

**Compliance and Enforcement: Impact  
Assessment**

**November 2007**

## Summary: Intervention & Options

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Contact for enquiries: Erica Young

Telephone: 0121 230 6538

### What is the problem under consideration? Why is government intervention necessary?

Under the Gambling Act 2005 (the Act) the Gambling Commission (the Commission) is given regulatory powers to investigate whether the provisions of the Act and any codes of practice or guidance issued under the Act are being complied with. The Commission's approach is to work with operators to encourage compliant behaviour, but where non-compliance has been identified, to institute proceedings to ensure compliance. It is the Government's view that these powers need to be used to ensure that its policy objectives for gambling in Great Britain are achieved.

### What are the policy objectives and the intended effects?

The regulatory framework introduced by the Act is based on the three licensing objectives specified in the Act. These are:

- preventing gambling from being a source of crime or disorder, being associated with crime or disorder or being used to support crime;
- ensuring that gambling is conducted in a fair and open way; and
- protecting children and other vulnerable persons from being harmed or exploited by gambling.

The Commission's role is to ensure that gambling in Great Britain is conducted in accordance with these objectives. The Government's broader policy intention is to promote a well-managed and socially responsible gambling industry and to do so as far as possible in co-operation with the industry. The compliance and enforcement regime has been established to pursue these objectives.

### What policy options have been considered? Please justify any preferred option.

#### Compliance

1. An entirely self-regulatory approach, relying on the threat of enforcement sanctions to compel compliance (see under Enforcement, below).
2. Rely solely on information provided by operators in regulatory and other information returns to conduct a desk-based compliance regime with the Commission issuing codes of practice and guidance.
3. Carry out inspection visits to premises: this would comprise regular announced and unannounced visits to individual premises and classes of operators, as well as visits to operators or premises considered to be high risk.
4. Rely on complaints received about the industry and other intelligence to identify areas where compliance and enforcement actions are required.
5. A mixture of 2, 3 & 4 above, taking a risk-based approach and concentrating resources on areas where intelligence indicates action is most needed. **This option is most consistent with Parliament's intentions under the Act and is our preferred option.**

### Enforcement

The Act sets out a range of criminal offences and a regulatory (administrative) sanctioning regime. This prescribes the approach to be taken to enforcement, restricting the proposed options. Those that have been considered are:

1. Do nothing and rely on the police and licensing authorities to prosecute offences where detected. This is clearly unacceptable.
2. The Commission to recruit its own enforcement resource to investigate breaches of the licence conditions and codes of practice and use the regulatory sanctioning powers contained in section 117 of the Act.

The Commission to recruit its own enforcement resource and investigate institute proceedings both for criminal offences and for regulatory breaches. **This option is most consistent with Parliament's intentions under the Act and is our preferred option.**

As these powers will be used only where compliance processes had been exhausted, in terms of assessing impact this option can be seen as a sanction rather than a burden, since an operator or licence holder would be able to avoid enforcement proceedings simply by meeting the compliance standards that had been set.

What is the geographic coverage of the policy/option?	Great Britain
On what date will the policy be implemented?	1 September 2007
Which organisation will enforce the policy?	Gambling Commission
Does enforcement comply with Hampton principles?	Yes
Will implementation go beyond minimum EU requirements?	N/A
Will the proposal have a significant impact on competition?	No

### **When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?**

It is proposed that the policy be reviewed in October 2009 after two years' experience of the new regulatory regime.

### **Chief Executive sign-off**

**I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely impact and benefits of the leading options.**

**Signed by the Chief Executive:**



Date: 8 November 2007

Jenny Williams

Chief Executive and Commissioner, Gambling Commission

# 1 What is the problem under consideration?

## Summary

- 1.1 The Gambling Commission (the Commission) consulted on its proposals for licensing, compliance and enforcement in a consultation document published in May 2006. This set out the Commission's proposals for ensuring that the gambling industry complied with the provisions of the Gambling Act 2005 (the Act) and with the terms of licence conditions, codes of practice and any guidance issued under the Act. The consultation process provided the gambling industry and other interested parties with the opportunity to comment on the Commission's proposals and hence contribute to the process of shaping the licensing, compliance and enforcement regime. The Commission published responses to the licensing element of the consultation in October 2006 and to the compliance and enforcement elements in June 2007. A final *Licensing Regulatory Impact Assessment* was published in February 2007. As enforcement processes, and therefore costs, are avoidable (so long as operators comply with licence conditions and codes of practice), this Impact Assessment focuses on compliance.

