 2007, it will be an offence to invite, cause or permit a child or young person to gamble on any gaming machine except Category D machines (section 46).

4.6 *Section 240 of the Gambling Act 2005* gives the Secretary of State power to make regulations controlling the circumstances in which a gaming machine is made available for use. Subsection (2) provides that these regulations may in particular make provisions by reference to:

(a) the method by which stakes may be deposited or payments made for the use of a machine;
(b) the nature of, or arrangements in respect of receiving or claiming, prizes;
(c) the rollover of stakes or prizes;
(d) the proportion of amounts staked or paid that is returned by way of prizes;
(e) the display of information; or,
(f) any other matter relating to the manner in which a machine operates.

4.7 Section 242(2) of the Act makes it an offence to make a gaming machine available for use which does not comply with regulations made under section 240.
The Circumstances of Use Regulations covered by this memorandum are being made under section 240.

4.8 Section 241 of the Gambling Act 2005 gives the Secretary of State powers to make regulations about the supply and installation of gaming machines. Section 243(2) of that Act makes it an offence to supply or install a gaming machine in breach of a provision of such regulations. The Supply Regulations covered by this memorandum are being made under section 241.

4.9 The 2005 Act makes the Gambling Commission responsible for licensing all operators who manufacture or deal in gaming machines. In addition to the Secretary of State’s powers under sections 240 and 241, section 96 of the Act gives the Gambling Commission wide ranging powers to establish standards in respect of the manufacture, supply, installation, adaptation, maintenance or repair of gaming machines or parts of gaming machines. These technical standards, with which all gaming machines must comply, and which deal with the detailed operation of gaming machines, complete the new regulatory regime for gaming machines.

5. **Territorial Extent and Application**

These instruments apply to England & Wales and Scotland.

6. **European Convention on Human Rights**

These instruments are subject to the negative resolution procedure and do not amend primary legislation, therefore no statement is required.

7. **Policy background**

7.1 The new regulatory regime introduced by the Gambling Act 2005 places the protection of children and young people, and other vulnerable people at the heart of the regulation of gaming machines, and gambling generally, for the first time.

7.2 The Gambling Commission estimates that around 235,000 gaming machines are currently being made available for use under the existing legislative regime under Part III of the Gaming Act 1968. There is also equipment currently in use in the industry – including some 25,000 Fixed Odds Betting Terminals in bookmakers (FOBTs), and around 15,000 “Section 16/21” machines in a variety of other gambling premises - which will fall to be regulated alongside other gaming machines for the first time from 1 September 2007.

7.3 For many people, gaming machines represent a normal leisure activity that they enjoy. However, machines also bring with them risks of social harm, and there is some evidence that the risks associated with gaming machines may be greater than for other forms of gambling.
Key building blocks for the regulation of gaming machines

7.4 In view of these risks, the Gambling Act 2005 establishes a strict new system of control for gaming machines. This is based on there being different categories of gaming machine which are appropriate for use in different locations and by different ages of user. The appropriateness depends upon:

- the use and nature of the premises e.g. gambling or non-gambling premises;
- the degree of regulation to which the premises are subject; and
- the identity and age of potential visitors to the premises.

7.5 The 2005 Act itself, along with the Categories of Gaming Machine Regulations 2007, determine which types of premises may make different categories of gaming machine available for use. In summary:

- Category A and B1 machines will only be permitted in the highly-regulated environment of casinos. (Category A machines will only be permitted in the one regional casino permitted by the Act);
- Category B2 machines will be permitted in licensed betting premises;
- Category B3 machines will be permitted in licensed bingo halls and adult gaming centres;
- Category B3A machines will be permitted in members’ clubs and miners’ welfare institutes;
- Category B4 machines will be permitted in members’ clubs, commercial clubs and miners’ welfare institutes;
- Category C machines will be permitted in pubs and the adult-only areas of family entertainment centres (arcades); and
- Category D machines, which are the only class of gaming machine that can be used by children and young people, will be permitted in family entertainment centres (arcades).

7.6 The Categories of Gaming Machine Regulations 2007 also establish the maximum charge for use (or “stake”) and prize for each category of gaming machine, as summarised below:

<table>
<thead>
<tr>
<th>Category of machine</th>
<th>Maximum “Stake”</th>
<th>Maximum Prize</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Unlimited</td>
<td>Unlimited</td>
</tr>
<tr>
<td>B1</td>
<td>£2</td>
<td>£4,000</td>
</tr>
<tr>
<td>B2</td>
<td>£100</td>
<td>£500</td>
</tr>
<tr>
<td>B3</td>
<td>£1</td>
<td>£500</td>
</tr>
<tr>
<td>B3A</td>
<td>£1</td>
<td>£500</td>
</tr>
<tr>
<td>B4</td>
<td>£1</td>
<td>£250</td>
</tr>
<tr>
<td>C</td>
<td>50p</td>
<td>£35</td>
</tr>
<tr>
<td>D</td>
<td>10p</td>
<td>£5 money prize</td>
</tr>
<tr>
<td></td>
<td>30p</td>
<td>£8 non-money prize</td>
</tr>
</tbody>
</table>
7.7 The Circumstances of Use Regulations are intended to augment these main building blocks by establishing safeguards for individual players in how they interact with gaming machines.

7.8 The delegated powers memorandum which accompanied the Gambling Bill indicated that it was the government’s intention to use the powers under section 240 to control certain key aspects of a gaming machine’s operation, where this merited Parliamentary scrutiny through the negative resolution procedure, and which as a result it was not felt appropriate to delegate to the Gambling Commission. These aspects included:

(a) the method by which stakes may be deposited e.g. by coin or banknote, smart-card or token;

(b) the nature of prizes and how they may be claimed e.g. whether delivered by the machine or offered in redeemable vouchers; and

(c) how information is displayed on the machine.

Broad approach to developing the Circumstances of Use Regulations

7.9 A number of key objectives have influenced the Department’s approach to the development of regulations under section 240 of the Act:

(a) we have sought to replace the confused and piecemeal set of rules, regulations and voluntary codes which have evolved over the past forty years with a coherent set of rules based on a clear rationale which can form the framework for future machine development in the industry;

(b) this new rationale seeks to ensure that, as far as possible, the consumer is in control of how he/she interacts with the machine: consumers need clear information about their chances of winning and where to obtain help with gambling problems; there should be regular decisions required by the consumer to continue playing the machine; and, the consumer should be able to decide whether to re-stake wins;

(c) we have sought to limit the scope of the Circumstances of Use Regulations to those areas of a gaming machine’s operation which are fundamental to the delivery of the licensing objectives of the 2005 Act, particularly those relating to the fairness and openness of the gambling offered, and the protection of children and other vulnerable people. These are the aspects for which we think it is reasonable to require all operators of machines (as well as manufacturers) to take responsibility;

(d) we have sought to give manufacturers new flexibilities in the way they can design and build machines, which draw on international best practice, while retaining those safeguards from the existing legislation and current industry practice which we believe have worked well over the years;
(e) at the same time, we have sought to ensure that the overwhelming majority of gaming machines currently offered under Part III of the Gaming Act 1968 will be capable of complying with the new regulations from 1 September 2007 with the minimum of adaptation or cost. Indeed, in the overwhelming majority of cases all that operators will need to do to existing machines is attach information (e.g. a sticker) to a machine identifying which category of machine it is under the new Act (to meet regulation 3(1)(a) of the Circumstances of Use Regulations);

(f) where any adjustments are necessary to existing machines, we have sought to build in lead times for manufacturers and operators which reflected what those in the industry have told us would be necessary.

Section 16/21 machines and FOBTs

7.10 There is also equipment currently in use in the industry, in particular, Fixed Odds Betting Terminals (FOBTS) and Section 16/21 machines, which is not offered under Part III of the Gaming Act 1968, but which will be regulated alongside other gaming machines for the first time from 1 September 2007. All machines must comply with the stake and prize limits set by the Categories of Gaming Machine Regulations 2007 (outlined above) from 1 September 2007. However, the Department has sought to ensure that the compliance lead times adopted for the Circumstances of Use Regulations take account of the way in which any equipment not covered by Part III currently operates, wherever possible.

Consultation

7.11 The Circumstances of Use Regulations and the Supply Regulations are some of the most complex and technical instruments to be produced in the programme of delegated legislation under the Gambling Act 2005. The Department has undertaken an extensive and comprehensive consultation exercise on the proposals for these Regulations over the course of the last 14 months. The Department would like to place on the record its appreciation to everyone who has contributed to this process during this period.

7.12 This consultation has been conducted in three main stages outlined below.


Further letter on approach to residues 12 April 2007

Stage 3 – Draft regulations and RIA 1 May 2007 – 1 June 2007

Final regulations for technical comment 23 July 2007

7.13 At each stage of the consultation the Department has circulated its proposals to a broad cross section of stakeholders, including trade bodies from across the
gambling industry, groups with a particular interest in the use of gaming machines, and representatives of faith and other groups concerned about problem gambling. At Stages 2 and 3 of the consultation, the consultation paper and draft regulations were published on the Department’s website. The Department has also worked closely with gaming machine experts from the Gambling Commission, in particular to ensure that these Regulations complement the Commission’s gaming machine technical standards.

7.14 The successive consultation documents have sought to explain:

- the broad approach to the proposals and the reasons underpinning the Department’s proposed approach to individual regulations;
- what changes have been made to the original proposals to take account of the comments received from stakeholders and why; and
- where the Department has not felt able to take on board the comments of stakeholders, why this was the case.

7.15 In view of the very technical nature of these two sets of Regulations (particularly the Circumstances of Use Regulations), the Department also produced extensive notes to accompany the draft, and final, regulations published in May and July respectively.

7.16 The Department has, at each stage of the consultation process, engaged in a series of meetings with key stakeholders to explain the proposals in more detail, and discuss issues of concern. During the course of the consultation, the Department has held around 18 meetings with interested groups including:

- Association of British Bookmakers,
- British Amusement Catering Trade Association (BACTA),
- Bingo Association (BA),
- British Beer and Pub Association (BBPA),
- British Casino Association (BCA),
- Business in Sport and Leisure (BISL), and
- Casino Machine Manufacturers’ Group (CMMG).

A wide cross section of individual companies, including machine manufacturers, suppliers and operators, who are members of these trade organisations were represented at these meetings. These meetings have proved invaluable in helping the Department to refine the regulations.

Summary of proposals and consultation responses

7.17 The following summary is intended to explain the policy behind these Regulations, and to indicate the key issues which emerged during the consultation, and the government’s response to them. This part of the Memorandum concentrates on the Circumstances of Use Regulations. For convenience, The Supply Regulations are dealt with in the context of Regulation 4, where there is a significant policy overlap. In view of the technical nature of
Regulation 1 - Commencement

7.18 This regulation specifies a principal coming into force date of 1 September 2007 for the Circumstances of Use Regulations. The Regulations also provide for some express exceptions to this general commencement date, to allow transitional relief for certain categories of machine from certain rules (regulations 1, 8, 9(10), 10(7), 13(6) and 14(3) contains these measures). This responds to specific responses received during the consultation process.

7.19 In general, the elements of the Circumstances of Use Regulations which come into force on 1 September 2007 are:

- requirements with which the overwhelming majority of existing gaming machines offered under Part III of the Gaming Act 1968 already comply;
- requirements with which other equipment currently in use in the industry, in particular, Fixed Odds Betting Terminals and Section 16/21 machines, already comply;
- requirements which relate to the display of certain information, including notices giving advice on where people can receive help for gambling problems and warning that a machine is not to be used by anyone under 18; and,
- new requirements with which only newly manufactured will have to comply.

7.20 Where adjustments are required to existing machines (including equipment not currently offered under Part III of the Gaming Act 1968) the Department has sought, wherever possible, to provide appropriate lead times. In the majority of cases, there are two types of lead time:

- “operators’ lead time” – this is a lead time to enable operators to make adjustments to machines already offered on their premises to ensure that they comply with the new regulations;
  
  e.g. BACTA indicated that it would take six to eight weeks to comply with the requirement to attach information to a machine identifying its category under the new Act (regulation 3(1)(a)). On this basis, it was decided to commence this aspect of the information display requirement from 1 November 2007.

- “manufacturers’ lead time” – this is a lead time to enable manufacturers to continue to build and market their existing products while machines which conform to the new regulations are developed and brought to market.
  
  e.g. the CMMG told us that it would take a minimum of 6 months to bring new machines to the market that would comply with requirements relating to prize delivery (regulation 14). On this basis, it was decided that for those particular requirements:
new machines manufactured between 1 September 2007 and 29 February 2008 will have until 1 September 2008 to be made compliant with the relevant aspects of the regulations; and

machines manufactured on or after 1 March 2008 will have to be compliant with the new regulations from that date.

7.21 The specific lead times we have adopted are based on what the various trade bodies told us would be necessary. In most instances the longest predicted lead time has been adopted. The Regulatory Impact Assessment attached to this Memorandum sets out full details of the various operators’ and manufacturers’ lead times contained in the Circumstances of Use Regulations.

