Facts first: Gambling Business Group raises the issue that evidence is crucial in governance at all levels

By the Gambling Business Group

The political landscape is turning away from facts in favour of a vibe and that could have existential issues for land-based businesses. The Gambling Business Group highlights the latest example of one vibe that could do greater harm than any good.

Changes at the helm of government have opened up the debate on taxation, devolution and the survival of the high street - all over again.

While the politicians work their way towards a new Prime Minister and an obvious cabinet reshuffle, lobby groups and industry leaders are re-setting course for the new trading landscape.

For the gambling sector, it has already been a tumultuous period; a Gambling Act Review still in motion after 7 years, and a decline in the number of venues. A new political 'vibe' currently gathering momentum offers little in the way of strong prospects for the industry. This trend has been evolving with changes to the Gambling Act, in particular Gambling Impact Assessments, and the serious threat to Aim to Permit which has not gone away.

At the beginning of July, the mood moved into the taxation zone.

A taxing issue

A new survey in July by one of the fringe think tanks, the Social Market Foundation (SMF), proposed a radical doubling of tax on the land based gambling sector. Here, the Gambling Business Group shares some of the views responding to the SMF study including forensic scrutiny by widely respected analysts Regulus Partners.

Fact or fiction?

Examining the SMF taxation model, Regulus was very critical of the think tank proposals. In its response, the analysts explained: "The Social Market Foundation has released a report calling for Machine Games Duty (MGD) on Category B machines to be raised from 20% to 40% in the UK. The timing is interesting since the incoming PM Andy Burnham has campaigned against the growth of arcades in urban areas and these arcades rely on Category B machines to be profitable. The report claims that the tax increase will raise between £275m and £458m in additional tax revenue, while also reducing the consumption of 'more harmful' gambling products and boosting the wider economy.

Unfortunately for a UK government looking for easy wins, none of these claims is true."

The analysis from Regulus finds that the SMF's tax hike will actually produce less revenue for the government - with the resulting closures on the high street leading to a huge reduction of income to local authorities, suppliers, as well as investment on the high street, local unemployment and shuttered premises.

It wrote: "A 40% MGD might just about generate as much money as the 20% rate does now (more likely about 2% less), and at the cost of over 40,000 direct high street jobs, £100m to British horseracing, and about half of the displaced £1bn in net revenue finding its way to the black market."

"Not only is the economic modelling and industry knowledge in the report demonstrably poor, the underlying assumptions on participation and harm are also sloppy and selective, in our view. Raising MGD to 40% is a counter-productive policy based upon a poor use of evidence and false arguments."

"Living proof of this is also occurring in the Netherlands, where a 37.8% tax rate is yielding far less than expected because of land-based declines caused by closures."

Machines under fire

It is the Category B gaming machines that are very much in the sights of the think tank. And these machines are currently deployed in four key licensed gambling segments as well as social clubs. The impact on each would be immense as Regulus highlighted.

- For betting shops, Cat B machines generate c. 50% of their revenue;
- In Adult Gaming Centres (arcades) it's c. 70% of their revenue;
- Casinos generate c. 25% of their revenue from Cat B machines;
- Bingo Halls and bingo-licensed arcades generate c. 33% of revenue from Cat B machines.

The Regulus response noted starkly how destructive the SMF tax proposals would be:

Betting
- expected to lose around 4,000 of its 5,500 shops;
- those remaining on the high street would generate, at best, 50% of total machine revenue from machines;
- in simple terms, the tax yield at an uplifted 40% MGD rate would produce exactly the same revenue as it would if left unchanged;
- the big change, however, would be in the region of 25,000 job losses;
- horseracing would lose about£100m in Media Rights income and Levy.

AGCs
- 1,300 of the 1,450 AGCs are expected to close;
- the remaining outlets would generate a significantly reduced revenue of £115m;
- this would result in a major hit to the Treasury with MGD at 40% likely to generate almost half the tax revenue - £64m – than it currently collects at the current lower tax rate.
- About 13,000 people would lose their jobs.