## Background

- 1.2 Successive Governments have taken the view that certain forms of gambling need to be regulated to protect customers and to prevent criminal exploitation. Following an independent review of the gambling industry and a wide-ranging consultation exercise, the Government set out proposals to reform and update the regulation of the industry. These proposals led to the Act and the establishment of the Commission as the successor body to the Gaming Board with responsibility for regulating the industry. The Act extended the types of gambling to be regulated to include betting, arcades (family entertainment centres and adult gaming centres) and remote operators (eg internet, television, radio and telephone based gaming and betting). By introducing three overarching licensing objectives which include a clear duty to protect the public (see paragraph 3.1 below) the Act also broadened the terms of the regulatory function.
- 1.3 The Act, which came into force on 1 September 2007, therefore provides a new statutory basis for regulating all commercial gambling in Great Britain other than the National Lottery and spread betting, which are regulated by the National Lottery Commission and the Financial Services Authority respectively. The Act supersedes earlier gambling legislation, in particular the Betting, Gaming and Lotteries Act 1963, the Gaming Act 1968 and the Lotteries and Amusements Act 1976 which regulated betting, casinos, bingo, gaming machines and lotteries.
- 1.4 As stated in its *Compliance and Enforcement Policy Statement* published in June 2007, the Commission makes a clear distinction between compliance and enforcement. The Commission considers that compliance should be a collaborative process based on an open and co-operative relationship between the Commission and the gambling industry. The Commission takes the view that the industry must comply with both the letter and the spirit of the regulatory regime and that while there will be some necessary sectoral variations, in general the regime will be applied consistently and fairly across the industry. Where breaches of the regulatory framework are identified the enforcement process will take effect. This will involve regulatory or criminal investigation that may lead to the imposition of a regulatory sanction (including financial penalties) or to criminal charges.
- 1.5 For both the Commission and the industry the compliance process needs to be based on a comprehensive assessment of risk so that resources are concentrated on those areas that need them most.

## 2 Why is government intervention necessary?

- 2.1 In implementing the Government's policy on gambling the Act imposes new duties on the gambling industry, licensing authorities and the Commission (as successor to the Gaming Board). Complying with these duties would not be without cost to all three regardless of the extent of any compliance monitoring proposed by the Commission. As noted above, enforcement processes and prosecutions are avoidable so long as the provisions of the Act and the licence conditions and codes of practice are complied with.
- 2.2 Under sections 27 and 28 of the Act the Commission is given regulatory powers to investigate whether the provisions of the Act and any codes of practice or guidance issued under it are being complied with and, where non-compliance has been identified, to promote compliance or to institute proceedings to prosecute offences. Under part 15 of the Act the Commission has powers to carry out inspections 'to determine whether the licensed activities are being carried on in accordance with the terms and conditions of the operating licence.' In providing for these powers it was the Government's view that the powers would need to be actively exercised through a comprehensive compliance regime if the overarching objectives for gambling in Great Britain were to be achieved.
- 2.3 Since the Commission and the industry will be working in a co-operative and constructive fashion towards meeting the policy objectives, the compliance regime will be instrumental in developing good practice in the industry. This will make the industry more effective and more acceptable to the public and will help operators comply with the legislation and avoid enforcement proceedings. This is a key aspect of the policy and the rationale for intervention through the regulatory powers exercised in the form of the compliance and enforcement regime. It is the Commission's view that without this intervention the policy objectives would not be achieved.
- 2.4 It is expected that there will be an initial period for the industry of adapting to the new requirements. After this, the extent of the Commission's intervention may well reduce over time as the new regime settles down and the industry becomes more familiar with what is required and the process of complying with the requirements becomes more routine. This would allow resources to be re-allocated to concentrate on particular concerns, in line with the risk-based approach to compliance referred to in paragraph 1.5 above.
- 2.5 Therefore, while it is the Commission's view that an unregulated market would not meet the Government's policy objectives, to some extent the industry can be expected to be self-regulating within the statutory framework overseen by the Commission.