Regulation 2(2) – Parallel games

7.22 This regulation will prevent the development of parallel games, which enables a player to start a “game” once and the machine makes a number of determinations at the same time. Such machines seek to circumvent the maximum stake and prize limits, by enabling a player to stake, simultaneously, multiples of the maximum stake permitted for its category of machine. The Department is clear that such practices should be outlawed.

Regulation 2(3) – Exemption for penny falls

7.23 This regulation is designed to exempt pushers or penny falls from the parallel games prohibition in regulation 2(2). This will ensure that pushers or penny falls, typically Category D machines, which do not prevent a player from inserting a second coin or token before the outcome of the previous “game” is known, will not be prevented from operating by regulation 2(2).

Regulations 2(5) and (6) – Money prizes

7.24 Paragraphs (5) and (6) define money and non-money prizes. They address a question raised by BACTA in response to the formal consultation paper. Tokens, smartcards and similar objects, which have no other purpose other than acting as a cash substitute, will count as money prizes for the purposes of the Circumstances of Use Regulations. A wristwatch will not count as a money prize merely because the operator offers a facility whereby such a non-money prize can be exchanged for cash.

Regulation 3 – Display of information

7.25 Regulation 3 includes a number of requirements relating to information that must be displayed on a machine for the benefit of players, in order to deliver the licensing objectives. This includes:

- a warning, where appropriate, that the machine may not be played by anyone under 18;
- information about where customers may obtain advice about gambling problems;
• information about the chances of winning a prize on the machine; and,
• the category of gaming machine.

7.26 At the request of a number of stakeholders, paragraph (3) gives manufacturers the option of having permanently on display a notice indicating where information relating to a player’s chances of winning can be found. This information must be readily available to a player using the machine.

7.27 This was intended to assist manufacturers of video-based gaming machines, many of which offer a number of different games, particularly those where information relating to a player’s chances of winning is likely to be complex. Rather than having to display all this information permanently on screen (or elsewhere on the machine box), they will instead be able to display permanently a notice indicating where the information can be found (this could, for example, be a labelled button or other link to this information).

7.28 The requirement to display the category of gaming machine is new for all machines. It is intended to help local authority licensing officers quickly identify the category of machine, and as such the Department agreed that it is not necessary for this information to be included on the front of the machine.

Regulation 4 – Methods of payment

7.29 Regulation 4 prevents a gaming machine being made available for use if it is designed or adapted to accept a payment by means of a credit or debit card. This is a straightforward safeguard intended to prevent consumers from gambling more than they can perhaps afford directly from a credit or debit card.

7.30 The Supply Regulations 2007 contain equivalent rules (in regulation 2) preventing a gaming machine being supplied or installed if it is designed or adapted to permit money to be paid by credit or debit card.

7.31 These provisions, in relation to credit cards, replicate the prohibition on the use of credit cards contained in section 245 of the Act, which is being repealed. The repeal is necessary to ensure the UK complies with the European Commission’s procedural requirements under the Technical Standards Directive. This is explained fully in the explanatory memorandum to The Gambling Act 2005 (Repeal) (Remote Operating Licence and Credit) Regulations 2007.

7.32 Regulation 4 also prohibits the purchase of non-cash methods of payment by means of a credit card.

Regulation 5 – Minimum payment amount

7.33 This regulation requires that stakes must be made up in units of a penny. Stakes of less than 1p, and stakes of, for example, 27.3p, will not be permitted.

7.34 Some gaming machines are currently configured so that the maximum stake can be split into a number of elements in relation to a single use of the machine. For
example, on a Category C machine, a player may be able to divide a 50p stake into stakes of 10p on five “lines” for a single use of the machine. The government has concluded that it would be undesirable, and inconsistent with the second licensing objective that gambling be conducted in a fair an open way, to allow stakes to be split into fractions of a penny. This regulation will prevent such a practice.

Regulation 6 – Nature of prizes

7.35 This regulation will mean that only Category D gaming machines may offer non-money prizes.

7.36 There were mixed views on whether non-money prizes should be permitted on gaming machines other than Category D machines. While some (e.g. Business in Sport and Leisure, Methodist Church) agreed with this proposal, and Prof Jim Orford suggested that there was evidence which suggested a mix of money and non-money prizes could contribute to a stronger gambling habit, a number of companies (mainly international casino operators like Harrah’s and Kerzner) argued that non-money prizes should be permitted on Category A machines.

7.37 The Department has always accepted that the arguments on this issue are finely balanced. The risks from a regulatory perspective are that offering prizes where the monetary value is unclear may detract from the fairness of the gambling offer, and luxury prizes might act as an inducement to people to gamble more than they might otherwise. After careful consideration of these views, Ministers have decided to retain this measure.

7.38 The regulation also requires that Category D machines should not offer as non-cash prizes any goods or services which it would be illegal to supply or sell to anyone under the age of 18.

7.39 A number of respondents (including BACTA, Inspired Gaming Group, Carlton Bingo) argued that category D gaming machines in over-18 premises should be exempt from this prohibition. However, this was an issue on which views in the industry were mixed, and the proposal was supported by church groups.

7.40 While the Department considered this point carefully, it was difficult to see which products that would fall into this category (e.g. alcohol, cigarettes, knives, pornography, solvents, fireworks) which it might be desirable to be permitted as a prize in a Category D gaming machine in any gambling premises, whether children were allowed to be there or not. Ministers decided on this basis to retain the measure.

Regulation 7 – Payment limits

7.41 This regulation controls the value of initial payments made to use a gaming machine. It sets financial limits on the amount a person can deposit on a machine, in a single action – the first key stage at which they interact with the machine. This is intended to require consumers to take regular decisions before making
further payments to the machine. These are frequently known as “deposit limits”. Regulation 7 sets three possible limits, depending on the type of machine and its date of manufacture: £100, £20 or £2.

Cash payment limit of £20

7.42 The proposal that the maximum payment limit for all cash deposits (in a single action) should be £20 on Category A, B and C machines, was almost universally opposed by the industry. They argued that the limit should be £50. By and large, groups concerned about problem gambling either welcomed the limit or thought that £20 was too high.

7.43 The proposed £20 limit represents a significant liberalisation of the current position for category C machines (which currently have a £2 limit). For Category B machines it represents the status quo – the current Gambling Commission imposed limit was in effect raised to £20 as recently as 2003, when it was increased tenfold from £2.

7.44 Ministers could see no persuasive arguments for a further significant increase in the individual cash payment limit at this stage. It would be hard to see how an increase to £50 would be consistent with the cautious approach the government has taken to gambling reform more widely.

Non-cash deposit limits

7.45 Some gaming machines are also capable of receiving non-cash payments. There are three main forms of non-cash payment currently in use in the industry:

- Ticket in/Ticket out – customers purchase a bar-coded ticket and insert this into the machine. Any win or unplayed deposited money is returned on another bar-coded ticket which can be exchanged for cash or used to play again.
- Smartcards – which work as a form of electronic payment mechanism, with the card holding credits, which are used to pay for gambling (or other services). Such cards are usually inserted into the machine or swiped;
- Loading from the counter – customers pay their stake over the counter and this is loaded onto the machine remotely by an employee.

7.46 The Department originally proposed that £20 should be the maximum amount that may be deposited in a gaming machine in one go, in line with the £20 cash limit discussed above. Current Gambling Commission guidelines impose a limit of £20 on cash and smartcards, but no limit on “Ticket In/Ticket Out” technology.

7.47 Much of the debate during consultation hinged on whether or not it is desirable in terms of the licensing objectives to move towards non-cash forms of payment for gaming machines (particularly at the harder end of the gambling spectrum).

7.48 Those in favour of moves towards cashless forms of payment argued that:

- there is a requirement to interact with an employee which isn’t there with
cash;
- it should be easier to identify and track problem gamblers;
- players are forced to make a conscious decision to set their own limit at the outset;
- reduction in cash in gaming machines on premises like betting shops may help reduce crime.

7.49 Others urged greater caution:
- the purchase of smartcards etc provides an additional not alternative safeguard to the payment limit;
- the ability to deposit larger amounts of money in gaming machines more quickly could make them more attractive as a means of money laundering;
- allowing higher payment limits for non-cash technologies would run counter to the principle that players make regular conscious decisions to continue gambling;
- the British Medical Association and other academics have argued that non-cash forms of payment for gambling lead players to lose sight of the real value of what they are gambling.

7.50 The Gambling Commission was strongly of the view that the potential advantages of non-cash forms of payment were significant. In their view, the aim of combating problem gambling is better served by regulations which outlaw cashless systems where there is inadequate oversight of cash loading, together with the Commission’s social responsibility codes and conditions. The government has concluded that there is insufficient evidence at this stage on which to base a final decision. The Commission’s view has persuaded Ministers to modify the original proposal, and to create some flexibility in this area for existing machines, which will produce further information on which to base future policy.

7.51 It has been decided for a trial period to allow existing Category B1, B2 and B3 machines manufactured before 1 September 2007, which are currently configured to accept non-cash payments, to operate with a non-cash payment limit of up to £100. The operators of these machines will have to comply with a strict supervision requirement, which will mean that that any initial purchase of a TITO ticket or smartcard can only be made from members of staff in licensed gambling premises, and over the counter loading must also be undertaken by a member of staff. Under the Gambling Commission’s licence conditions and codes of practice, all premises must have in place policies and procedures for customer interaction where they have concerns that a customer’s behaviour may indicate problem gambling.

7.52 The intention is that this will enable further research to be undertaken into:
- whether the advantages of non-cash forms of payment outweigh the disadvantages in terms of the licensing objectives; and,
- whether a limit which is higher than the cash payment limit might be acceptable for non-cash forms of payment in the longer term.
7.53 The government hopes that the industry will wish to work closely with the Gambling Commission and others in taking forward this further work. The intention would be for Ministers to review the results of this work in 2009. In the meantime, the non-cash payment limit for machines which are manufactured after 1 September 2007 will remain £20.

7.54 Regulation 8 sets out a series of transition measures, to phase in the requirements of Regulation 7 over time. The RIA produced for these Regulations sets out the detail of these arrangements.

**Regulation 9 – Committed payment limits**

7.55 This regulation sets limits on payments which take the form of committed money. This is money which, once it is paid or transferred onto the machine, is not refundable to the player, even where it has not been used to pay a charge for use. The overwhelming majority of gaming machines in Great Britain currently include a committed money element. For example, if a player inserts a coin in a gaming machine like those found in a pub, it cannot be refunded and can only be used to pay for a charge for use – this is committed money.

7.56 The limits defined in regulation 9 are lower than the initial payment limits set in regulation 7, being £10, £5, and £2 respectively, depending on the category of machine. This reflects the fact that a player can recover his money (until it is spent on paying a charge for use) under a regulation 7 type payment, but cannot if it is a regulation 9 committed payment.

7.57 During the course of the consultation, in response to representations from the Bingo Association and others, the Department modified its original proposals and has brought the committed payment limit for category B3 machines into line with those proposed for category A, B1 and B2 machines (namely £10).

**Regulation 10 – Autoplay**

7.58 This regulation prohibits autoplay functions on machines which have a single deposit meter (i.e. one meter on which funds are not committed). This type of machine will be permitted and regulated as a “gaming machine” for the first time from 1 September 2007. There is equipment currently in use in Great Britain which meets this definition, but to date this has not been treated as falling within the existing gaming machine regime under the 1968 Act e.g. FOBTs and s.16/21 machines (described at paragraph 7.10 of this Memorandum).

7.59 As the name suggests, an autoplay function enables players who have a pot of money deposited on the machine to play a series of games automatically, without having to press play to begin each individual game. The machine will generally continue to play automatically until the deposited money is exhausted or any win (or other feature) occurs.
This proposal to ban autoplay was almost universally opposed by the industry, but was supported by a number of groups concerned with problem gambling. Some (including Gala Coral, Gamesoft) argued for a compromise position, namely that autoplay should be allowed on single meter machines, but with a maximum of 10 automatic plays.

Ministers have concluded that the regulatory arguments for the proposal remain sound: the prohibition of autoplay on single meter machines ensures that customers have to make a conscious decision to gamble each game; it ensures some degree of parity in the number of decisions customers must make when playing single or multi-meter machines; and, the proposal is in line with other jurisdictions like Australia which have prohibited autoplay.

During the course of the consultation, the CMMG pointed out that a significant number of existing casino jackpot machines (B1) no longer have a committed money meter in the way that most existing machines do. Such machines are now capable of returning to the player money from both the “play meter” and the “bank meter”. In effect, they have two deposited money meters.

As originally drafted, the Department’s proposals would have meant that such machines would be treated in the same way as a single, deposited-money meter machine, and would not have been permitted to offer autoplay. The Department agreed that this restriction would be too onerous where these machines have the additional safeguard of requiring customers to transfer money from a first deposited money meter to a second before it can be used to pay for a charge for use of the machine.

Regulation 10(4) and (5) address this point by exempting these machines from the prohibition on autoplay.

The CMMG subsequently pointed out that this solution failed to take account of the current practice of “auto-transfer” whereby when an initial deposit of say £20 is made in a casino jackpot machine, £2 is automatically transferred to the second deposited money meter (or play meter) and £18 is retained in the first deposited money meter.