Only bingo halls and casinos might be able to withstand the tax increase in the round - but barely - said Regulus. The Gambling Harm Levy, increased Gambling Commission fees, plus a doubling on tax would be a tipping point for an already diminishing sector, which saw eight bingo halls shut for good in June.

A tax rise, a tax folly...

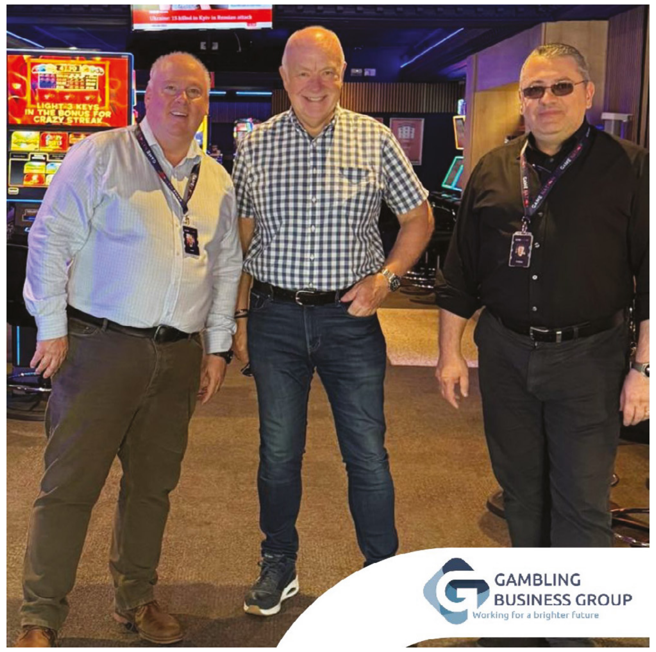
These scenarios, Regulus explained, signalled the most worrying outcome. "The very best HMRC can therefore hope to collect for HMT with a 40% MGD on Category B machines is roughly the same amount in direct MGD taxes, but at massive economic and financial costs to high street employment (c. 43,000 direct jobs lost) and British horseracing (c. £100m of critical funding lost)."

And its conclusion was definitive: "None of the SMFs proposed mitigators therefore stand up to scrutiny."

Losing sight and losing sites

GBG chief executive Peter Hannibal has argued consistently for reliable data in the gambling arena. But the proposals put forward by the Social Market Foundation, he believes, disregards the damage that its skewed methodology would create.

"Much of the critical analysis of the SMF report has highlighted the gross over-estimation of what a tax rise would achieve, and the complete absence or recognition of what a tax rise would actually do to the land-based sector," he said. "The idea that bingo could be lost from the high street and even the leisure sector entirely is unthinkable. The same for small family businesses that have built their operations over 4 and 5 generations; working men's clubs - the traditional heart and soul leisure spot for working people for over 100 years will disappear and AGCs, one of the most popular forms of affordable entertainment on the high street, lost." He added: "This is not responsible economic policy. You cannot trade jobs, revenue and empty high streets on a model that produces at best the same, and most realistically, less revenue to the Treasury."



Peter Hannibal, GBG CEO (center)

And, oddly, one omission from the report was Category C machines, sited largely in pubs and clubs, which was left untouched by the SMF. In the current climate where two pubs a week are closing, the political sensitivities are such that pubs would be seen as unpopular territory to squeeze. However, it is considered unlikely that the Cat C pub reprieve could last for long given the ideological and economic model underpinning the SMF proposals.

Putting players in harm's way

In assessing the SMF study, there was one significant worry - strangely overlooked by the SMF survey, but certainly not by the industry.

And Regulus referenced it immediately: "The SMF is extraordinarily glib on black market risks."

Driving closures of regulated high street venues will drive players most at risk to the black market, a point the Gambling Business Group has pressed vigorously over many years, including to gambling harm protection advocates such as Sir Iain Duncan Smith and gambling related All Party Parliamentary Groups in parliament. Charlotte Meller, general manager at the GBG, explained: "One of the most important issues for all stakeholders engaged in the gambling industry is the rise of the illegal black market, nearly all of which operates outside of the UK in Russia, eastern Europe and the Caribbean."