## 3 Policy objectives

- 3.1 Gambling is a popular leisure activity, but, since players can lose large sums of money, it carries inherent risks of personal and social harm, which marks it out from other leisure activities. The Government's view therefore is that minimising harm should be paramount in the regulation of gambling. Section 1 of the Act sets out the three overarching licensing objectives. These are:
- preventing gambling from being a source of crime or disorder, being associated with crime or disorder or being used to support crime;
  - ensuring that gambling is conducted in a fair and open way; and
  - protecting children and other vulnerable persons from being harmed or exploited by gambling.
- 3.2 Under section 22 of the Act the Commission has a duty to pursue the three licensing objectives, to have regard to them wherever appropriate, and to permit gambling in so far as it thinks it is reasonably compatible with the pursuit of these objectives. Section 23 requires the Commission to publish a statement setting out the principles it will apply in exercising its regulatory functions. This statement (*Statement of Principles for Licensing and Regulation*) was published in December 2006. It states that the Commission will be guided by the following principles:

- we will regulate gambling in the public interest and we will do so vigorously;
- we will regulate in a transparent, accountable, proportionate, consistent and targeted manner;
- our approach to regulation will be risk-based;
- our assessment of risk will be led by the evidence, relevant information and best regulatory practice in the light of international experience; where there is no evidence, we will take a cautious approach;
- we will consult widely; and
- we will use our resources effectively.

**3.3** A further Commission document (*Statement of Principles for Determining Financial Penalties*, June 2007) sets out the policy objectives in relation to any sanctions, including financial penalties. These objectives are in line with the Better Regulation Executive's report *Regulatory Justice: Making Sanctions Effective* (November 2006), also known as the *Macrory Review* after its author Professor Richard Macrory, and are as follows:

- aim to change the behaviour of the offender;
- aim to eliminate any financial gain or benefit from non-compliance;
- be responsive and consider what is appropriate for the particular offender and regulatory issue, which can include punishment and the public stigma that should be associated with a criminal conviction;
- be proportionate to the nature of the offence and the harm caused;
- aim to restore the harm caused by regulatory non-compliance, where appropriate; and
- aim to deter future non-compliance.

## 4 Intended effects

**4.1** The intention behind the Act and the regulatory regime it put in place was to reform and update the regulation of the gambling industry and in so doing to limit gambling's potential for personal and social harm. The outcome the Government is seeking therefore is a well-regulated and socially responsible industry.

**4.2** As stated at paragraph 1.4, the Commission considers that compliance should be a collaborative process based on an open and co-operative relationship between the Commission and the gambling industry. The Commission therefore expects to work with the industry to develop best practice and to assist individual operators to comply with the spirit of the legislation and the detailed requirements set out in the licence conditions and codes of practice.

**4.3** The Commission has powers to promote compliance, supported by regulation and to prosecute offences under the Act. However our starting point is that for any operator, primary responsibility for compliance lies with that organisation's senior management and not with the regulator.

**4.4** In implementing the compliance and enforcement regime the Commission will have regard to best practice for regulators, as set out in the *Macrory Review* (see paragraph 3.3 above) and Philip Hampton's 2005 report *Reducing administrative burdens: effective inspection and enforcement*. The Commission will also take full account of the regulatory principles set out in the Legislative and Regulatory Reform Act 2006. These principles state:

- regulatory activities should be carried out in a way which is transparent, accountable, proportionate and consistent; and
- regulatory activities should be targeted only at cases in which action is needed.

**4.5** Details of the Commission's approach to compliance activity based on an assessment of risk and an annual visit programme are set out in the Commission's information paper *The Compliance Process, the Risk Modelling System (RMS) and the Annual Visit Programme (AVP)* (August 2007).

