THE DEVOLUTION (FURTHER POWERS) COMMITTEE.

CONSULTATION RESPONSE

AUGUST 2015

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INTRODUCTION

William Hill welcomes the opportunity to contribute to the debate on the Scotland Bill 2015 in response to the call for written evidence by the Devolution (Further Powers) Committee. Our submission relates specifically to Clause 45 of the Scotland Bill 2015. In our view, this properly accords with paragraph 74 of The Smith Commission Agreement which commits to giving the Scottish Parliament "the power to prevent the proliferation of Fixed-Odd Betting Terminals".

The term "FOBT" is in itself confusing because FOBTs were reclassified as gaming machines under the Gambling Act 2005. Gaming machines in betting shops contain both B2 content (roulette and card games- with maximum stake of £50 unless customer play is registered) and B3 content (slots games- £ 2 stake). The industry has already taken significant steps to promote responsible gambling and has introduced a number of robust measures and tools to reduce gambling related harm.

The Responsible Gambling Trust research findings showed that problem gambling is a complex personality disorder and a multiproduct issue. Future or/and retrospective prohibition of a single product, gaming machines, does not address the issue of harm reduction. [i]

Whilst, the policy proposal does nothing to effectively reduce gambling related harm more widely, William Hill believes that the clause, as drafted, reflects the wording in the Smith Commission's Heads of Agreement document. To attempt to widen the policy proposal (for example the introduction of retrospective review) would be beyond the original agreement.

The removal of B2 content (casino style games on gaming machines) is unreasonable and disproportionate. Taking out a profitable product from our shops will inevitably result in further shop closures and significant job losses, less revenue to invest in sport and a reduction in horseracing levy (ability to pay) supporting a struggling traditional Scottish racing industry.

With reference to the Law Society of Scotland representations on retrospective review, their submission was not supported by any empirical evidence that existing premises licenses required review generally. Gambling Commission statistics show that the number of public complaints to licensing authorities regarding betting shops is extremely low and there are already clear processes and a wide discretion for review of existing licenses.

Such a retrospective review process would create disproportionate regulatory burdens and lead to numerous contentious hearings that could create significant legal costs for public authorities and operators alike.

AN EVIDENCE BASED APPROACH

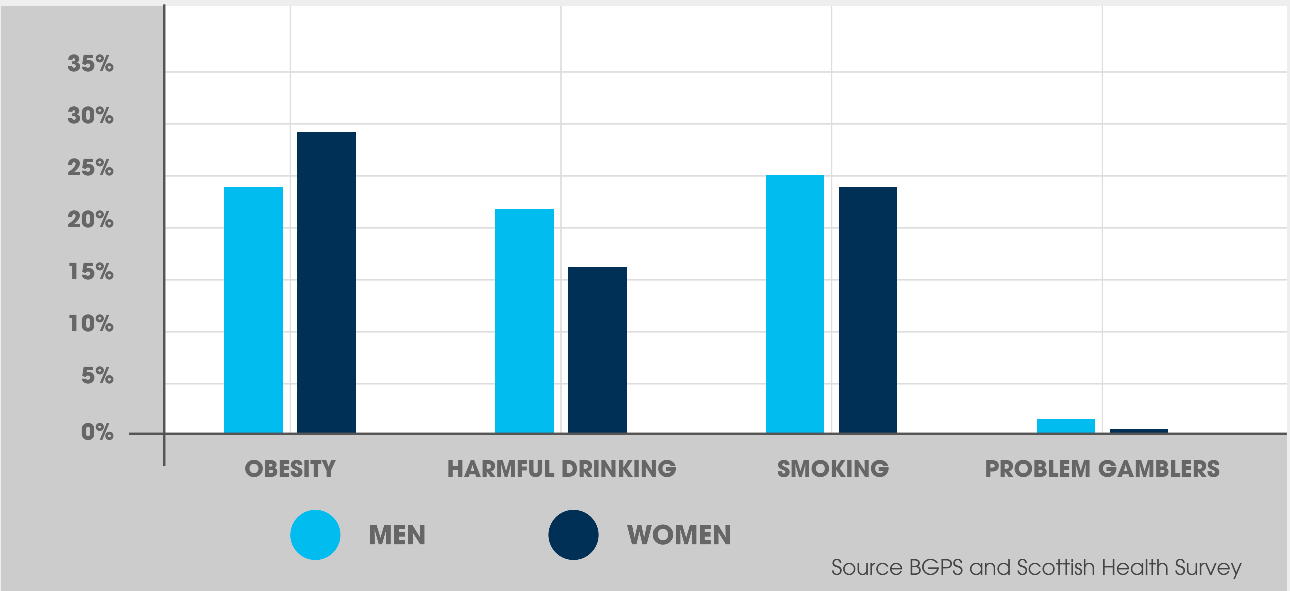
We are sure that the Committee will take an evidenced based approach to this issue and give limited weight to anecdotal or emotive statements that are not backed up by empirical evidence.