As a result of these representations, a further exemption has been included (in paragraphs (1) and (6) for existing casino jackpot machines manufactured before 1 September 2007, and which are not adapted after that date. This will ensure that, on these types of dual deposit meter machines, this practice will be able to continue.

Machines manufactured after that date will no longer be permitted to operate “auto-transfer” on this basis, if they wish to offer autoplay. This is because a machine with auto-transfer operates identically to a single deposit meter machine, on which the government has already concluded that autoplay should be prohibited.
## Regulation 11 – Special provision for Category A and B2 machines

7.68 For two types of machine, Category A and B2 machines, the maximum stake that the machine can accept is higher than the committed payment limits set under Regulation 9 (see the *Category of Gaming Machine Regulations 2007* (SI 2007/2158). This means that, without giving such machines special rules, it would be impossible to build a stake higher than £10 on these machines.

7.69 Regulation 11 therefore puts rules in place instead of regulation 9, which permit single meter Category A and B2 machines to take payments of more than £10, provided the total stake is built up in tranches of £10 by the player. The intention behind this proposal is to replicate and replace the current £15 chip limit on FOBTs (found in betting offices) with a view to ensuring that players are forced to make additional decisions before staking high sums on an individual game.

7.70 The Association of British Bookmakers raised a question about how this would affect the “repeat bet” button on existing FOBTs, and the CMMG was also keen to explore the impact on category A machines, where the maximum stake would potentially be more than £10.

7.71 Paragraphs (5) to (8) make specific allowances to address these concerns. Where someone has staked more than £10 in a single play of the machine complying with the £10 accumulation rule in regulation 11(3) and (4), these provisions enable customers to stake up to that amount again as long as they take one action to indicate to the machine that that is what they wish to do (e.g. by pressing a repeat bet button), before they take a further action to pay the charge for use (e.g. by pressing play to start the game).

## Regulation 12 – Residues

7.72 Regulation 12, which replicates current practice in the industry, is intended to provide practical assistance to manufacturers of machines which only have one coin hopper. Such machines sometimes need to retain a residue, because they are unable to pay the correct coins to a customer seeking to recover money from the machine. Regulation 12 allows this practice to continue, but with strict controls.

7.73 It may be helpful to provide a practical example of how this regulation is intended to assist manufacturers. On an “all-cash” (Category C) gaming machine which charges 30p per game, a player could insert a £1 coin and play three games. That would leave 10p outstanding on the machine. If the machine is manufactured only with a £1 coin hopper, so that it can only pay out £1 coins, it would have no means of being able to repay the outstanding 10p. Regulation 12 enables such machines to retain the 10p as a residue for use by the next player.

7.74 Only machines which have no other means of repaying the outstanding amount may retain a residue. A residue greater than 99p cannot be retained and residues can only take the form of coins. Machines must also carry a warning stating the maximum which the machine may retain as a residue, and any residue must be retained on the machine for the use of the next player. An operator will not be
able to remove residue amounts from a machine for his own profit, and the same applies to all committed money on a gaming machine (regulation 12(3)).

Regulation 13 – Delivery of prizes

7.75 The principle underpinning this regulation and regulation 14 is that, just as in any other form of gambling, when they play a game on a gaming machine, customers must be capable of collecting any prize they win. The Department has taken the view that prizes should be seen as the customer’s money, and the customer should be free to do what he or she wants with that money. There should be no automatic assumption that it should be deposited or used to pay for a charge for use on the machine - the customer must elect to do so.

7.76 Regulation 13 therefore prescribes a number of rules about how prizes must be made available for collection by players, and the actions that a machine must take, before a prize can be used to pay a further charge for use on the machine.

7.77 As described above, many machines are configured currently around a single pound coin hopper. Under current Gambling Commission guidance, machines are permitted to retain up to 99p as a residue, in effect meaning they do not have to pay out wins of less than £1. In its consultation paper, the Department suggested that it was difficult to reconcile this practice in relation to prize pay-out with the “fairness” objective of the 2005 Act. The Department therefore proposed that all machines manufactured after 1 September must return any wins in full.

7.78 In response to concerns expressed by a number of interested parties in relation to existing machines, paragraph (5) provides for an exemption from this “prize in full” regulation for any machine manufactured prior to 1 September 2007. This will ensure that no existing machines will incur compliance costs as a result of this regulation.

7.79 After 1 September 2007, this proposal should not create problems for “compensated” gaming machines (these are machines, like those found in pubs, which do not operate on a wholly random basis but which are designed to return a minimum percentage of stakes as prizes over a certain period), which in these circumstances generally round up prizes to the nearest pound. Compensated machines are configured so that they can pay out less on subsequent spins to make up for the rounded up win.

7.80 In response to a question raised during the consultation the Department has confirmed that giving customers in casinos (or other gambling premises) the option of waiting for a “hand pay” (where an employee comes to give the player the money in cash), which is a practice in some overseas jurisdictions, would be sufficient to meet the requirement that all wins must be capable of being returned in full to the player under regulation 13.
Regulation 14 – Delivery of money prizes

7.81 The Department originally proposed that, on single meter machines which did not have a separate win meter, customers should be given the choice whether to collect any win immediately, or to re-deposit the money on the machine. This was intended to ensure that there is no automatic assumption that wins should be re-deposited on machines.

7.82 BACTA and the casino and betting industries argued that this would be difficult to introduce on machines which are designed to offer small wins on a regular basis. This is another issue on which the arguments are finely balanced.

7.83 The industry argued that most customers would not want to collect small wins, and having to elect not to do so every time would reduce the intended impact of this measure – it would become habitual simply to re-deposit the win. It was more important that customers should be forced to think twice before re-depositing larger wins. Furthermore, customers must be able to cash out the single meter at any time so they would remain in charge.

7.84 The arguments for introducing this requirement are also strong:

- existing machines have a separate win meter which means that customers already have to make a conscious decision to re-deposit money on the machine – this merely replicates an existing safeguard which has worked well;
- not to do so might undermine the principle that wins should be treated like cash in the customer’s pocket and that they should decide to re-deposit the money;
- automatically re-depositing wins on the machine inevitably makes it more likely that customers are going to gamble with their winnings;
- the Responsibility in Gambling Trust argued that our proposal did not go far enough, and that wins over a certain amount should be paid out.

7.85 While the Department regards the principle that any wins should be treated like cash in the customer’s pocket as an important one, it also recognises the challenges this creates particularly for higher stake and prize machines. The Department also accepts that there may be something in the argument that a blanket requirement may reduce the effectiveness of the measure, and that the primary objective should be to force customers to think twice before re-depositing larger wins in machines.

7.86 At the informal consultation stage the Department floated a possible compromise which would mean that this rule would only apply to wins of £20 or above. While this was not enthusiastically received in the industry initially, the proposed compromise position received more support as the consultation progressed. The ABB argued that a £20 threshold was too low, and suggested that it should only apply to wins of £100 or more, which would cover roughly the highest 5% of wins on FOBTs.
While it considered £100 too high, the Department saw some merit in the idea of using a percentage of wins as a basis for the policy in this area. Machines are constructed differently and it is difficult to be precise about what the highest percentage range of wins on any single category of machine will equate to in cash terms.

However, based on discussions with the Gambling Commission, Ministers decided to adopt the following thresholds, which are intended to equate approximately to the top 10% of wins on each category of machine:

- Categories A, B1, B2, B3 and B3A: Wins of £50 or more
- Categories B4, C: Wins of £10 or more

This will mean that on a single deposited money meter Category B3 machine, any wins below £50 may be re-deposited automatically on the machine. However, the customer must be given the opportunity to collect any win of £50 or more before it is re-deposited. It is important to note that even after a win has been re-deposited, customers may collect the win and will not be required to use it to pay for a further charge for use.

As the only category of machines which children are permitted to play, Category D machines will not be exempt from the requirement, and will be required to comply with the original policy. Any single meter Category D machines which are developed (we do not believe there are any currently) will have to ensure that the player is given the option of collecting any prize before it is re-deposited on the machine.

Policy Conclusions

The Circumstances of Use Regulations and Supply Regulations have been crafted following lengthy and detailed consultation with stakeholders interested in the manufacture, supply, and use of gaming machines and those interested in gaming machine regulation, and problem gambling. Changes (including concessions) to the policy have been made in a number of important areas during the consultation period, as described in this Memorandum.

The Department considers that these Regulations together will deliver full and effective controls on gaming machines, which it will be the responsibility of all operators, and not just machine manufacturers, to meet. The Department has set out to put player protection at the heart of these Regulations, while allowing the industry appropriate freedoms to design and offer gaming machines as a legitimate business activity.

Impact

A Regulatory Impact Assessment is attached to this Memorandum. These regulations will have no cost implications for the public sector.
9. **Contact**

Ben Melton at the Department for Culture, Media and Sport, Tel: 0207 211 6495 or e-mail: Ben.Melton@culture.gsi.gov.uk can answer any queries regarding these instruments.
Department for Culture, Media and Sport

Regulatory Impact Assessment

1. Title


2. Purpose and intended effect

Objectives

2.1 To control the circumstances in which a gaming machine is made available for use in line with the licensing objectives of the Gambling Act 2005 (the Act). Section 240 sets out particular provisions to which these controls may refer:

- the method by which payments may be made for the use of a machine;
- the nature of, and arrangements in respect of receiving or claiming, prizes;
- the rollover of stakes or prizes;
- the proportion of amounts staked or paid that is returned by way of prizes;
- the display of information on a machine;
- any other matter relating to the manner in which a machine operates.

2.2 To prevent the use of credit and debit cards in gaming machines. This will be achieved through section 241 of the Act, which gives the Secretary of State the power to make regulations about the supply, installation, adaptation, maintenance or repair of a gaming machine or part of a gaming machine.

Background

2.3 The Act introduces a new system of regulation for gambling, which will replace the current system of regulation set out in the Betting, Gaming and Lotteries Act 1963, the Gaming Act 1968 and the Lotteries and Amusements Act 1976.

2.4 Part 10 of the Act concerns gaming machines, which replaces and updates Part III of the Gaming Act 1968. A “gaming machine” is defined under section 235 of the Act as “a machine which is designed or adapted for use by individuals to gamble”. Section 235(2) contains a number of exemptions to this broad definition. The overwhelming majority of gaming machines are commonly known as “fruit machines” or “slot machines” and are often found in casinos, arcades, betting shops and pubs. Other types of gaming machine include crane grabs and penny falls, which are often found at seaside amusement arcades.

2.5 Gaming machines under the Act will fall in to one of four categories, to be known as Categories A, B, C and D, where Category B machines are sub-divided into Categories B1, B2, B3, B3A and B4. These categories are defined by separate regulations made under section 236 of the Act according to the maximum stake and
prize limits for each category of machine. Separate consultation has been undertaken on those regulations.

2.6 Section 240 of the Act gives the Secretary of State the power to make regulations controlling the circumstances in which a gaming machine is made available for use, and sets out particular provisions to which the Secretary of State may have regard when making such regulations. It is the exercise of this power under section 240 with which this Regulatory Impact Assessment (RIA) is concerned.

2.7 The existing rules relating to the operation of gaming machines under Part III of the Gaming Act 1968 will not lapse until the 2005 Act is brought fully into effect. The Government has announced previously that the formal implementation date for the Gambling Act 2005 will be 1 September 2007 and all gaming machines will be expected to comply with these regulations from that date, unless they qualify for transitional arrangements and deferred commencement as set out below and summarized in Appendix 2.

2.8 Figures published by the Gambling Commission\(^1\) indicate that there are some 235,000 gaming machines sited in Great Britain. Of these, there are approximately: 192,000 Amusement With Prize (equivalent to the new Category C) machines; 25,000 club or jackpot (equivalent to the new Category B1, B3 & B4) machines; and 17,000 machines like penny falls and crane grab (equivalent to the new Category D) machines.

2.9 These regulations will apply to businesses and people offering machines for use, who will all have a responsibility to ensure compliance with the regulations. Machine manufacturers, suppliers and repairers will also need to take account of these regulations to ensure their products are fit for use by operators. A gaming machine may be operated lawfully under the Act if an operator holds the appropriate operating and premises licence, permit or other authorisation. Operators can find more information on compliance with the new regime from the appropriate licensing authority or from the gambling regulator, the Gambling Commission (www.gamblingcommission.gov.uk). These regulations will be complemented by technical standards for machine manufacturers and suppliers which the Gambling Commission will promulgate under its powers in Section 96 of the Act.

2.10 The full background to the regulation of gaming machines under the Act was set out in the Regulatory Impact Assessment, which was published in April 2005 to accompany the Act. The Department’s policy on the use of machines was published in the Delegated Powers Memorandum to the Select Committee on Delegated Powers and Regulatory Reform published in January 2005. The relevant extract from the Delegated Powers Memorandum is reproduced at Appendix 1.

Rationale for Government intervention

2.11 The Secretary of State is not under an obligation to set regulations under section 240 of the Act and the government considered a number of alternative approaches.