## 5 Consultation

5.1 The Commission has published a number of consultation documents on a range of issues relating to the implementation of the Act and the Commission's proposed administration of the regulatory regime. These are available on the Commission's website.

5.2 In respect of compliance and enforcement policy specifically, the relevant consultation document was *Licensing, Compliance and Enforcement* (May 2006). The Commission received 44 responses to this consultation document, of which two-thirds were from the gambling industry. The Commission also held meetings with key interest groups, including the main trade associations, faith groups and trade unions.

5.3 The responses to the consultation covered a range of issues, including:

- targeting of the Commission's compliance activities and the proposed risk model underpinning this;
- liaison between the Commission and licensing authorities and working relations between the Commission and the industry;
- use of children and young people to test systems;
- information requirements and financial returns;
- dealing with illegal gambling; and
- financial penalties and recovering financial benefit.

The Commission's reply, *Licensing, Compliance and Enforcement: Responses to compliance and enforcement consultation* was published in June 2007. The Commission carefully considered the views expressed in developing its compliance and enforcement policies.

5.4 As other aspects of the regulatory regime underpin compliance and enforcement processes the following consultations are also relevant:

- *Financial Conditions on Gambling Operators and Personal Licence Holders* (September 2006); and
- *Regulatory Returns and Key Events* (May 2007).

The Commission's responses to these consultations were set out in:

- *Financial Requirements and Conditions on Gambling Operators & Personal Licence Holders: Responses* (December 2006); and
- *Regulatory Returns and Key Events: Responses* (August 2007).

5.5 The Commission has also undertaken a wide range of formal and informal consultation meetings with stakeholders affected by the Act, including gambling operators, trade unions representing industry workers, faith groups and consumer organisations. These have included both individual meetings and wider workshop events. As a result the scope of consultation on the new arrangements has been broad and the opportunity for interested parties to influence policy development extensive.

5.6 In the future, and with the benefit of experience of the compliance and enforcement regime, we will further consult with industry. Our purpose will be to try to get as accurate as possible quantification of the costs of inspections and data returns so that we can better measure burdens on the industry.

## 6 Assessment of the policy options

6.1 Since the gambling industry is not uniform, the actions that are necessary to safeguard the three licensing objectives vary between sectors. As well as those conditions and codes that are common to all licensees we have applied specific licence conditions and codes of practice that are appropriate to each type of business. Further information on this can be found in the Commission's *Licence Conditions and Codes of Practice* (June 2007).

- 6.2 There are also variations between sectors and classes of operators in the type and quantity of information that they are required to submit to the Commission to enable it to carry out its regulatory functions. Further information on this can be found in the Commission's consultation document *Regulatory Returns and Key Events* (May 2007) and subsequent *Regulatory Returns and Key Events: Responses* (August 2007).
- 6.3 There are other factors behind the differential impact of the compliance regime on operators. For example, for those operators that were regulated under the Gaming Act 1968, and the Lotteries and Amusements Act 1973 (casinos, bingo, gaming machines and lotteries) the new regulatory regime may be less of a burden than for those sectors not previously subject to similar regulation. And complying with requirements in respect of information returns or social responsibility codes of practice may be less of a burden relative to total operating costs for larger operators than for smaller ones, since the former may absorb the additional workload within existing staffing resources.
- 6.4 Thus while it is the Commission's intention to apply the regulatory regime consistently, whatever option is chosen the impact of the compliance and enforcement regime on the industry will vary according to sector and size of operator. This is reflected in the scale of licence fees charged to operators. The fee system is effort based, with fee levels directly related to the intended level of compliance activity and no cross subsidisation between sectors or operator types. In future years, when we have a better indication of regulatory requirements, we will be able to review and refine the scale of fees in the light of experience.
- 6.5 Further information on fees can be found in the Department for Culture, Media and Sport's (DCMS) consultation paper *Proposals for Gambling Commission Fees* and the Department's subsequent *Summary of Responses* to the consultation paper. DCMS also published a draft Regulatory Impact Assessment on Gambling Commission fees. These documents can be found on the DCMS website at [www.culture.gov.uk](http://www.culture.gov.uk).