For the avoidance of doubt the betting industry accepts that all gambling products have the capacity to cause harm to a minority of the customer base. However, what we do not accept is that the gaming machine product is any more addictive than other gambling products.

All current research indicates that problem gambling is about the person's propensity to addiction and not a single gambling product (British Gambling Prevalence Study- Scottish Health Survey). Most problem gamblers gamble on average on five-to-six different products.

Problem gambling is unlikely to be the cause of wider social issues, but problem gambling sometimes co-exists alongside other co-morbidities like smoking, obesity or harmful drinking patterns.

The diagram below demonstrates the relative size of the different public health issues.



Therefore, an effective harm reduction strategy in Scotland should build on our co-ordinated industry harm reduction measures and tools; not by targeting betting shops specifically and certainly not a single gambling product in a single sector.

Both campaigners and the media tend to use emotive language when dealing with gambling issues. For example, lazy references to gaming machines being "the crack cocaine of gambling" (a term first attributed to Donald Trump and then used over time to greet the arrival of any new gambling product- by commercial rivals and campaigners alike). There is no reliable academic research which shows that the gaming machine product is particularly addictive or, that it is a greater cause of problem gambling than other products.

It is also wrong for gaming machines in betting shops to be characterised as a newly emerging issue. Gaming machines in their current form have been in betting shops for some 14 years.

Whilst one can plainly identify difficult and emotive cases where individuals have suffered gambling problems which have included gaming machine use, it needs to be remembered that the majority of gaming machine users gamble harm free. One cannot extrapolate from these individual cases to conclude that gaming machines are causing widespread social problems (without further empirical evidence- as distinct from anecdotal evidence).

A good example of this negativity is how campaigners characterise the majority of gaming machine players in deprived areas staking at £100 per spin. Nothing could be further from the truth. The average stake on B2 in Scotland is £14.80 (RGT Research). We would ask the committee to deal with real risk - not theoretical risk.

Discounting the National Lottery, the majority of people in communities do not gamble and only a small minority of those who do, have gambling problems.

Another common, but misconceived assertion is that there has been a significant growth in the number of Scottish betting shops to facilitate gaming machine growth. Whilst there has been some modest growth in shop numbers due to market liberalisation (see below) the economics of Scottish betting shops means that they are opened, closed and re-sited on the basis of much wider considerations than gaming machine demand. William Hill shop numbers in Scotland have shown net growth between 2007 and 2015 from 303 to 310; this is hardly significant.

The key commercial drivers are density of population (including commuter in flow), footfall and affordable rents. Rising shop vacancy rates and a fall in rental values, have allowed bookmakers to move from the side street to the high street.

AVERAGE POPULATION DENSITIES SEGMENTED BY GB AREAS.
Data source: Office for National Statistics (ONS), Geofutures.