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\(^1\) Gambling Commission Annual Report 2005/06
Option 1 – set controls through the Gambling Commission’s Technical Standards

2.12 The Gambling Commission takes a comprehensive and detailed approach to setting standards for gaming machines, but setting controls on the way in which gaming machines operate, which apply to all machine operators, is fundamental to the delivery of the licensing objectives. Technical Standards only apply to holders of licences to manufacture, supply, etc. machines. The ability to set central regulations under section 240 allows rules of universal application to be set, particularly at the point of end use.

2.13 The Delegated Powers Memorandum which accompanied the Gambling Bill indicated that it was the government’s intention to use these powers to control certain key aspects of a gaming machine’s operation, which merited Parliamentary scrutiny through the negative resolution procedure, and which as a result it would not be appropriate to delegate to the Gambling Commission.

Option 2 – industry self regulation

2.14 The industry has a good track record of self regulation in many areas of operation. Whilst there are many examples of codes of practice working well under the current regime, practice across the industry is not always consistent and not all operators/manufacturers within the industry are affiliated to trade bodies. This therefore represents an opportunity to develop a consistent basis for regulating all categories of gaming machine. Enforcement is also an area where self-regulation is unable to deliver the necessary outcomes in cases of breach. In comparison to a self-regulatory approach, the regulations route will provide greater transparency and certainty to operators and players alike, thereby ensuring that the licensing objectives are met.

Option 3 - set no regulations under s.240

2.15 The Secretary of State has the option not to set regulations relating to the use of gaming machines under the Gambling Act 2005. However, the government has made a commitment to both the users and operators of gaming machines to deliver protection and modernisation in this sector as a result of the new Act. It would be inconsistent with this policy not to set regulations under s.240 which achieve this.

Overview of the government’s approach

2.16 After careful consideration the government has decided to set new regulations which ensure that existing machines will continue to be able to operate with the minimum of adaptation after 1 September 2007, but which offer new flexibilities in the way in which machines can be developed from that date.

2.17 This option would ensure consistency with previously published policy and deliver the necessary new regulation in a clear and universal manner. It gives the Department a firm base from which to develop regulations, and provides greater transparency for all stakeholders.
2.18 The Government is proposing to use the powers under sections 240 and 241 to regulate those areas of a gaming machine’s method of operation which are fundamental to delivery of the licensing objectives, particularly the second and third objectives of fairness and protection of children and the vulnerable. The licensing objectives are:

- ensuring gambling remains crime free;
- ensuring that gambling is conducted in a fair and open way; and
- protecting children and other vulnerable people from harm.

2.19 While gambling can be a normal leisure activity that many people enjoy, it also brings with it risks of personal and social harm. In terms of the government’s wider objectives, machine gambling requires careful, balanced and proportionate regulation if the broad spectrum of users are to enjoy informed choice and an effective level of protection within an environment that allows legitimate businesses to thrive.

2.20 The approach has therefore been to seek to ensure that, as far as possible, the consumer is in control of how he/she interacts with the machine: consumers need clear information about their chances of winning and where to obtain help with gambling problems; there should be regular decisions required by the consumer to continue playing the machine; and, the consumer should be able to decide whether to re-stake wins. The proposals under section 240 are particularly important for regulating how players pay to use machines, which is the first point at which players interact with machines.

2.21 There are a number of further reasons why the government’s intervention is necessary.

2.22 First, a confused and piecemeal set of rules, regulations and voluntary codes have grown up under the current law over the past forty years, and the regulations have struggled to keep pace with technological developments in the industry. Implementation of the new Act presents an opportunity to replace this with a coherent set of rules with a clear rationale pursuant to the licensing objectives of the Act which can form the framework for future machine development in the industry.

2.23 Second, these regulations constitute an important part of the government’s coordinated approach to gaming machines under the new legislation. The Act establishes a comprehensive framework of regulation for gaming machines, with the intention that they should be both flexible and future-proofed. Regulations are the most effective mechanism through which to ensure adequate protections are provided to players, and to ensure that operators and manufacturers are accountable for machines they make available for use.

2.24 While these regulations fit closely with the Gambling Commission Technical Standards, they relate in most cases to aspects of the operation of the machine which are readily visible when used. The detailed technical operation of machines is being left to the Technical Standards. The Department believes that matters relating to these external elements of the machine are better covered by regulations than by the Commission’s Technical Standards because these matters are core to the government’s delivery of the licensing objectives. The regulations will also fit with
other regulations under Part 10 of the Act (e.g. Categories of Gaming Machine Regulations under section 236) to produce a set of complementary measures designed to meet the objectives of the Act, whilst still providing industry with the opportunities to develop and innovate.

2.25 Third, there is a significant body of evidence\(^2\) to suggest that gaming machines can pose a threat to problem gamblers. The government has considered this evidence and believes that the appropriate intervention is to set regulations in line with the licensing objectives.

2.26 It is also clear from the Delegated Powers Memorandum that the setting of regulations is an appropriate reflection of the intentions of Parliament, expressed during the passage of the Bill.

2.27 Finally, the Department recognises that the gambling industry is a significant sector of the British economy, with an estimated annual turnover of £10.3 billion in 2005 and directly employing an estimated 22,000 staff in Great Britain. Income from gaming machines accounts for a significant proportion of this market – in 2005-6 the Gambling Commission Report recorded that revenues from gaming machines were £2.1bn. In developing these regulations the Department’s aim has been to create conditions that will allow the industry to continue to innovate, develop new products which appeal to customers and so remain profitable, while ensuring that appropriate and proportionate protections for customers are in place, and that safeguards from existing legislation and industry practice, which have worked well over the years, are retained. It is in the interests of all responsible operators in the industry that there is a robust system of regulation, which means customers can have confidence that they will get a fair gambling experience and that there are protections in place for those that need them.

2.28 The government is committed to delivering the licensing objectives through rules controlling the use of gaming machines, but has also looked carefully at how industry operates under the current law and has listened carefully to all representations from stakeholders. The proposed regulations have been limited to those regarded by the government as fundamental to the operation of the machine, and about which an operator can be reasonably expected to make him or herself aware.

2.29 It is also important to note that the regulations have been drafted in such a way as to ensure that existing machines, currently operating in accordance with the requirements of Part III of the Gaming Act 1968, should not require significant modification to be fully compliant with the new regulations under sections 240 and 241 from 1 September 2007.

2.30 There is also equipment currently in use in the industry - in particular, Fixed Odds Betting Terminals and Section 16/21 machines - which is not offered under Part III of the Gaming Act 1968, but which will fall to be regulated alongside other gaming machines for the first time from 1 September 2007. There are approximately 25,000 FOBTs, 3,500 section 21 machines and an estimated 12-14000 section 16 machines currently in operation. The new flexibilities referred to above will, as far as it is considered consistent with the licensing objectives, seek to accommodate the way in which this equipment currently operates, for example, by permitting the

\(^2\) Budd Report 2001, page 85 & GamCare Care Services, 2006 Report
development of machines configured around a single meter for the first time in Great Britain. There may, however, be areas in which some adjustment will be necessary to bring this equipment into line with the system of regulation for gaming machines. While the Department has considered carefully the estimates relating to likely costs of compliance in relation to this equipment, these matters will need to be balanced against the important benefits from a social policy perspective of ensuring that this equipment is for the first time fully regulated as gaming machines. However, where changes are necessary to comply with the section 240 regulations the Department has sought wherever possible to provide compliance lead times.

2.31 It should be noted that regulations under Section 240 and section 241 are subject to the negative resolution procedure in Parliament.

3. Consultation

Within government

3.1 The government has worked closely with the Gambling Commission to develop these regulations. The regulations complement the detailed specifications relating to the technical operation of gaming machines covered by the Gambling Commission through its Technical Standards under Section 96 of the Act, and there has been extensive discussion between the Department and the Gambling Commission to ensure a proper fit between these two key sets of requirements.

Public consultation

3.2 The Department has held a comprehensive consultation exercise on proposals for regulations under section 241 and, in particular, section 240 of the Act over the course of the last 14 months. The Department would like to place on the record its appreciation to everyone who contributed to this process during this period.

3.3 This consultation exercise has been conducted in 3 main stages outlined below.

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<tr>
<td>Further letter clarifying approach to residues</td>
<td>12 April 2007</td>
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<tr>
<td>Stage 3 – Draft regulations and RIA</td>
<td>1 May 2007 – 1 June 2007</td>
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<tr>
<td>Final draft regulations circulated for technical comment</td>
<td>23 July 2007</td>
</tr>
</tbody>
</table>
At each stage of the consultation the Department has circulated its proposals to a broad cross section of stakeholders, including trade bodies from across the gambling industry, groups with a particular interest in the use of gaming machines and representatives of faith and other groups concerned about problem gambling.

At Stages 2 and 3 of the consultation, the consultation paper and draft regulations were published on the Department’s website. The successive consultation documents have sought to explain:

- the broad approach to the proposals and the reasons underpinning the Department’s proposed approach to individual regulations;
- what changes have been made to the original proposals to take account of the comments received from stakeholders and why;
- where the Department has not felt able to take on board the comments of stakeholders, why this was the case.

In view of the very technical nature of the regulations, the Department also produced extensive notes to accompany the draft and final regulations published in May and July respectively.

The Department has also at each stage of the consultation process engaged in a series of meetings with key stakeholders, including representatives from all the key trade bodies, to explain the proposals in more detail, and discuss issues of concern. These meetings are summarised in the tables below. A wide cross section of individual companies, including machine manufacturers, suppliers and operators, who are members of these trade organisations were represented at these meetings. The Department has also consulted organisations with an interest in problem gambling through its Community Liaison Group. These meetings have proved invaluable in helping the Department to refine the regulations.

At Stages 2 and 3 of the process the Department has also invited the industry to provide it with estimates of any likely compliance lead times and costs associated with the adoption of the new regulations.

Stage 1 – Stakeholder engagement

The Department received 16 written responses: 1 from a gambling concern group; 6 from industry stakeholders; and 9 from industry umbrella organisations.

<table>
<thead>
<tr>
<th>Stakeholder meetings</th>
<th>Date</th>
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<tbody>
<tr>
<td>Association of British Bookmakers (ABB)</td>
<td>13/06/06</td>
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<td>British Amusement Catering Trade Association (BACTA)</td>
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<td>British Casino Association (BCA)</td>
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<td>27/07/06</td>
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<td>Casino Machine Manufacturer's Group (CMMG)</td>
<td>14/06/06</td>
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<tr>
<td>London Councils</td>
<td>07/12/06</td>
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<tr>
<td>Responsibility In Gambling Trust (RIGT)</td>
<td>30/11/06</td>
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</table>
Stage 2 – Stakeholder engagement

3.10 The Department received 26 written responses in all: 6 from gambling concern groups; 11 from industry stakeholders; 7 from industry umbrella organisations; and 2 from other stakeholder organisations.

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<thead>
<tr>
<th>Stakeholder meetings</th>
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<td>04/04/07</td>
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<td>29/03/07</td>
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Stage 3 – Stakeholder engagement

3.11 By 1 June 2007, the Department had received 6 responses to the draft regulations, 4 of which were from industry representative bodies and 2 from industry operators.

<table>
<thead>
<tr>
<th>Stakeholder meetings</th>
<th>Date</th>
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<tbody>
<tr>
<td>Open meeting with industry representative bodies</td>
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<td>British Amusement Catering Trade Association (BACTA)</td>
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<tr>
<td>Casino Machine Manufacturer's Group (CMMG)</td>
<td>07/06/07</td>
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4. Options

4.1 The Department has based its approach to these regulations on the Delegated Powers Memorandum and the matters highlighted in subsection 240(2) of the Act.

4.2 This section describes the main substantive policy issues that emerged during the consultation, and explains the approach that the government has taken to these issues.

Regulation 3 – Display of information

4.3 This regulation includes a number of requirements relating to information pursuant to the licensing objectives of the Act that must be displayed on a machine for the benefit of players. This includes:

- a warning where appropriate that the machine may not be played by anyone under 18;
- information about where customers may obtain advice about gambling problems;
• information about the chances of winning a prize on the machine; and,
• the category of gaming machine.

4.4 The Department’s approach to regulations on this issue has been to limit any requirements to information that is regarded as fundamental to the licensing objectives. This means: information that impacts on the fairness of the gambling offer – essentially information to enable people to make an informed choice about whether to gamble; and, information relating to the protection of children and vulnerable people. It will be more appropriate and more flexible for requirements on the display of information relating to the detailed conduct of the machine to be dealt with in the Gambling Commission’s Technical Standards.

4.5 The current BACTA and BBPA voluntary codes, and the ABB code of practice on FOBTs, already contain a range of requirements relating to the display of information, and these requirements have been used as a basis for the Department’s approach.

4.6 The only completely new requirement contained in the Department’s proposals, at the request of licensing authorities, is that the category of gaming machine must be displayed on the machine. We do not consider that this is likely to impose a significant new burden. We imagine that most operators will ensure compliance with this requirement by adding a sticker to machines, and should not therefore present more than a nominal cost to industry. In response to requests made by the industry during the course of the consultation, the Department has modified this regulation to make it clear that it is not necessary for this information to be included on the front of the machine, and to give operators two months (until 1 November 2007) to comply with this requirement.