## 7 Options

- 7.1 The options considered below focus on compliance. As noted before, enforcement processes are avoidable so long as operators comply with the obligations placed on them. The compliance process involves the Commission working with gambling operators and individuals working in the industry at all levels (but particularly those who hold personal licences). It is aimed at ensuring compliance with all aspects of regulation: the licensing objectives, licence conditions and codes of practice, and technical standards and requirements. It should be noted that this assessment does not take account of any compliance visits made by licensing authorities as these are outside the remit of the Commission. However they do add to the administrative burden on the industry. The Commission will work closely with other regulatory organisations to address matters of common interest.

### Option 1

#### **An entirely self-regulatory approach, relying on the threat of enforcement sanctions to compel compliance.**

- 7.2 This option would have the least initial cost for both operators and the Commission as there would be no additional burden on either in terms of information requests or preparation for the Commission's compliance visits to operators. The Commission would have to rely on operators putting in place their own systems for complying with licence conditions and codes of practice. Those sectors that had previously been regulated, and generally have a long history of compliant conduct, might be able to do this to a satisfactory standard. But for sectors not previously regulated under gambling regulation the level of compliance for these operators would be unknown. Across the industry, it is likely that there would be significant variations in standards, particularly in respect of the new licensing objective that seeks to prevent harm to children and vulnerable people.

- 7.3** The prospect of prosecution for offences under the Act might serve to compel compliance in some areas, but could not guarantee compliance with the full range of obligations. Most operators could be expected to be compliant, but not all. Consequently there could be no assurance that all gambling was being provided to acceptable standards. This would increase the risk of harm to children and vulnerable people and of gambling being associated with crime and disorder, which could result in significant social costs. In addition, the Commission would not have an accurate picture of the state of the industry, which would hinder efforts to develop best practice and would mean that the Commission was unable to fulfil its duty under section 22 of the Act to promote the licensing objectives. Furthermore this option is not consistent with Parliament's intentions under the Act and for these reasons this option has been rejected.

## Option 2

### **Rely solely on information provided by operators in regulatory and other information returns to conduct a desk-based compliance regime with the Commission issuing codes of practice and guidance.**

- 7.4** This option would in theory enable the Commission to build up a reasonably good knowledge of the industry and to identify areas of non-compliance or where the industry was experiencing problems in meeting the licensing objectives. A desk-based approach would also save the Commission and the industry the cost associated with compliance visits.
- 7.5** As with Option 1, this approach would rely to a large extent on the industry regulating itself. For it to work, the Commission would need to receive relevant information in the form of regulatory returns, notification of key events, audit reports, consultants' reports and operators' own assessments of compliance processes. This would constitute a significant administrative burden on operators, particularly smaller ones, as information and monitoring systems would need to be set up and maintained. While a good deal of useful information could be collected, there would be no guarantee that all information was accurate, and the bureaucracy involved could be a hindrance to the Commission developing good working relations with the industry.
- 7.6** Furthermore there is a real benefit to all concerned, that would be lost under this option, in building personal relationships between the regulator and the regulated, and in monitoring systems in operation. This foundation, which already exists in the previously regulated sectors has meant that when issues arose the industry and the Commission were in a good position to address them. This option has therefore been rejected.

## Option 3

### **Carry out inspection visits to premises: this would comprise regular announced and unannounced visits to individual premises and classes of operators, as well as visits to operators or premises considered to be high risk.**

- 7.7** This option would have the advantage of allowing the Commission to observe at first hand how the industry works. Visits to operators could be random and unannounced, or cyclical, thematic, or based on risk assessments. By varying the approach and developing a comprehensive visit programme the Commission could build up a detailed information base on the industry. There would be less bureaucracy, particularly for operators, than would be imposed in option 2. The onus would shift from the industry regulating itself and the Commission would be less reliant on operators providing accurate information. The prospect of compliance visits, which could be unannounced, would also act as a strong incentive on operators to ensure full compliance.