Average resident population density for whole of Great Britain (persons per hectare)	Average resident population density in urban areas (persons per hectare)	Average resident population density within 400m of an LBO open August 2014 (persons per hectare)
2.53	**18.6**	**49.8**

Finally, there is absolutely no proven empirical link between payday loan shops and betting shops other than some isolated co- location. Most payday loans are secured online and whilst we are sure that there are isolated cases of part of a loan being used for gambling there is no good reason to believe this is systemic.

The main reason for payday loans are to assist with transport costs, living expenses and buying household goods. This unproven link appears to be part of a negative narrative that has developed from a very poor evidence base.

We would caution the Committee against giving weight to submissions which use emotive language or make bald statements about social harm. We are concerned that others will urge the Committee to jump the evidential gap and move straight to recommending more regulation.

We would suggest that a more effective harm reduction strategy should be founded on identifying gamblers at risk and problem gambling behaviour within all gambling establishments (not just betting shops); built on good industry practice and robust research.

William Hill is one of the industry leaders in developing and promoting player-control and responsible gambling measures and is committed to embedding and promoting social responsibility across our business. We are looking at machine data to see how behavioural analytics can be used to identify markers of harm and are developing improved self-exclusion and player control measures to help customers stay in control and enjoy their gambling. This includes working towards a cross operator self - exclusion scheme for the retail betting industry with trials which commenced in Glasgow City centre in July 2015.

BACKGROUND

William Hill is one of the largest retail betting operators in Scotland and a major sponsor of Scottish sport. We operate a third of Scotland's 1,050 betting shops. In most areas our shops have traded for over 20 years; playing a positive part supporting the communities where our colleagues live and work.

In 2014, we closed 14 betting shops because they were unprofitable and/or unsustainable. This is primarily due to increased operating costs and increased taxation including increases in gaming machine duty. The local communities served by those betting shops saw job losses as a direct result. Shops have closed in:

Our colleagues represent just over a third of the industry employees in Scotland and we are proud to give more jobs to young people than any other retail sector, offering excellent career opportunities and developing life skills.

A THIRD OF OUR COLLEAGUES ARE IN THE 18-24 AGE RANGE AND MORE THAN HALF ARE WOMEN (BOTH PRIORITY GROUPS FROM AN UNEMPLOYMENT PERSPECTIVE).

We also offer a career path to stable employment with the average length of service for our shop managers being 14 years and we have a pool of talented Security Investigators, Traders, Designers and Compliance colleagues to name a few. Many colleagues in other roles started their career in shops, and the knowledge and skills they have acquired have enabled them to develop their careers.

Gaming machines are a product of the 21st Century that reflects market change led by customer demand and fast-paced technological development. They are a popular product with our customers (40% of revenue in Scotland). Although, the gaming machine product is not as profitable as traditional over-the-counter (OTC) products in Scotland, we estimate that removal of the B2 product in its entirety would result in around 25% of all betting shops closing and a significant impact on direct and indirect employment. Many shops in Scotland (particularly independent shops) have very low profitability of under £25,000. For many other betting shops, gaming machines make the difference between profit and loss . Removing B2 machines would turn profitable shops into loss-making ones that may be closed with the loss of jobs and investment in Scotland's town centres.

Whilst we have seen steady gaming machine growth over the past few years, we have seen the decline in traditional OTC[iii] revenues. Scottish betting shops are not becoming more profitable on the back of the gaming machine product. Rather, there is a changing pattern of customer behaviour due to a preference for digital products with betting shops profits overall (Over-the-counter/Gaming machine combined) remaining stable over the last number of years.

There is a constant degree of development activity with unprofitable shops being closed, shops being re-sited and new ones opened. The important number to concentrate on is the net position at any given time.

The current policy proposal (let alone wider application) would inevitably cause significant economic damage to the betting industry and lost tax revenue from gaming machine duty. Gaming machine customers would not fully revert back into the OTC product, but could instead resort to illegal gambling products. It is estimated that some £115 million in direct tax revenue is provided by the Scottish betting industry with other contributions such as business rates.