4.7 In response to points made by a number of stakeholders during the consultation, the government also modified paragraph (3) to give manufacturers the option of having permanently on display a notice indicating where information relating to a player’s chances of winning can be found. This information must be readily available to a player using the machine.

4.8 This was intended to assist manufacturers of video-based gaming machines, many of which offer a number of different games, particularly those where information relating to a player’s chances of winning is likely to be complex. Rather than having to display all this information permanently on screen (or elsewhere on the machine box), they will instead be able to display permanently a notice indicating where the information can be found (this could, for example, be a labelled button or other link to this information).

Regulation 4 – Methods of payment

4.9 The government has concluded that all forms of cash and non-cash payments are acceptable, with the exception of credit and debit cards. This regulation prevents a gaming machine being made available for use if it is designed or adapted to accept a payment by means of a credit or debit card. It also prohibits the purchase of non-cash methods of payment by means of a credit card.
4.10 The prohibition on the use of credit cards to gamble on a machine is well established and well accepted by industry, because of the potential credit cards may offer to players to gamble large amounts of money on credit.

4.11 The arguments in relation to debit cards are more finely balanced. However, the Department concluded that it would be inconsistent with the licensing objectives to permit debit card payments directly in machines, because of the potential amounts of money this could allow a player to gamble without interruption. The Department did, however, conclude that allowing players to use debit cards to purchase smartcards and other cash alternatives introduces an additional step to the decision to gamble and, therefore, was acceptable.

4.12 The final regulation replicates the current position and does not, therefore, introduce any new burdens on industry. Neither the Department or the Gambling Commission are aware of any machines currently in operation that would need to be altered to comply with this proposal. The proposal was broadly supported by industry stakeholders and will not introduce any new burdens on industry.

4.13 Regulations under section 241 will similarly prevent the supply or installation of any gaming machine that is designed or adapted to accept payment by means of a credit or a debit card. This is a straightforward replication of the current position, retained to ensure that there are no gaming machines in the marketplace that accept payment directly from a debit or a credit card.

Regulation 5 – Minimum payment amount

4.14 This regulation will mean that stakes must be made up in units of a penny. Stakes of less than 1p, and stakes of – say – 27.3p, will not be permitted.

4.15 Some gaming machines are currently configured so that the maximum stake can be split into a number of elements in relation to a single use of the machine. For example, on a Category C machine, a player may be able to divide a 50p stake into stakes of 10p on five “lines” for a single use of the machine. It would be considerably harder for a customer to keep track of a game where he was staking, for example, 0.1p on 500 lines and so the fairness of the gambling offer may be impaired.

4.16 The government suggested in its consultation on the regulations that it would be undesirable, and inconsistent with the second licensing objective that gambling be conducted in a fair and open way, to allow stakes to be split into fractions of a penny in this way. While some in the industry felt that this was a sensible safeguard, other argued it was unnecessary. On balance the government decided to retain the measure.

4.17 During the course of the consultation there were no gaming machines brought to the attention of the Department which do not currently comply with this requirement and as such this will involve no compliance costs.
Regulation 6 – Nature of prizes

4.18 This regulation will mean that only Category D gaming machines may offer non-money prizes.

4.19 In response to the consultation on this point, there were mixed views on whether non-money prizes should be permitted on gaming machines other than Category D machines. While some (e.g. Business in Sport and Leisure, Methodist Church) agreed with this proposal, and Prof Jim Orford suggested that there was evidence which suggested a mix of money and non-money prizes could contribute to a stronger gambling habit, a number of companies (mainly international casino operators like Harrah’s and Kerzner) argued that non-money prizes should be permitted on Category A machines.

4.20 The Department has always accepted that the arguments on this issue were finely balanced. The risks from a regulatory perspective are that offering prizes where the monetary value is unclear may detract from the fairness of the gambling offer, and luxury prizes might act as an inducement to people to gamble more than they might otherwise. After careful consideration of these finely-balanced views, Ministers have decided to retain this measure.

4.21 There are currently no gaming machines offered under Part III of the Gaming Act 1968 other than category D machines which offer non-money prizes and so this maintains the current position, and there will be no compliance costs involved for industry.

4.22 The regulation also requires that Category D machines should not offer as non-cash prizes any goods or services which it would be illegal to supply or sell to anyone under the age of 18.

4.23 There was universal agreement that this restriction should apply to Category D machines in premises where children were permitted. A number of respondents (including BACTA, Inspired Gaming Group, Carlton Bingo) argued that category D gaming machines in over-18 premises should be exempt from this prohibition. However, this was an issue on which views in the industry were mixed, and the proposal was supported by church groups.

4.24 While the Department considered this point carefully, it was difficult to see which products that would fall into this category (e.g. alcohol, cigarettes, knives, pornography, solvents, fireworks) which it might be desirable to be permitted as a prize in a Category D gaming machine in any gambling premises – whether children were allowed to be there or not. Ministers decided on this basis to retain the measure.

4.25 The Department is not aware of any gambling premises that currently offer any of these prescribed prizes in Category D machines, and as such the proposal will be cost neutral for the industry.
Regulation 7 – Payment limits

4.26 This regulation controls the value of initial payments made to use a gaming machine. It sets financial limits on the amount a person can deposit on a machine, in a single action – the first key stage at which they interact with the machine. This is intended to require consumers to take regular decisions before making further payments to the machine. These are frequently known as “deposit limits”. There are three possible limits, depending on the type of machine and its date of manufacture: £100, £20 or £2.

4.27 There are limits under the existing law and practice on the maximum amount a player may deposit on a machine. The BACTA Consolidated Machine Guidelines (agreed with the Gambling Commission), stipulate that the highest denomination note that should be inserted in a s.31 jackpot gaming machine is £20, and that a player should deposit no more than £20 from a smart card (or similar device) without a fresh action. Current s.34 AWP machines are configured to accept a maximum cash deposit of £2.

4.28 The Department considered not setting any limits by regulation and maintaining the status quo of industry self-regulation. However, the setting of regulatory limits on deposited money is consistent with the second and third licensing objectives of fairness and protection of the vulnerable, and anyway replicates existing practice in the industry. Indeed, few in the industry questioned the need for payment limits. Most of the debate centred on what the limit should be for different forms of payment, and these issues are explored more fully below.

Cash payment limit of £20

4.29 The proposal that the maximum payment limit for all cash deposits (in a single action) should be £20 was almost universally opposed by the industry, which argued that the limit should be £50. By and large, groups concerned about problem gambling either welcomed the limit or thought that £20 was too high.

4.30 The proposed £20 limit represents a significant liberalisation of the current position for category C machines (which currently have a £2 limit). For Category B machines it represents the status quo. The current voluntary limit was raised to £20 as recently as 2003, when it was increased tenfold from £2.

4.31 This proposal also delivered on the government’s commitment to extend the liberalisation of the payment methods for current s.31 machines, contained in the Regulatory Reform (Gaming Machines) Order 2003, to all AWP machines, except those with the lowest stakes and prizes (category D machines under the new Act).

4.32 Ministers could see no persuasive arguments for a further significant increase in the individual payment limit at this stage, and found it hard to see how an increase to £50 would be consistent with the cautious approach the government has taken to gambling reform more widely.
4.33 There are currently no gaming machines offered under Part III of the Gaming Act 1968 which can accept a cash payment of higher than £20 and so the overwhelming majority of existing machines will require no adaptation to comply with this requirement. The Department is aware that some Section 16/21 machines and FOBTs which have been offered outside of the regulation of Part III of the 1968 Act, may be capable of accepting higher cash payments. For this reason the government has allowed for appropriate lead times, in line with those suggested by the industry, for relevant categories of machine to comply with this requirement.

Non-cash deposit limits

4.34 Some gaming machines are also capable of receiving non-cash payments. There are three main forms of non-cash payment currently in use in the industry:

- **Ticket in/Ticket out** – customers purchase a bar-coded ticket and insert this into the machine. Any win or unplayed deposited money is returned on another bar-coded ticket which can be exchanged for cash or used to play again;
- **Smartcards** – which work as a form of electronic payment mechanism, with the card holding credits, which are used to pay for gambling (or other services). Such cards are usually inserted into the machine or swiped;
- **Loading from the counter** – customers pay their stake over the counter and this is loaded onto the machine remotely by an employee.

4.35 The Department originally proposed that £20 should be the maximum amount that may be deposited in a gaming machine in one go, in line with the £20 cash limit discussed above. Current Gambling Commission guidelines impose a limit of £20 on cash and smartcards, but no limit on “Ticket In/Ticket Out” technology.

4.36 Much of this debate hinged on whether or not it is desirable in terms of the licensing objectives to move towards non-cash forms of payment for gaming machines (particularly at the harder end of the gambling spectrum).

4.37 Those in favour of moves towards cashless forms of payment argued that:

- there is a requirement to interact with an employee which isn’t there with cash;
- it should be easier to identify and track problem gamblers;
- players are forced to make a conscious decision to set their own limit at the outset;
- reduction in cash in gaming machines on premises like betting shops may help reduce crime.

4.38 Others urged greater caution:

- the purchase of smartcards etc provides an additional, not alternative, safeguard to the payment limit;
- the ability to deposit larger amounts of money in gaming machines more quickly could make them more attractive as a means of money laundering;
• allowing higher payment limits for non-cash technologies would run counter to the principle that players make regular conscious decisions to continue gambling;
• the British Medical Association and other academics have argued that non-cash forms of payment for gambling lead players to lose sight of the real value of what they are gambling.

4.39 The Gambling Commission was strongly of the view that the potential advantages of non-cash forms of payment were significant. In their view, the aim of combating problem gambling is better served by regulations which outlaw cashless systems where there is inadequate oversight of cash loading, together with the Commission’s social responsibility codes and conditions.

4.40 The government has concluded that there is insufficient evidence at this stage on which to base a final decision. The Commission’s view has persuaded Ministers to modify the original proposal, and to create some flexibility in this area for existing machines, which will produce further information on which to base future policy.

4.41 It has therefore been decided for a trial period to allow existing Category B1, B2 and B3 machines manufactured before 1 September 2007, which are currently configured to accept non-cash payments, to operate with a non-cash payment limit of up to £100. The operators of these machines will have to comply with a strict supervision requirement, which will mean that that any initial purchase of a TITO ticket or smartcard can only be made from members of staff in licensed gambling premises, and over the counter loading must also be undertaken by a member of staff. Under the Gambling Commission’s licence conditions and codes of practice, all premises must have in place policies and procedures for customer interaction where they have concerns that a customer’s behaviour may indicate problem gambling.

4.42 The intention is that this will enable further research to be undertaken into:
• whether the advantages of non-cash forms of payment outweigh the disadvantages in terms of the licensing objectives; and,
• whether a limit which is higher than the cash payment limit might be acceptable for non-cash forms of payment in the longer term.

4.43 The government hopes that the industry will wish to work closely with the Gambling Commission and others in taking forward this further work. The intention would be for Ministers to review the results of this work in 2009. In the meantime, the non-cash payment limit for machines which are manufactured after 1 September 2007 will remain £20.

4.44 Regulation 8 sets out a series of transitional measures, to phase in the requirements of Regulation 7 over time. These lead times are in line with those suggested by the industry during the course of the consultation.
Regulation 9 – Committed payment limits

4.45 This regulation sets limits on payments which take the form of committed money. This is money which, once it is paid or transferred onto the machine, is not refundable to the player, even where it has not been used to pay a charge for use.

4.46 The overwhelming majority of gaming machines in Great Britain currently include a committed money element. For example, if you insert a coin in a gaming machine like those found in a pub, it cannot be refunded and can only be used to pay for a charge for use – this is committed money.

4.47 Committed money limits also apply to existing casino jackpot machines: the Regulatory Reform (Gaming Machines) Order 2003 (SI 2003/3275) amended the Gaming Act 1968 to provide that where a payment is made for use of a s.31 jackpot gaming machine, which is in excess of the value of the highest denomination coin, and is legal tender, and in general circulation in the UK (i.e. by banknote or uploading funds from a smartcard), the initial amount held to the player’s credit for the purpose of paying the charge for the machine is not to exceed the highest denomination coin. No further amount is to be added unless the player takes action in respect of the machine to indicate that he wishes to continue to gamble. Thus, a fresh customer action is required to commit more than £2 per time to playing s.31 jackpot machines.

4.48 While the government considered removing any limits, it concluded that the setting of a maximum amount that may be committed to gamble in this way remained important from a regulatory perspective in requiring people to make a regular and conscious decision to commit further money to gamble, particularly in meeting the 3rd licensing objective of protecting vulnerable players.

4.49 The limits defined in regulation 9 are lower than the initial payment limits set in regulation 7, being £10, £5, and £2, respectively depending on the category of machine. This reflects the fact that a player can recover his money (until it is spent on paying a stake) under a regulation 7 type payment, but cannot if it is a regulation 9 committed payment.

4.50 Retaining the current £2 committed money limit for Category D machines meets the licensing objective and places no new burdens on industry.