- 7.8** This approach would not be without its disadvantages however. For it to work, a large number of trained compliance officers would need to undertake many visits and the costs associated with this would be passed on to operators through licence fees. This could adversely affect relations between the Commission and the industry and could act as a disincentive on the industry to develop its own best practice. For the Commission there would be real challenges in ensuring that sufficient visits were conducted and that visits were carried out consistently. Inspection visits are useful, but a disproportionate reliance on them would not be consistent with the principles of effective regulation referred to in section 4 above. The Hampton Review (see paragraph 4.4) states that there should be no inspections without a reason and that resources released from unnecessary inspections should be redirected towards advice to improve compliance. Consequently, this option has been rejected.

## **Option 4**

### **Rely on complaints received about the industry and other intelligence to identify areas where compliance and enforcement actions are required.**

- 7.9** This option would keep administrative costs on the industry to a minimum and would mean that the Commission's efforts were focused only on those operators or sectors that generated the most complaints. However, with this approach there could be no assurance that non-compliance was being even adequately detected and dealt with. The obligations placed on operators are too complex to expect customers to be able to identify all instances of non-compliance. Moreover, there is no guarantee that customers would be motivated to make a complaint to the Commission or that they would not make vexatious complaints; nor could the Commission rely on all operators to report complaints they have received themselves. Therefore, the Commission would not be able to assume that an absence of complaints was confirmation of compliance. In addition there would be a risk associated with the parts of the industry that are transient, such as seasonal or travelling operators that might make follow up of complaints more difficult. It would also be very difficult for the Commission to plan an effective compliance programme based on a prediction of future numbers of complaints. Consequently this option has been rejected.

## **Option 5**

### **A mixture of 2, 3 and 4 above, taking a risk-based approach and concentrating resources on areas where intelligence indicates action is most needed.**

- 7.10** An approach that combined the three previous options would enable attention to be focused on areas where there was evidence to indicate that action was needed. Information provided in regulatory and other information returns would give the Commission a picture of the industry that would allow identification of long term trends, as well as more immediate concerns. This information could be supplemented by other sources of information, including complaints and issues raised by customers and other interested parties. Inspection visits could be programmed in accordance with risk management principles in part to address issues raised through information received by the Commission. Regular announced and unannounced visits could also take place to ensure that standards were being maintained across the industry.
- 7.11** Although this option combines elements of the other three options, the flexibility it would give the Commission would help to target resources more effectively and hence keep costs down. It would also allow the Commission to engage effectively with operators and promote best practice and, where appropriate, achieve a level of self-regulation within the industry with minimal Commission oversight. Therefore this option would best enable the Commission to meet its duty in section 22 of the Act to promote the three licensing objectives. It would also enable the Commission to carry out its functions in line with the principles of effective regulation. This option is most consistent with Parliament's intentions under the Act and for all these reasons this is the preferred option.

## 8 Economic impact

- 8.1** Until compliance processes under the new regime have been carried out it is not possible to fully quantify the cost burden that the regulation will impose on the industry. The Commission is regulating a number of sectors and operators for the first time, and existing operators under a new regime. For this reason the Commission intends to carry out compliance visits based on risk assessment to the majority of operators within the first two years of regulation. Thereafter, we will use the risk assessments to be more selective about visits, as described in the *Compliance and Enforcement Policy Statement*. Therefore it is likely that the initial burden on a large proportion of the industry will be higher than in future. However where a higher risk is identified in any particular sector, the burden may remain high.
- 8.2** In assessing the policy options described in section 7 above, table 1 sets out the evaluation of their relative burden:

**Table 1**

Cost component	Option				
	1	2	3	4	5
Core costs	Yes	Yes	Yes	Yes	Yes
Reporting	Low	High	Low	Low	Medium
Inspection	Low	Low	High	Low	Medium
Overall burden	Low	Medium	Medium	Low	Medium