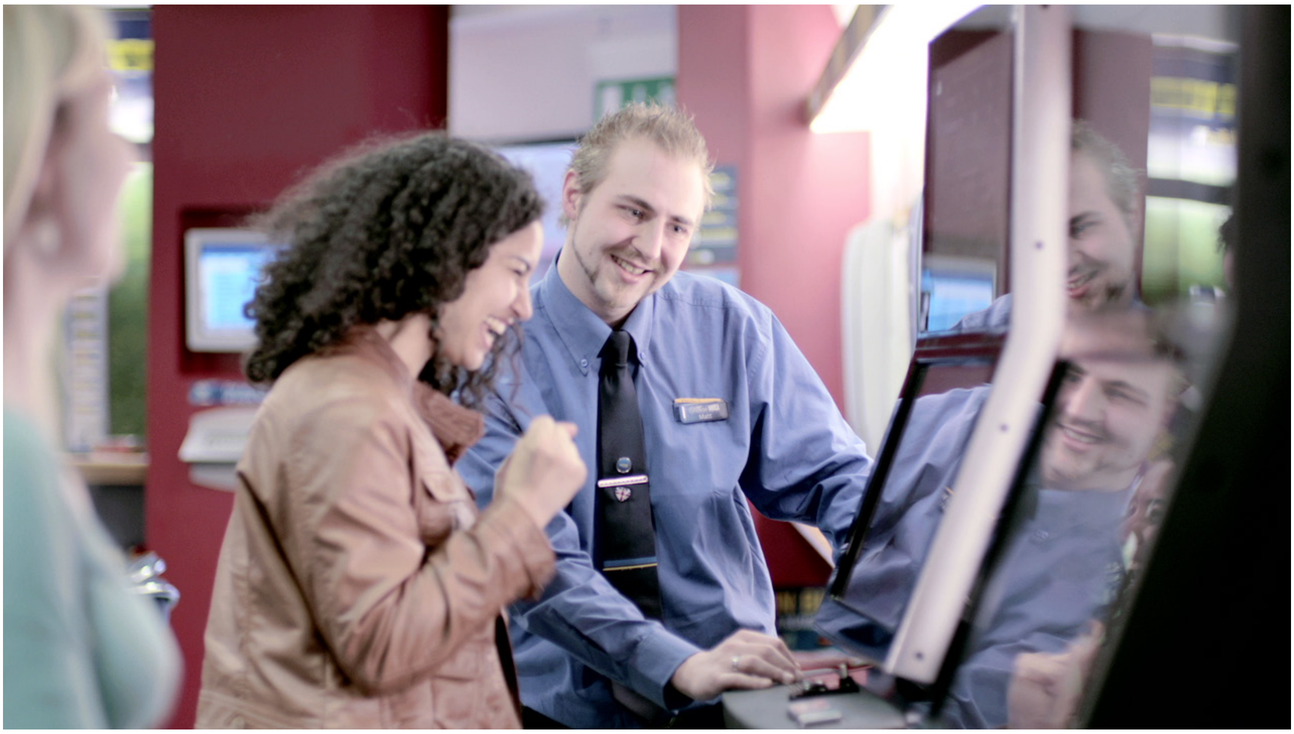
If demand is not met by the regulated sector (due to shop closures) then opportunities will be created for illegal suppliers and customers will migrate to an illegal market. Ensuring gambling demand is met by regulated operators is an important part of developing good gambling policy.

PROLIFERATION OF FOBTS AND CLUSTERING

William Hill recognises the wider public concern about betting shop clustering in town centres but we dispute that there is a "proliferation" of gaming machines as a result. Opening a new betting shop requires an average investment of £ 250,000 and the drivers are: demand, footfall and competition not the projected profits of a single betting shop product.

Clustering is, of course, a consequence of the market liberalisation delivered under the Gambling Act 2005, but also it could be a consequence of planning policy. This licensing legislation withdrew the so called "demand test" as a quid pro quo for increased levels of social regulation; with betting and the ancillary entitlement to offer a restricted number of four gaming machines per shop being recognised as a legitimate leisure activity. The debate often ignores the fact that gaming machines are already heavily regulated by licensing conditions and codes of practice (LCCP), technical standards and the industry's own self-regulatory controls and voluntary measures.