4.51 However, the Department recognised that the £2 limit under the current law has become an unrealistic limitation for gaming machines where the maximum stake is £1 or more. The regulations therefore increase maximum for Category A, B1, B2 and B3 machines to £10; and increase the maximum for Category B4 and C machines to £5.

4.52 It should be noted that, during the course of the consultation, in response to representations from the Bingo Association and others, the Department modified its original proposals to bring the committed payment limit for category B3 machines into line with those proposed for category A, B1 and B2 machines (namely £10).
4.53 These maxima constitute a significant liberalisation of the current law and have been set to reflect recent changes to stake and prize limits: the new limit for Category A, B1, B2 and B3 machines will be five times higher than the current limit for all gaming machines under the 1968 Act; the new maximum for Category B4 machines will be two and a half times higher than the current maximum. While the Department considered setting even higher limits, it concluded that the limits proposed struck a proper balance between allowing greater freedom for manufacturers of machines, and maintaining an appropriate level of regulatory protection on the amount a player may commit to gamble.

4.54 As these measures represent either the status quo or a liberalisation of the current position for all gaming machines, this measure will not involve any compliance costs or lead time for the industry.

Regulation 10 – Autoplay

4.55 This regulation prohibits autoplay functions on machines which have a single deposit meter (i.e. a single meter where funds are not committed).

4.56 As the name suggests, an autoplay function, enables players who have a pot of money deposited on the machine to play a series of games automatically, without having to press “play” to begin each individual game. The machine will generally continue to play automatically until the deposited money is exhausted or any win (or other feature) occurs.

4.57 This proposal was almost universally opposed by the industry, but was supported by a number of groups concerned with problem gambling. Some (including Gala Coral, Gamesoft) argued for a compromise position - that autoplay should be allowed on single meter machines, but with a maximum of 10 automatic plays.

4.58 While Ministers carefully considered setting no prohibition on autoplay or this alternative, compromise approach, they concluded that the regulatory arguments for a prohibition were sound: the prohibition of autoplay on single meter machines ensures that customers have to make a conscious decision to gamble each game; it ensures some degree of parity in the number of decisions customers must make when playing single or multi-meter machines where customers have to transfer money from a deposited money meter to a second meter before it can be used to pay a charge for use; and, the proposal is in line with other jurisdictions like Australia which have prohibited autoplay.

4.59 The government did, however, agree to modify its original proposals in response to points made by the industry. During the course of the consultation, the CMMG pointed out that a significant number of existing casino jackpot machines no longer have a committed money meter in the way that most existing machines do, but are now capable of returning to the player money from both the “play meter” and the “bank meter”. In effect, they have two deposited money meters.

4.60 As originally drafted, the Department’s proposals would have meant that such machines would be treated in the same way as a single, deposited-money meter machine, and would not have been permitted to offer autoplay. The Department agreed that this restriction would be too onerous where these machines have the additional safeguard of requiring customers to transfer money from a first deposited
money meter to a second before it can be used to pay for a charge for use of the
machine.

4.61 Regulation 10(4) and (5) address this point by exempting these machines from
the prohibition on autoplay.

4.62 The CMMG subsequently pointed out that this solution failed to take account of
the current practice of “auto-transfer” whereby when an initial deposit of say £20 is
made in a casino jackpot machine, £2 is automatically transferred to the second
deposited money meter (or play meter) and £18 is retained in the first deposited
money meter.

4.63 As a result of these representations, a further exemption has been included for
existing casino jackpot machines manufactured before 1 September 2007, and
which are not adapted after that date. This will ensure that, on these types of dual
deposit meter machines, this practice will be able to continue.

4.64 Machines manufactured after that date will no longer be permitted to operate
“auto-transfer” on this basis if they wish to offer autoplay. This is because a
machine with auto-transfer acts identically to a single deposit meter machine, and on
this the government has concluded that autoplay should be prohibited.

4.65 Single deposited meter machines will be permitted and regulated as “gaming
machines” for the first time from 1 September 2007. There is equipment currently in
use in Great Britain which meets this definition, but to date this has not been treated
as falling within the existing gaming machine regime under the 1968 Act e.g. FOBTs
and s.16/21 machines. Some of these machines may offer an autoplay option and
will no longer be able to do so as a result of this regulation. For this reason the
government has allowed for appropriate lead times, in line with those suggested by
the industry, for relevant categories of machine to comply with this requirement.

Regulation 11 – Special provision for Category A and B2 machines

4.66 For two types of machine, Category A and B2 machines, the maximum stake that
the machine can accept is higher than the committed payment limits set under
Regulation 9 (see the Category of Gaming Machine Regulations 2007 (SI
2007/2158). This means that, without giving such machines special rules, it would be
impossible to build a stake higher than £10 on these machines.

4.67 Regulation 11 therefore sets rules in place of regulation 9, which permits single
meter Category A and B2 machines to take payments of higher than £10, provided
the total stake is built up in tranches of £10 by the player. The intention behind this
proposal was also to replicate and replace the current £15 chip limit on FOBTs
(found in betting offices) with a view to ensuring that players are forced to make
additional decisions before staking high sums on an individual game.

4.68 The ABB raised a question of how this would affect the “repeat bet” button on
FOBTs, and the CMMG was also keen to explore the impact on category A
machines, where the maximum stake would potentially be more than £10.

4.69 The government modified its original proposals to take account of these points,
and paragraphs (5) to (8) make specific allowances to address these concerns.
Where someone has staked more than £10 in a single play of the machine
complying with the £10 accumulation rule in regulation 11(3) and (4), these provisions enable customers to stake up to that amount again as long as they take one action to indicate to the machine that that is what they wish to do (e.g. by pressing a repeat bet button), before they take a further action to pay the charge for use (e.g. by pressing “play” to start the game).

Regulation 12 – Residues

4.70 This regulation, which replicates current practice in the industry, is intended to provide practical assistance to manufacturers of machines which only have one coin hopper. Such machines sometimes need to retain a residue, because they are unable to pay the correct coins to a customer seeking to recover money from the machine. Regulation 12 allows this practice to continue, but with strict controls.

4.71 It may be helpful to provide a practical example of how this regulation is intended to assist manufacturers. On an “all-cash” (Category C) gaming machine which charges 30p per game, a player could insert a £1 coin and play three games. That would leave 10p outstanding on the machine. If the machine is manufactured only with a £1 coin hopper – so that it can only pay out £1 coins - it would have no means of being able to repay the outstanding 10p. Regulation 12 enables such machines to retain the 10p as a residue for use by the next player.

4.72 Only machines which have no other means of repaying the outstanding amount may retain a residue. A residue greater than 99p cannot be retained. Residues can only take the form of coins. Machines must also carry a warning stating the maximum which the machine may retain as a residue, and any residue must be retained on the machine for the use of the next player.

4.73 As this regulation largely replicates existing practice, this measure will not involve any compliance costs or lead times for the industry.

Regulation 13 – Delivery of prizes

4.74 The principle underpinning this regulation is that, just as in any other form of gambling, it is in the interests of the licensing objective relating to the fair and open conduct of gambling that when they play a game on a gaming machine, customers must be capable of collecting any prize they win.

4.75 The Department has taken the view that prizes should be seen as the customer’s money, and the customer should be free to do what he or she wants with that money. There should be no automatic assumption that it should be deposited or used to pay for a charge for use on the machine - the customer must elect to do so.

4.76 This regulation therefore sets a number of rules about how prizes must be made available for collection by players, and the actions that a machine must take, before a prize can be used to pay a further stake on the machine. While the government considered not setting any regulations to the delivery of prizes, it concluded that some rules were necessary to protect players and to ensure that gaming machines complied with the second licensing objective relating to the fairness of gambling.

4.77 Currently, money prizes are treated differently on All Cash AWP (s.34(5E)) machines and Jackpot (s.31) machines:
• on AWPs, money prizes must be paid out, cannot be credited to the “bank” and
  cannot be transferred from a separate “win meter” to the “bank”, but must be
  physically reinserted as fresh stakes (s.34 Gaming Act 1968);
• on jackpot machines, money prizes can be credited to the “bank” and can be
  transferred from there into the “play meter” in £2 tranches, in the same way as
  money which has been deposited by the player (s.31 Gaming Act 1968).

4.78 The proposal simplifies the current rules relating to money prizes so that all
  categories of machine where stakes are taken from committed sums, rather than
  deposited sums, are treated in the same way as jackpot machines are currently, i.e.
  there is no requirement to physically reinsert sums won. All prizes may instead be
  credited to the deposited funds (e.g. the bank), from where the player can elect
  either to collect the money, or transfer it to the play meter from where further
  charges for use can be paid. The machine manufacturer will have the choice of
  which option to adopt.

4.79 This proposal delivers the Government’s commitment to extend the changes that
  were made for higher stake/prize machines, relating to the way winnings are treated
  (by the 2003 regulatory reform order) to all categories of machine which take their
  funds from committed funds. This aspect of the proposals was universally supported
  in the industry.

4.80 Currently, many machines are configured around a single pound coin hopper.
  Under current Gambling Commission guidance, machines are permitted to retain up
  to 99p as a residue (which is to be continued under regulation 12) – in effect
  meaning they do not have to pay out wins of less than £1. In the consultation paper,
  the Department suggested that it was difficult to reconcile this practice in relation to
  prize pay-out with the “fairness” objective of the new Act. The Department therefore
  proposed that all machines manufactured after 1 September must return any wins in
  full.

4.81 In response to concerns expressed by a number of interested parties in relation
  to existing machines, subsection (5) provides for an exemption from this “prize in
  full” regulation for any machine manufactured prior to 1 September 2007. This will
  ensure that no existing machines will incur compliance costs as a result of this
  regulation.

4.82 Even after 1 September 2007, this proposal should not create problems for
  “compensated” gaming machines (these are machines, like those found in pubs,
  which do not operate on a wholly random basis but which are designed to return a
  minimum percentage of stakes as prizes over a certain period), which in these
  circumstances generally round up prizes to the nearest pound. Compensated
  machines are configured so that they can pay out less on subsequent spins to make
  up for the rounded-up win.

4.83 The CMMG argued that such an approach would not work for multi-lined casino
  machines, which are designed to pay out small wins on a regular basis. These
  machines could not be reconfigured so that they only pay out round pound wins, and
  to round up wins on these machines would be uneconomic (they run on a completely
  random basis and so cannot compensate for rounding up on future spins).
4.84 While the Department understands the points made by the CMMG, it could not identify any other form of gambling where a player could enter into the “contract” to gamble, win and then not have a right to collect their prize, and found it difficult to reconcile any exemption from this requirement with the second licensing objective.

4.85 In response to a question during the consultation the Department has, however, confirmed that giving customers in casinos (or other gambling premises) the option of waiting for a “hand pay” (where an employee comes to give the player the money in cash), which is a practice in some overseas jurisdictions, would be sufficient to meet the requirement that all wins must be capable of being returned in full to the player.

Regulation 14 – Delivery of money prizes

4.86 The Department originally proposed that, on single meter machines which did not have a separate win meter, customers should be given the choice whether to collect any win immediately, or to re-deposit the money on the machine. This was intended to ensure that there is no automatic assumption that wins should be re-deposited on machines, and that (as on dual meter machines) customers are required to make a conscious decision to re-deposit money on the machine so that it can potentially be used to pay a charge for use.

4.87 BACTA and the casino and betting industries argued that this would be difficult to introduce on machines which are designed to offer small wins on a regular basis. This is another issue on which the arguments are finely balanced.

4.88 The industry argued that most customers would not want to collect small wins, and having to elect not to do so every time would reduce the intended impact of this measure – it would become habitual simply to re-deposit the win. It was more important that customers should be forced to think twice before re-depositing larger wins. Furthermore, customers must be able to cash out the single meter at any time so they would remain in charge.

4.89 The arguments for introducing this requirement are also strong:

- existing machines have a separate win meter which means that customers already have to make a conscious decision to re-deposit money on the machine – this merely replicates an existing safeguard which has worked well;
- not to do so might undermine the principle that wins should be treated like cash in the customer's pocket and that they should decide to re-deposit the money;
- automatically re-depositing wins on the machine inevitably makes it more likely that customers are going to gamble with their winnings;
- the Responsibility in Gambling Trust argued that our proposal did not go far enough, and that wins over a certain amount should be paid out.

4.90 While the Department regards it as important that any wins should be treated like cash in the customer’s pocket, it also recognised the challenges this creates particularly for higher stake and prize machines. The Department also accepted that there may be something in the argument that a blanket requirement may reduce the effectiveness of the measure, and that the primary objective should be to force customers to think twice before re-depositing larger wins in machines.
4.91 At the informal consultation stage the Department floated a possible compromise which would mean that this rule would only apply to wins of £20 or above. While this was not enthusiastically received in the industry initially, the proposed compromise position received more support as the consultation progressed. The ABB argued that a £20 threshold was too low, and suggested that it should only apply to wins of £100 or more, which would cover roughly the highest 5% of wins on FOBTs.

4.92 While it considered £100 too high, the Department saw some merit in the idea of using a percentage of wins as a basis for the policy in this area. Machines are constructed differently and it is difficult to be precise about what the highest percentage range of wins on any single category of machine will equate to in cash terms.