- 8.3** In table 1, 'Core costs' are those incurred as a consequence of being licensed, irrespective of the approach taken to compliance and include the cost of submitting licence applications and completing regulatory returns. 'Reporting' refers to the scale and scope of information that has to be submitted by the operators in the form of returns and reports. 'Inspection' relates to the burden associated with compliance visits, which is potentially the most costly element. The 'Overall burden' has a direct relationship to the level of fees required and reflects the cost to the Commission of implementing the different options. As noted in the assessment of options, the low cost options (1 and 4) were rejected because they would not be sufficient to allow an adequate compliance regime.
- 8.4** As stated in section 6 above, the main variable is the burden associated with compliance visits. The number of visits to each operator will vary according to the sector, size and risk rating of the operator. For example, a compliance visit to a large operator may take two or three days and involve several of the company's senior managers at the company's main offices and then be followed by visits to a selection of that operator's gambling premises. Visits to smaller operators will be less time-consuming and involve fewer people, but relative to total operating costs may well have a comparable level of impact. Moreover it is likely that announced and unannounced visits will also have a differential impact on operators as the former will take time to prepare for, particularly in the early stages of the new regulatory regime. At steady state, operators should have all the required information available and therefore not need preparation time for visits.
- 8.5** The Commission does not consider that the compliance and enforcement regime will have a differential impact on rural areas.
- 8.6** A proposed pattern of visits by industry sector was determined in 2006, to contribute to the calculation of an effort based schedule of fees. The overall number of visits planned by sector and a comparison with the visits undertaken under the previous regulatory regime is shown below. There is an important difference between the approach taken to visits under the old and new legislation. Under the 1968 Gaming Act, inspection visits were premises based. Under the Gambling Act 2005, it is operators that are licensed rather than premises. This means that visits will be made to the operator and to a sample of premises where there are multiple premises.

**Table 2**

Industry sector	Visits in 2006/07 1968 Act regime	Planned visits 2005 Act regime (based on effort assumptions In DCMS fees consultation)	Change in number of visits to the sector (% change where appropriate)
AGCs and FECs	N/A	736	+736
Betting	N/A	2325	+2325
Bingo	1661	244	-1417 (-85%)
Casinos	2293	961	-1332 (-58%)
Gaming machine manufacturers	N/A	36	+36
Gaming machine suppliers	211	650	+439 (+208%)
Lotteries	6	80	+72 (+492%)
Remote	N/A	233	+233

- 8.7** There is a cost to the industry associated with each compliance visit, based on the time spent on necessary preparations and the time spent dealing with the compliance manager on their visit. However, the cost will vary between operators and cannot be reliably quantified. There will also be a difference between the impact of corporate level headquarters visits and premises level visits.
- 8.8** Assuming that operator involvement with compliance visits under the new regulatory regime is no more costly than it was under the old, the change in impact on the industry can be assessed by sector. There is a differential impact on three distinct groups within the industry. Firstly, of those sectors previously regulated, the emphasis under the old regime was on regular visits to casinos and bingo clubs. Under the new scheme, the burden to the bingo sector in this respect will decrease by 85%, and the burden to the casino sector will decrease by 58%.
- 8.9** Secondly, the burden in the other sectors regulated under the 1968 Gaming Act will increase, as a greater proportion of operators will receive compliance visits. The low level in the past reflects their classification as low risk, but more visits will be required in order to re-evaluate them under the new regime. The percentage increases are large because the previous number of visits was so small, particularly for lotteries. If, after initial inspections, we rate the risk to gaming machine suppliers and lotteries as small, this will be reflected in the number of visits going forward.
- 8.10** Finally, for the newly regulated sectors all the work associated with compliance visits will represent an additional cost to them. The proportion of operators and premises visited, and the frequency of such visits, will be adjusted as necessary in the light of learning from the first set of visits.
- 8.11** Since the effort assumptions were generated, the Commission's specialist risk analyst has addressed the application of a risk factor to the scheduling of visits. In consequence there is likely to be some degree of departure from the visit figures stated in paragraph 8.6. We also now have a clearer picture of the number of operators than we had prior to the licensing exercise. For more information on the Commission's approach to compliance see *The Compliance Process, the Risk Modelling System (RMS) and the Annual Visit Programme (AVP) Information paper*, August 2007.