"These are not regulated or controlled or taxed, they don't engage with self-exclusion and age verification programmes - and they are growing at a speed that is already applying intense pressure on the regulated high street industry. That's why the Government has given the Gambling Commission £26m to tackle the problem."

Where will players go if high street venues close?

This is an argument GBG chief executive Peter Hannibal has vocalised vociferously during the discussions on high street gambling venues. He noted: "The SMF proposal to double taxes on the land-based industry will only serve to drive more players to the black market."

"The model of higher taxation is extremely naive, almost dangerous. If you push high street businesses to the point of closure, then the at-risk players will move online to illegal sites. And putting the ideological issues aside, we believe that protecting high street gambling operations is the only way to protect the most vulnerable players." And he was quick to add: "The gambling industry is the most heavily regulated and controlled sector on the UK's high streets. It has licensing and regulatory obligations to the Gambling Commission, the local authorities and also legal commitments to the Gambling Levy Fund."

"The SMF report completely disregards the tireless work licensing officers up and down the country put in to ensure our sector meets all the necessary licensing conditions."

"And my question to the think tanks and the powerful anti-gambling lobby is where do you want people to gamble and game? On the strongly regulated high street, or online in the unregulated, uncontrolled and untaxed black market?"

Hannibal was firm in his argument adding a missing link that most lobbyists, and the SMF in particular, seem to dismiss. "The serious impact of land based closures is less contributions to the Statutory Levy fund for research, prevention and treatment," he stated. "Unlicensed illegal sites do not contribute to any of that work."

And Regulus Partners argued a similar case. It wrote in its counter-report: "If people are unable to access licenced land-based sites and have their habits disrupted by closures, they are increasingly likely to move online, just as they did during lockdowns."

Dan Waugh, Regulus Partners

The Gambling Mix is not just about machines

This summer's SMF report was certainly part of the vibe focused on gambling, but Regulus raised the issue that a vibe is not evidence based and it is singularly focused. It concluded in its critique: "Given how shoddy the report is, it is vital that key stakeholders dig deeper than the performative and emotive headlines to assess the detail."

"There they will find that weak analysis of disjointed and poorly understood evidence leads to a policy recommendation that would be disastrously counter-productive for the UK government from a direct tax perspective, cripplingly costly for GB horseracing, put over 40,000 people out of work, and further support the growing criminal black market."

"Nobody wins except those who seem to want to wilfully harm the licensed gambling industry and its consumers without having to pay the price."

Protecting the player, the high street and driving economic revival

That was a conclusion the GBG was keen to expand on. Peter Hannibal summed up his concerns that increased taxation will lead to increased closures, and that, he says, would be devastating to the local economy and local communities.

"We cannot see the gambling industry in isolation and solely through the lens of problem gambling. It's an employer, a business rates payer, a Gambling Levy contributor, NI, VAT and business tax payer, and vitally, an integral part of the local economy."

"The SMF aren't considering the wider implications beyond the gambling sector, which they clearly strongly dislike. The sector employs services from builders to solicitors, cleaners to food and beverage suppliers, fixtures and fittings suppliers to plumbers, furnishings to printers - every operation is an integral part of the high street economy, and all of these would be severely impacted by a MGD hike." And he stressed: "Every shuttered shop that remains closed for years, and every business sector, including our own, that is forced to exit the high street impacts every part of the local business framework."

"We have to rethink our attitude to land based gambling operations, otherwise there won't be any private investment on the high street – and, vitally important, there won't be any protections for vulnerable players."

A robust response

The industry and analysts' responses to the SMF tax proposal has been particularly robust, and the industry - in all its leisure offerings - is working collectively to produce the compelling evidence to counter tax rise options.

And part of that will almost certainly contain the hit a reduced level of gambling operations on the high street would have on local authorities and their ability to serve their communities.

Tax rises will ultimately take their toll on licence income, business tax income, as well as the removal of key protections for their constituents.

These are troubling times.

The Gambling Business Group (GBG) is a representation of B2C and B2B gambling organisation members from all sectors of the UK Gambling Industry.