There is no evidence that increased shop numbers, which is driven by market competition, increases the prevalence of gambling or problem gambling per se and where there are clusters, we are simply competing directly with other bookmakers for existing customers (rather than driving up gambling rates) with the dilution of overall profits across a shop cluster.



B2 CONTENT (CASINO STYLE GAMES), HORSERACING AND PROFITABILITY

As outlined above, betting shop overall profitability is not on the rise. The decline of popularity of over-the-counter products such as horseracing in the UK, is balanced by an increase of popularity and profitability of the football and gaming machine products. Football betting is particularly popular in Scotland.

The removal of B2 content (casino style games on gaming machines) is unreasonable and disproportionate but more to the point, it is unnecessary. There is simply no reliable empirical evidence that the gaming machine product is particularly addictive and we would respectfully suggest that the Committee cannot rely on mere anecdotal evidence and bald assertions about the impact of the product.

The Scottish betting industry funds horseracing through the Horcerace levy, other voluntary payments, media payments and sponsorship. Whilst a levy is not charged on gaming machines profits per se, a fall in overall betting shop profitability would have a direct effect on the ability to pay. Betting shop closures create a double whammy for horseracing in terms of lost levy and media payments.

Paul Lee, Chairman of the Horserace Betting Levy Board, notes in his recent statement following the publication of the organization's Annual Report [iv] that:

> 'Betfair and Bet365 made welcome payments outside the formal Levy Scheme, as did the four biggest retail bookmakers – William Hill, Ladbrokes, Coral and Betfred – in the form of Additional Voluntary Contributions'.

Demonstrating the importance the betting industry plays to sustain horseracing. The betting industry's annual contributions through the levy to Scottish racecourse for 2014 is £4.1 million pounds, 6% of the total UK levy contributions. This keeps Ayr, Hamilton Park, Kelso, Musselburgh and Perth racecourses open, attracting thousands of horseracing fans and sustaining hundreds of local jobs.

£4.1 million

THE BETTING INDUSTRY'S ANNUAL CONTRIBUTIONS TO SCOTTISH RACECOURSE THROUGH THE LEVY FOR 2014 IS £4.1 MILLION POUNDS.

THE FACTS ABOUT GAMING MACHINE STAKES

The Responsible Gambling Trust Research (see research section of RGT website)[v] demonstrated conclusively that only 1% of regular gaming machine players' stake at £100 and only 3% reach the £100 stake threshold during their play. The £50 restriction means that an even smaller number of players are now staking at above £50. Below, we set out key statistics from the Responsible Gambling Trust research and other reliable research and regulatory resources.

The spin speed:

- ✓ B2 machines | 20 seconds between spins, one of the slowest internationally
- ✓ B3 machines | 2.5 Seconds

- The stakes: B2 maximum stake £100, B3 maximum stake £2
- Average stake in Scotland on B2 is £14.80, and £0.91 on B3
- Maximum single number stake on roulette is £13.85 (due to prize cap)
- Average loss per session £4 in Scotland
- Median stake in Scotland is £ 4.31 (lower than the UK median stake)
- Average gross win (stakes minus payouts-profit) per gaming machine per day in Scotland c £77
- Average gross win (stakes minus payouts-profit) per gaming machine per week in Scotland £538

> We also believe that it is important to understand the difference between turnover figures and true customer spend. Turnover of FOBT machine does not represent money lost or bookmakers' profitability. Customers may stake an initial sum and then reinvest their winnings to extend their period of leisure play. For example, a player stakes £10 and wins £100 that they continue to use as machine credit. They then continue to play and lose all that £100 so their net loss (and the bookmakers' profit is £10). Whilst chasing losses may indicate problem gambling, recycling winnings (playing with the bookmakers' money - if you like) is normal customer behaviour on OTC and gaming machine products. Customer may recycle the same sum (or similar sums) four or five times over. This is what gives rise to some of the very large (but broadly misleading figures) quoted in the media or by anti-gambling campaigners.