4.93 However, based on discussions with the Gambling Commission, Ministers decided to adopt the following thresholds, which are intended to equate approximately to the top 10% of wins on each category of machine:

- Categories A, B1, B2, B3 and B3A: Wins of £50 or more
- Categories B4, C: Wins of £10 or more

4.94 This will mean that on a single deposited money meter Category B3 machine, any wins below £50 may be re-deposited automatically on the machine. However, the customer must be given the opportunity to collect any win of £50 or more before it is re-deposited. It is important to note that even after a win has been re-deposited, customers may collect the win and will not be required to use it to pay for a further charge for use.

4.95 Single deposited meter machines will be permitted and regulated as a “gaming machine” for the first time from 1 September 2007. There is equipment currently in use in Great Britain which meets this definition, but to date this has not been treated as falling within the existing gaming machine regime under the 1968 Act e.g. FOBTs and s.16/21 machines. Some of these machines may not currently comply with this requirement. For this reason the government has allowed for appropriate lead times, in line with those suggested by the industry, for relevant categories of machine to comply with this requirement.

4.96 As the only category of machines which children are permitted to play, Category D machines will not be exempt from the requirement, and will be required to comply with the original policy. Any single meter Category D machines which are developed (we do not believe there are any currently) will have to ensure that the player is given the option of collecting any prize before it is re-deposited on the machine.

5. Costs and benefits

5.1 The main purpose of this section of the assessment is to demonstrate the central importance the Department has placed on developing an understanding of the potential costs of regulating in this area. The Department’s approach throughout the development of these regulations has been to ensure that the overwhelming
majority of existing machines currently operating in accordance with the requirements of Part III of the Gaming Act 1968 will require little or no adjustment to be able to comply with the new regulations from 1 September, and hence incur little or no compliance cost.

5.2 Whilst this may be the case for the majority of machines, there will be sections of the industry that will incur some costs to comply with some of the new regulations. Over the course of the consultation process the Department has made specific requests to industry for evidence and information on such costs and any accompanying benefits. On this basis we have tried to build as clear a picture as possible of the impact of the proposals.

5.3 Precise and robust cost data has not in every instance proved to be readily available. We have, however, made estimates of the relative impact of each regulation based on the best available evidence that has been supplied. In some cases, compliance will involve some cost and we have taken this fully into account when assessing the options.

5.4 This analysis is limited to the benefits and costs of the 240 regulations, and do not take account of the wider changes being made to the system of regulation of gaming machines under the Gambling Act 2005. For example, the benefits section does not take account of the significant increases to stake and prize levels on many categories of gaming machines which have been introduced by other regulations.

Sectors and groups affected

5.5 The table below gives an estimate of the numbers of machines currently in operation, which will have to comply with the new regulations from 1 September 2007:

<table>
<thead>
<tr>
<th>Type of machine</th>
<th>Total estimated number of machines in Great Britain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category A (no current equivalent)</td>
<td>0</td>
</tr>
<tr>
<td>Jackpot (Category B1, B3, B4)</td>
<td>25,000</td>
</tr>
<tr>
<td>FOBT (Category B2)</td>
<td>25,000</td>
</tr>
<tr>
<td>AWP (Category C and D)</td>
<td>192,000</td>
</tr>
<tr>
<td>Pushers, crane grabs etc (Category D)</td>
<td>17,000</td>
</tr>
<tr>
<td>Section 16/21 machines</td>
<td>15,500-17,500</td>
</tr>
<tr>
<td><strong>GB machine estate (inc. FOBTs)</strong></td>
<td><strong>274,500 – 276,500</strong></td>
</tr>
</tbody>
</table>

Benefits

5.6 This is the first opportunity the Government and stakeholders have had to take a holistic view of the use of gaming machines since the implementation of the 1968 Act. This presents an opportunity to replace the existing piecemeal system of regulation which has evolved over 40 years with a coherent set of rules with a clear rationale pursuant to the licensing objectives of the Act and which can form the
framework for future machine development. Gaming machines have become increasingly complex in design and new legislation is now required to take account of technological advancements.

5.7 There will be significant but unquantifiable social benefits as a result of the comprehensive review of the current legislation. These regulations have been drafted in accordance with the licensing objectives of the Act and contain provisions that will in particular help ensure that children and vulnerable people are protected from harm or exploitation when using gaming machines, for example by imposing limits on how much money a player may deposit on a machine in a single action.

5.8 The new regulations also give manufacturers and operators new flexibility and options for configuring gaming machines for use, which create opportunities for innovation and competition. For example, the regulations will for the first time introduce a new fully regulated configuration of gaming machine to the British market in the form of the single deposit meter machine. Whilst many of these benefits are again unquantifiable in cash terms, they should for example help reduce manufacturing costs as the regulations will bring the design of gaming machines in Great Britain more into line with overseas jurisdictions, and the new design flexibility may help increase revenues.

5.9 The table below gives a summary of the benefits conferred by the new regulations

<table>
<thead>
<tr>
<th>Regulation</th>
<th>Change brought about by regulation</th>
<th>Category/number of machines benefiting from change</th>
<th>Benefit conferred by regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Citation and implementation</td>
<td>Transitional period for manufacturers &amp; operators to comply with the regulation</td>
<td>Dependent upon regulation</td>
<td>Gives industry sufficient time to make compliance changes</td>
</tr>
<tr>
<td>2. Interpretation</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3. Display of information</td>
<td>Machines must display information on age limits, where to seek help with problem gambling, chances of winning, machine category</td>
<td>All categories of machine (259,000)</td>
<td>Gives players access to appropriate information before &amp; whilst they gamble; provides protection for vulnerable</td>
</tr>
<tr>
<td>4. Methods of payment</td>
<td>No change to current regime</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5. Minimum payment amount</td>
<td>No change to current regime</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6. Nature of prizes</td>
<td>New prohibition on certain non-prizes (e.g. knives and alcohol)</td>
<td>D</td>
<td>Extended protection to children and other players</td>
</tr>
<tr>
<td>7. £20 cash payment limit</td>
<td>Cash deposits on all categories of machine limited to £20</td>
<td>B1, B3, B3A, B4, C (approx. 192,000)</td>
<td>10 fold increase in current limit for Category C machines</td>
</tr>
<tr>
<td>£2 cash payment limit</td>
<td>No change to current regime</td>
<td>D</td>
<td>Preserves current protections for children</td>
</tr>
<tr>
<td>£100 payment limit on non-cash payment systems</td>
<td>Deposit limit reduced from £200 to £100 for majority of existing machines</td>
<td>Up to 27,800 B1 &amp; B2 machines manufactured pre 1/09/07</td>
<td>Enables further research to be undertaken in this area: brings B1 &amp; B2 machines into alignment</td>
</tr>
<tr>
<td><strong>£20 payment limit on non-cash payment systems</strong></td>
<td>Deposit limit of £20 for all new machines with non-cash payment systems</td>
<td>0 (only applies to machines manufactured post 1/09/07)</td>
<td>Provides greater protection for vulnerable players whilst outcome of pilot is awaited; brings B1 &amp; B2 machines into line with other forms of payment</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td><strong>8. Payment limits: transitional provisions</strong></td>
<td>Transitional period for manufacturers &amp; operators to comply with the regulation</td>
<td>B1, B2, B3, B3A, B4, C (approx. 242,000)</td>
<td>Gives industry sufficient time to make necessary changes</td>
</tr>
<tr>
<td><strong>9. Committed money limits</strong></td>
<td>Increase in the limits committed to play on the machine</td>
<td>B1, B2, B3, B3A, B4, C (approx. 242,000)</td>
<td>Gives industry greater flexibility in developing machines</td>
</tr>
<tr>
<td><strong>10. Autoplay</strong></td>
<td>Autoplay facilities prohibited on most deposited money machines</td>
<td>Any deposited money machines (subject to certain exceptions)</td>
<td>Ensures players make regular decision to gamble</td>
</tr>
<tr>
<td><strong>11. Special provision for A &amp; B2</strong></td>
<td>Accumulation limit of £10 for Category A &amp; B2 machines</td>
<td>B2 (approx 25,000)</td>
<td>Requires regular decision making as part of the gambling experience</td>
</tr>
<tr>
<td><strong>12. Residues</strong></td>
<td>Residues of up to 99p permitted subject to strict requirements</td>
<td>All categories of machine (259,000)</td>
<td>Strikes balance between technical limitations of money machines and ensuring fairness to consumer</td>
</tr>
<tr>
<td><strong>13. Delivery of prizes: general</strong></td>
<td>Players should be able to collect prizes before they are re-staked</td>
<td>All categories of machine (259,000)</td>
<td>Players retain control of wins</td>
</tr>
<tr>
<td><strong>14. Delivery of money prizes</strong></td>
<td>Prizes above a given threshold must be made available for collection by the player</td>
<td>B1, B2, B3, B3A, B4, C (approx. 242,000)</td>
<td>Introduces regular decision making into the gambling experience</td>
</tr>
</tbody>
</table>

**Costs**

5.10 As stated above, the overwhelming majority of existing machines currently operating in accordance with the requirements of Part III of the Gaming Act 1968 will require little or no adjustment to be able to comply with the new regulations.

5.11 However, these regulations will control the circumstances in which all the new categories of gaming machines are made available for use. Some categories of machine may therefore incur greater compliance costs than others, by virtue of the fact that they currently operate in different way from the majority. We have set out the justifications for such situations above.

5.12 In particular, there is equipment currently in use in the industry – including Fixed Odds Betting Terminals and Section 16/21 machines - which is not offered under Part III of the Gaming Act 1968, but which will be regulated alongside other gaming machines for the first time from 1 September 2007. All machines must comply with the stake and prize limits set by regulations under section 236 from 1 September 2007.

5.13 The new flexibilities referred to above will, as far as it is considered consistent with the licensing objectives, seek to accommodate the way in which this equipment currently operates, for example, by permitting the development of machines
configured around a single meter for the first time in Great Britain. There may, however, be areas in which some adjustment will be necessary to bring this equipment into line with the system of regulation for gaming machines.

5.14 While the Department has considered carefully the estimates relating to likely costs of compliance in relation to this equipment, these matters will need to be balanced against the important benefits from a social policy perspective of ensuring that this equipment is for the first time fully regulated as gaming machines.

5.15 It is also important to bear in mind that the government’s view, which has been a matter of public record for a number of years, that such machines have been offered under provisions that were never intended to allow machine gaming of this sort and would not qualify for grandfather rights. Although we have adopted the same cost minimisation approach to these machines as to those offered under Part III, where conversion costs are incurred in relation to these machines, we consider them to be a natural consequence of the decision that operators and suppliers have taken to invest in equipment of this sort.

5.16 Where changes are required to ensure that equipment like Section 16/21 machines and FOBTs comply with the section 240 regulations, the Department has also sought wherever possible to provide compliance lead times in line with industry estimates.

5.17 Stakeholders were encouraged throughout the consultation period to provide details in response to the proposals, and to submit evidence if there are areas where proposals will involve costs or require a lead time to enable compliance.

5.18 Based on the limited information supplied to the Department, the table below gives an estimate of the costs of complying with the new regulations under section 240

<table>
<thead>
<tr>
<th>Regulation</th>
<th>Category of machine incurring compliance cost</th>
<th>Number of machines incurring compliance cost</th>
<th>Estimate of cost of compliance with regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Citation and implementation</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2. Interpretation</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>3. Display of information</td>
<td>A,B1,B2,B3,B3A,B4,C,D</td>
<td>259,000</td>
<td>Estimates suggest unit cost range of between £2.05-£3, giving an industry cost range of between £533,684-£780,000</td>
</tr>
<tr>
<td>4. Methods of payment</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>5. Minimum payment amount</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>6. Nature of prizes</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>7. £20 cash payment limit</td>
<td>A,B1,B2,B3,B3A,B4,C</td>
<td>Unknown number of existing FOBTs or section 16/21 machines</td>
<td>£6 per machine where applicable, but overall nominal cost</td>
</tr>
<tr>
<td>£2 cash payment limit</td>
<td>D</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>£100 non-cash</td>
<td>B1, B2</td>
<td>Up to 27,800</td>
<td>Changes to networked</td>
</tr>
<tr>
<td>Regulation</td>
<td>Category of machine incurring compliance cost</td>
<td>Number of machines incurring compliance cost</td>
<td>Estimate of cost of compliance with regulation</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>-----------------------------------------------</td>
<td>---------------------------------------------</td>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>payment limit on TITO</td>
<td>machines manufactured pre 1/09/07</td>
<td>machines (approx 25,000) achieved at nominal cost. No figures available for 2,800 B1 machines</td>
<td></td>
</tr>
<tr>
<td>£20 non-cash payment limit on TITO</td>
<td>B1, B2</td>
<td>0 (only applies to machines manufactured post 1/09/07)</td>
<td>Changes to networked machines (approx 25,000) achieved at nominal cost. No figures available for 2,800 B1 machines</td>
</tr>
<tr>
<td>8. Payment limits: transitional provisions</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>9. Committed money limits</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>10. Autoplay</td>
<td>B1</td>
<td>0 (only applies to machines manufactured post 1/09/07)</td>
<td>0</td>
</tr>
<tr>
<td>11. Special provision for A &amp; B2</td>
<td>B2</td>
<td>Up to 25,000</td>
<td>£8 per machine to change &quot;chip limit&quot; from £15 to £10, giving a maximum cost across the estate of £200,000</td>
</tr>
<tr>
<td>12. Residues</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>13. Delivery of prizes: general</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>14. Delivery of money prizes</td>
<td>B1, B2</td>
<td>Up to 27,800</td>
<td>Changes to networked machines (approx 25,000) achieved at nominal cost. No figures available for 2,800 B1 machines</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>Between £733,684-£980,000</td>
<td></td>
</tr>
</tbody>
</table>

5.19 The figures above provided by the industry establish a guide to the likely compliance costs associated with the regulations. The relatively low compliance costs reflect the fact that the overwhelming majority of machines currently offered under Part III of the Gaming Act 1968 will be capable of complying with the new regulations from 1 September 2007 with the minimum of adaptation or cost – in the overwhelming majority of cases all that operators will need to do to existing machines is attach information (e.g. a sticker) to a machine identifying which category of machine it is under the new Act.