The turnover figure is not a metric of overall customer loss or operator profit. It is the bookmaker's gross win figure (which is the true customer spend) that is important in any impact assessment. We also strongly believe that positioning customer loss as a purely negative issue ignores the fact that customers receive entertainment and positive experience from game play. No one sees the purchase of a cinema ticket or a visit to the local pub in return for entertainment as pure loss. The majority of customers gamble harm free (see section on problem gambling below).

The idea that customer spend and operator profit is a bad thing is only credible if the theory is linked, wrongly, with the idea that gambling is an unworthy, socially undesirable or morally reprehensible activity (or if the majority of profit can be linked to problem gambling - which it cannot).

AREAS OF DEPRIVATION AND BETTING

Planning evidence and research shows that betting shops can drive footfall more than most other retail outlets except for Post Offices and pharmacies (see William Hill's submission to the Scottish Government on the recent planning consultation - attached). William Hill's commercial model is based on traditional market force indicators - footfall, low business rates and rental prices and dense population. Our business model is not designed around opening shops in deprived areas and we do not target deprived areas when opening a new betting shop or re-siting a licence.

We do not target areas because they are deprived. In 2013 and 2014, from our gross 17 new shop openers only 11% were opened in the most deprived areas.

It is important to note that betting shops in deprived areas accommodate an existing demand that is better regulated than pushed to the illegal market, as this would contravene with the intention of the policy in question, namely to reduce gambling harm. Betting shops are best placed to encourage responsible gambling and offer and further develop robust gambling control and measures to mitigate gambling related harm.

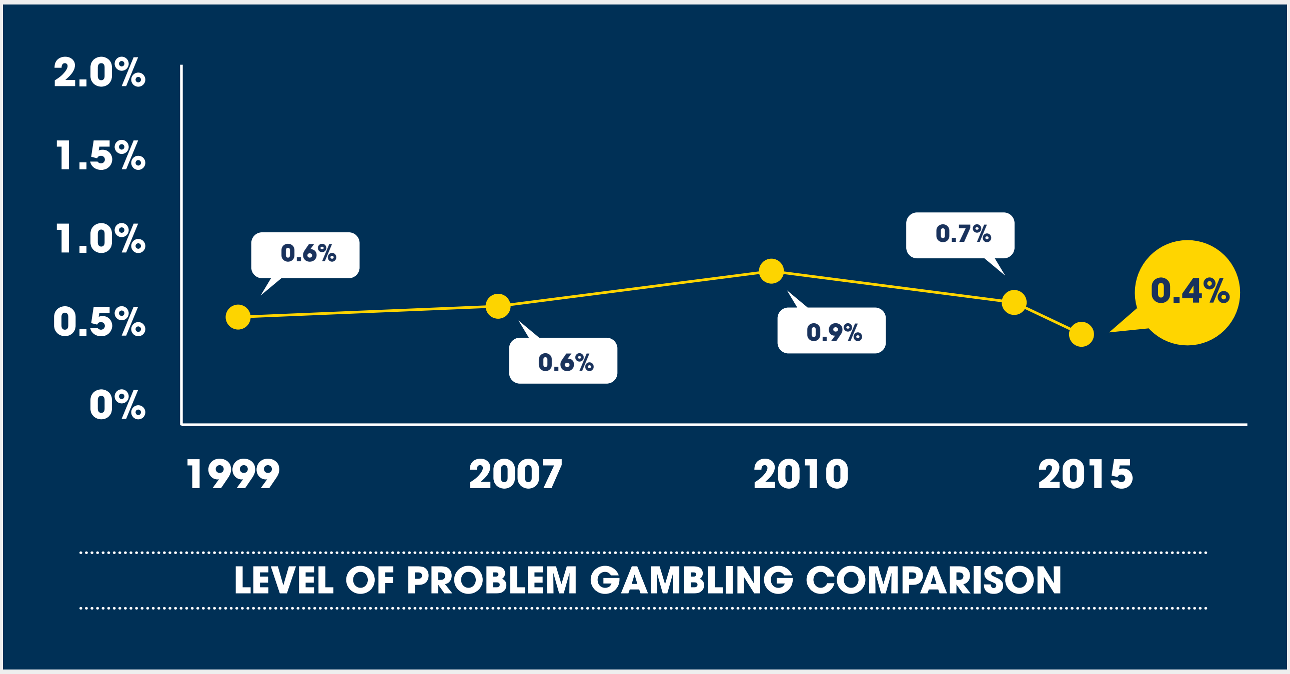
To the extent there is an issue, it is with the numbers or clustering of betting shops and not the number of gaming machines. There can be no industry led solution to the prevention of clustering, because it would be illegal under competition law for undertakings to agree to restrict a market. Therefore, there has to be a statutory solution if a genuine problem needs to be resolved (see Conclusions below).