5.20 There are two additional points to be made concerning the compliance costs and estimates provided above:

- the costs only take account of adapting existing machines. We have received very limited evidence relating to any future development costs which may be associated with these regulations;

- it is important to note that the costs associated with the adaptation of machines will fall primarily on operators. The compliance costs take no account of the
probable benefits that will accrue to manufacturers and suppliers who will make the necessary changes to machines.

Compliance lead times

5.21 As well as ensuring that wherever possible compliance costs have been kept to a minimum, the Department has also sought to ensure that, where necessary, appropriate lead times are provided to enable operators to ensure that existing machines comply with the section 240 regulations. These compliance lead times wherever possible take account of the way in which any equipment not covered by Part III currently operates. For example, the transitional arrangement on autoplay has been designed in particular for section 16/21 machines.

5.22 This approach has included exempting many existing machines manufactured before 1 September 2007 from the need to comply with the new regulations, so long as they remain unmodified post implementation. Where such an exemption has not been possible, and in an attempt to give manufacturers sufficient opportunity to make the developments necessary to comply with the new regulations, the Department has set out a comprehensive transition timetable that has been compiled to satisfy the requests for lead times made by different sectors of the industry (see Appendix 2 below).

5.23 Three overarching milestones have been introduced in the commencement timetable: 1 September 2007 when the Act is launched in full; 1 March 2008, which is 6 months post implementation; and 1 September 2008, which is 12 months post implementation. This approach has been adopted to ensure suitable alignment of the implementation of regulations under section 240 with the Gambling Commission’s Technical Standards and also to assist manufacturers, operators and licensing authorities with a transparent 3 stage commencement timetable.

5.24 In the majority of cases, there are therefore two lead times:

- “operators’ lead time” – this is a lead time to enable operators to make adjustments to machines already offered in their premises to ensure that they comply with the new regulations; and
- “manufacturers’ lead time” – this is the lead time to enable manufacturers to continue to build and market machines while machines which conform to the new regulations are developed and brought to market.

5.25 This approach reflects very closely the transitional arrangements that have been requested by the industry following the consultation process, and which the Department replicated exactly to a large degree.

Other issues

5.26 There is a close relationship between the costs and benefits associated with these regulations and with the Gambling Commission’s Technical Standards. Whilst the Department and the Commission have worked closely throughout the development of these regulations, and have agreed a similar approach to a transitional timetable for both the regulations and the Standards, this RIA is only
concerned with the costs, and also the benefits, arising from the introduction of these regulations.

5.27 This RIA is not concerned with the costs arising from regulations on maximum stake and prize limits under section 236, nor with costs that arise from the Act itself. This means that e.g. costs incurred in converting section 16/21 machines may not be attributed to these regulations.

5.28 The Department does not anticipate that there will be any new costs to industry as a result of the proposals under section 241.

5.29 There will be no increased administrative costs falling to the public purse as a result of the proposed policies. The Gambling Commission and licensing authorities will be responsible for monitoring compliance and this will be achieved in most cases on a cost/recovery basis.

6. Small firms impact test

6.1 The Department estimates that many of the approximately 2000 seaside and other arcade operators (Family Entertainment Centres and Adult Gaming Centres) and approximately 650 gaming machine suppliers would be classed as small operators.

6.2 The regulations have been drafted in such a way as to ensure that existing machines, currently operating in accordance with the requirements of Part III of the Gaming Act 1968, should not require significant modification to be fully compliant with the new regulations under section 240. This should ensure that the impact on these smaller operators is kept to a minimum.

7. Competition assessment

7.1 A simple competition assessment has been undertaken in line with guidance issued by the Better Regulation Executive and the Office of Fair Trading. The regulations will have no impact on competition as they will apply equally to all gaming machine operators, manufacturers and repairers as a common set of universally applicable regulations.

7.2 Where limited restrictions are proposed which may impact on the ability of manufacturers to take full advantage of technological development – for example the ability of manufacturers to develop autoplay functions – these restrictions will apply equally to all gaming machine manufacturers. The Government believes that this restriction is necessary on a social policy basis to reinforce the balance between player protection and gaming machine development.

8. Enforcement, sanctions and monitoring

8.1 In terms of enforcement of these Regulations, the Gambling Commission and licensing authorities will be responsible for ensuring that gaming machines are appropriately offered for use within the legal entitlements provided by the Act. The Commission is also responsible for ensuring that machine manufacturers and suppliers comply with the new legislation.
8.2 Any breach of these regulations is a criminal offence which upon conviction can lead to a fine of up to £5,000 and/or a term of imprisonment not exceeding 51 weeks.

9. Implementation and delivery plan

9.1 These regulations will be delivered by the laying of the statutory instruments as described above. They will take effect from 1 September 2007 and all gaming machines will be expected to comply with the regulations from this date unless they qualify for transitional arrangements and deferred commencement as summarised in Appendix 2.

10. Post implementation review

10.1 The Gambling Commission will monitor any impact of the change on problem gambling as part of its wider work in this area.

11. Summary and recommendation

11.1 The costs and benefits of the proposed regulations are summarised in the tables at paragraphs 5.9 and 5.18 above. These costs and benefits have been considered alongside the analysis of the various options set out in section 4, and against the objectives set out in section 2.

11.2 On this basis we recommend the adoption of the proposed regulations.

Declaration and publication

I have read the regulatory impact assessment and I am satisfied that the benefits justify the costs

Signed ..............................................

Date.............................................

Parliamentary Under Secretary of State

Department for Culture Media and Sport

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Appendix 1

Extract from the Delegated Powers Memorandum (January 2005)

Clause 234: Use of machine

203. An important aspect of the regulation of gaming machines are the rules which control how the machine operates and is used. At present these rules are contained in the Gaming Act 1968. Experience has shown that placing the detail in primary legislation has provided an inflexible tool for this form of regulation. A recent regulatory reform order (The Regulatory Reform (Gaming Machines) Order 2003 SI 2003 No. 3275) illustrates the type of complex issue which has had to be dealt with in relation to the use of gaming machines.

204. the Department wishes to ensure that the regulation of gaming machines takes place in a manner which allows amendment to be made to the detailed rules relatively easily and swiftly, to respond to technological changes and commercial needs. However, it is not considered appropriate to delegate these matters to the Commission for inclusion in its codes or licence conditions. Instead, clause 234 gives the Secretary of State power to make regulations which control the circumstances in which a gaming machine (of any category) is made available for use. This will include provisions on:

(a) The method by which stakes may be deposited e.g. by coin or banknote, smart-card or token;

(b) The nature of prizes and how they may be claimed e.g. whether delivered by the machine or offered in redeemable vouchers;

(c) Whether and how much stakes and prizes can be rolled over between games; and

(d) How information is displayed on the machine.

205. Such regulations can include identification of matters on which a condition cannot be attached to a licence and the regulations are to be made using the negative resolution procedure. The regulations are technical in nature and it is considered that the negative procedure will provide sufficient Parliamentary scrutiny.
### Appendix 2

Table 1: Commencement dates for cash and non-cash payment limits under Regulation 7

<table>
<thead>
<tr>
<th>Category of machine</th>
<th><strong>Payment type and manufacture date of machine</strong></th>
<th>Commencement date and payment limit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NON-CASH machines manufactured pre 1.9.07</td>
<td>From 1.9.07 - £20</td>
</tr>
<tr>
<td></td>
<td>NON-CASH machines manufactured post 1.9.07 and 1.3.08</td>
<td>From 1.9.07 £20</td>
</tr>
<tr>
<td></td>
<td>CASH machines whenever manufactured</td>
<td>From 1.9.07 £20</td>
</tr>
<tr>
<td>A</td>
<td>None in existence, n/a</td>
<td>From 1.9.07 £20</td>
</tr>
<tr>
<td>B1</td>
<td>From 1.9.08 - £100*</td>
<td>From 1.9.08 - £20</td>
</tr>
<tr>
<td>B2</td>
<td>From 1.9.08 - £100*</td>
<td>From 1.9.08 - £20</td>
</tr>
<tr>
<td>B3</td>
<td>From 1.9.08 - £100*</td>
<td>From 1.9.08 - £20</td>
</tr>
<tr>
<td>B3A</td>
<td>From 1.9.08 - £20</td>
<td>From 1.9.08 - £20</td>
</tr>
<tr>
<td>B4</td>
<td>From 1.9.08 £20</td>
<td>From 1.9.08 - £20</td>
</tr>
<tr>
<td>C</td>
<td>From 1.9.08 £20</td>
<td>From 1.9.08 - £20</td>
</tr>
<tr>
<td>D</td>
<td>From 1.9.07 £2</td>
<td>From 1.9.07 £2</td>
</tr>
</tbody>
</table>

*Subject to the requirement that the smart card or ticket is purchased from a licensed operator’s member of staff*
<table>
<thead>
<tr>
<th></th>
<th>Reg 10 (autoplay ban on single deposit meter machine)</th>
<th>Reg 13(3)(b) (delivery of prize in full (prize residue))</th>
<th>Reg 14 (opportunity to collect money prize on single deposit meter machine)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>In force generally</strong></td>
<td>1 March 2008</td>
<td>1 September 2007</td>
<td>1 September 2007</td>
</tr>
<tr>
<td><strong>Transitional Exceptions:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>Machine manufactured pre 1.3.08 – in force 1.9.08</td>
<td>Machine manufactured: - 1.9.07-1.3.08: in force 1.9.08</td>
<td>Machine manufactured pre 1.3.08 – in force 1.9.08</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- pre 1.9.07: exempt</td>
<td></td>
</tr>
<tr>
<td>B1</td>
<td>Machine manufactured pre 1.3.08 – in force 1.9.08</td>
<td>Machine manufactured: - 1.9.07-1.3.08: in force 1.9.08</td>
<td>Machine manufactured pre 1.3.08 – in force 1.9.08</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- pre 1.9.07: exempt</td>
<td></td>
</tr>
<tr>
<td>B2</td>
<td>Machine manufactured pre 1.3.08 – in force 1.9.08</td>
<td>Machine manufactured: - 1.9.07-1.3.08: in force 1.9.08</td>
<td>Machine manufactured pre 1.3.08 – in force 1.9.08</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- pre 1.9.07: exempt</td>
<td></td>
</tr>
<tr>
<td>B3</td>
<td>Machine manufactured pre 1.3.08 – in force 1.9.08</td>
<td>Machine manufactured: - 1.9.07-1.3.08: in force 1.9.08</td>
<td>Machine manufactured pre 1.3.08 – in force 1.9.08</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- pre 1.9.07: exempt</td>
<td></td>
</tr>
<tr>
<td>B3A</td>
<td>Machine manufactured pre 1.3.08 – in force 1.9.08</td>
<td>Machine manufactured: - 1.9.07-1.3.08: in force 1.9.08</td>
<td>Machine manufactured pre 1.3.08 – in force 1.9.08</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- pre 1.9.07: exempt</td>
<td></td>
</tr>
<tr>
<td>B4</td>
<td>Machine manufactured pre 1.3.08 – in force 1.9.08</td>
<td>Machine manufactured: - 1.9.07-1.3.08: in force 1.9.08</td>
<td>Machine manufactured pre 1.3.08 – in force 1.9.08</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- pre 1.9.07: exempt</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>Machine manufactured pre 1.3.08 – in force 1.9.08</td>
<td>Machine manufactured: - 1.9.07-1.3.08: in force 1.9.08</td>
<td>Machine manufactured pre 1.3.08 – in force 1.9.08</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- pre 1.9.07: exempt</td>
<td></td>
</tr>
<tr>
<td>D</td>
<td>N/A</td>
<td>Machine manufactured: - 1.9.07-1.3.08: in force 1.9.08</td>
<td>Machine manufactured pre 1.3.08 – in force 1.9.08</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- pre 1.9.07: exempt</td>
<td></td>
</tr>
<tr>
<td><strong>Existing casino jackpot</strong></td>
<td>Exempt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(reg 10(6))</td>
<td></td>
<td></td>
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