PROBLEM GAMBLING

The primary and most recent source of problem gambling data in Scotland is the Scottish Health Survey[vi] . This data is summarised below:

- In 2012, 0.7% of adults in Scotland were identified as problem gamblers under two separate diagnostic tests. The latest figure (2015) is 0.4% demonstrating a decrease in the number of problem gamblers
- The problem gambling rate for past year gamblers only is around 1%
- A further 3% of adults were at 'low risk' of harm and 1% were at 'moderate risk.' Men were significantly more likely than women to be at low or moderate risk of harm
- 5.5% of moderate interest gamblers (bettors and machine players) and 13.3% of multiple interest gamblers (engaged in eight or more activities) were problem gamblers

> The statistics clearly demonstrate that the levels of problem gambling in Scotland are not increasing and therefore the policy argument that market liberalisation, clustering, gaming machines introduction or indeed localised proliferation of betting shops are driving up the levels of problem gambling is not true.



To re-iterate, the British Gambling Prevalence Surveys have confirmed that the prevalence of problem gambling is greatest amongst "multiple interest gamblers", clearly demonstrating that problem gambling is predominantly about the person and not, a particular product.

SOCIAL RESPONSIBILITY

Our CEO James Henderson has committed to the following in our 2015 Corporate Responsibility Report:

> **"I want our business to make a positive difference. So I will ...**
> - Ensure responsible gambling is a central thread that runs throughout our entire technological development journey both in retail and on-line; allowing our customers to remain in control.
> - Recognise colleagues, customers, regulators and the wider community as stakeholders in our business and work constructively with them.
> - Use our size, scale and the talent within our team to achieve the same high regulatory and customer protection standards everywhere we do business.
> - Create a working environment that recognizes individuality, creates opportunity and rewards achievement to ensure we remain an employer of choice in each country we operate in.
> - Deliver on our promise to support our local communities in a way that recognizes that one size doesn't fit all."

In the past sixteen months, William Hill and the industry have worked hard alongside Government academics and within the industry to strengthen its responsible gambling measures and develop tools that assist with capturing gamblers "at risk" and help those customers manage their gambling behaviour (see below).

GAMBLING HARM REDUCTION TOOLS AND MEASURES

We are clear that all gambling products have the capacity to cause significant harm to a small minority of our customers. For this reason, we have focussed on promoting responsible gambling. Examples of this commitment are listed below:

- Self-Exclusion (moving to regional cross operator schemes) and Responsible Gambling Interactions in Glasgow and Chatham
- Recorded Responsible Gambling Interactions in-shop and robust staff training
- "Set Your Limits"- gaming machines mandatory and voluntary harm-minimization tools
- Registered card play requirement for those staking over £50
- Signposting- funding the Responsible Gambling Trust (£6 million into research, education and treatment of problem gambling)
- No gaming machine advertising in shop windows, no sign-up incentives on TV advertising, 20% of all marketing materials dedicated to responsible gambling messages
- Use of Gaming Machine Data to drive responsible gambling interactions (ALGORITHMS)

Philip Graf, Chairman of the Gambling Commission said:

> "This year has seen us take an important step to strengthen the social responsibility requirements placed on gambling industry operators, particularly regarding protecting players and empowering them to better manage their own gambling. Also, the Gambling (Licensing and Advertising) Act 2014 was introduced and extended gambling regulation to overseas operators offering gambling facilities to consumers in Great Britain.
>
> "The gambling industry is an increasingly complex and convergent market place. Many challenges remain, and in the year ahead we will continue to work with our partners to develop our approach, particularly in response to technological advances and changes in society generally. We will ensure lessons continue to be learnt and shared from our compliance and enforcement programme, and look at how returns to good causes from the National Lottery can continue to be maximized.

CONCLUSION

The legislation proposal to minimise gambling related harm by restricting a single product is discriminatory, flawed and unnecessary. Instead, the current approach the industry has been taking to promote responsible gambling and strengthen its processes by taking on board credible research recommendations combined with a wider policy promoting responsible gambling across all products, is directly managing gambling related harm.

Restricting or fully removing the B2 gaming machine product is not only disproportionate in light of the aim of the intended policy but will also raise issues of commercial flexibility and reduced competition. The demand for the gaming machine product will not disappear and the risk of it being satisfied by an illegal market with no customer protection cannot be what the current policy proposal intends.

Harm is not caused by a single product but by multiple-products. Evidence show that the gaming machine product is not particularly addictive as compared to other products. All products have the capacity to cause harm for the minority.

Any policy should be driven by a strong evidence base not weak and anecdotal anti- gambling campaign evidence.

The legislation on gaming machines should not affect the current legally permitted number, four per shop, and should not be retrospective. A number of better legislative options to address public concern are available through policy changes like a "cumulative impact test" available through planning or licensing law to be applied at a local government level.

We reiterate our view that the Smith Commission "Heads of Agreement" has been properly and comprehensively delivered by the current drafting within the Bill. However if the Scottish Government wants to implement an effective and universal gambling harm reduction policy, there is a much wider debate to be had about regulation across all gambling sectors which encompasses all gambling products. That policy needs to be one which strikes a balance between sensible restrictions and the need to cater for technological change and existing demand. We see no merit in pursuing a knee jerk reaction to a single product on the basis of little evidence

If "clustering" remains a matter for public concern (albeit there is little evidence to support the concerns), then changes to the planning categorisation of betting shops (such as have occurred in England) may be a much more effective and speedy way to impose controls on the opening of shops.

REFERENCES

[i] Responsible Gambling Trust Research RGT published seven reports on 1 December 2014, which were presented by the independent research team at RGT's annual 'harm minimisation in gambling' conference on 10 December

Category 2 Gaming Machines located in British Bookmakers, full research papers
http://www.responsiblegamblingtrust.org.uk/Research-Publications

Executive summary 2014
http://www.responsiblegamblingtrust.org.uk/user_uploads/pdfs/machines%20summary%20collection.pdf

[ii] **An economic analysis of expected regulatory and fiscal changes on the land-based betting industry', a KPMG report commissioned by The Association of British Bookmakers, June 2015**

[iii] **Over-the-counter**

[iv] **The Horserace Betting Levy Board Annual Report and Accounts 2014/15**
http://www.hblb.org.uk/documents/Executive/HBLB%20Annual%20Report%202014-2015%20accessible.pdf

[v] **Category 2 Gaming Machines located in British Bookmakers, full research papers**
http://www.responsiblegamblingtrust.org.uk/Research-Publications

[vi] **Scottish Health Survey 2013**
http://www.gov.scot/Topics/Statistics/Browse/Health/TrendGambling

http://www.gamblingcommission.gov.uk/Press/News-archive/2014/FurtheranalysisofHealthSurveys.aspx