## 9 Environmental impact

- 9.1** The Commission does not consider that there are any significant environmental considerations (such as sustainable development or carbon emissions) attributable to actions taken by the industry in complying with the new regulatory regime.

- 9.2** Since the scope of regulation is increased under the new regime, there will be more operators and premises for the Commission's officers to visit in the course of their compliance and enforcement activities. It would be reasonable to assume that the associated increase in journeys made by the Commission will translate into increased consumption of transport fuel, though the additional amount consumed will be relatively small and the Commission will aim to minimise transport costs wherever possible by thoughtful planning of visits.

## **10 Social impact**

- 10.1** The Commission does not consider that there are any social or human rights issues arising specifically from the compliance and enforcement regime, though the following considerations applicable to the wider regulatory policy are relevant to this assessment.
- 10.2** If gambling continues to increase in popularity and becomes more socially acceptable, there is a risk that incidences of problem gambling will also increase. As well as being harmful to individuals, problem gambling can be detrimental to the family and friends of those affected and to society in general. The problems associated with excessive gambling are evident not only in the finances and material well-being of those affected by it, but also in their physical and mental health.
- 10.3** The Commission is alert to the risks posed by problem gambling. The main thrust of the licensing objectives is to promote a socially responsible gambling industry. The objectives specifically aim to prevent gambling from being associated with crime or disorder and to protect children and other vulnerable people from being harmed or exploited by gambling. These priorities are explicitly included in licence conditions and the compliance and enforcement regime will be used vigorously to ensure that these conditions are complied with. In addition, the Act, unlike the legislation it replaces, provides for all gambling (except the National Lottery and spread betting, for which other arrangements exist) to be regulated by the Commission. Therefore, there are clear social benefits to the regime.
- 10.4** The Commission has a responsibility to assess the extent of problem gambling. This is being done through the British Gambling Prevalence Survey which will provide a solid evidence base for developing policies and practices. The Survey, which was published in September 2007 and will be repeated every three years, will collect information on gambling activity and views on gambling. Respondents will also be asked for information on their age, gender, ethnic grouping, educational attainment and income. Information from the survey will be available to the Commission to supplement information from other sources for the purpose of developing compliance and enforcement policies.
- 10.5** The Commission works closely with DCMS and the Department of Health to ensure that problem gambling is adequately understood and that the Commission's policies ensure that gambling is conducted in a socially responsible way. The Commission also works closely with the Responsibility in Gambling Trust (RIGT), an independent charity set up to tackle problem gambling through the funding of education research and treatment.

## **11 Small firms impact test**

- 11.1** The industry has approximately 1,300 small firms. The Commission considers that the regulatory requirements placed on these firms are appropriate and proportionate to the scale of the activities undertaken.
- 11.2** The Commission will use a risk model that assesses levels of risk from the standpoint of compliance with the three licensing objectives and an organisation's ability to deliver them. The model also considers the likely impact of any breaches. Small businesses are likely to have a lower impact level and would have lower compliance activity than larger firms that carry a higher impact rating. Nevertheless compliance visits to small operators may appear disproportionately disruptive to normal business activities when an operator has few staff and there is a requirement to attend to the needs of the compliance manager in preparation for and during a compliance visit.

**11.3** However, as has been stated above the Commission will work co-operatively with the industry to improve practices. The Commission's compliance visits to small operators in particular will often have an educational purpose with the Commission's officers taking the opportunity where possible to promote best practice in meeting the licensing objectives.

## **12 Sectors and groups affected by the regulation**

**12.1** All sectors of the gambling industry, except the National Lottery and spread betting, are affected by the regulation. This includes those wishing to enter the industry or to sell specialist equipment to it and the potential and actual staff it employs in key roles. This numbers over 3,000 operators, ranging from some of the biggest entertainment companies in Great Britain, to owners and operators of small independent arcades and betting shops.

## **13 Competition assessment**

**13.1** The Commission does not expect that there will be major changes to the structure of the gambling industry as a result of the planned regulation. There may be continuation of recent trends towards consolidation of the industry in response to market forces, but these do not stem directly from the regulatory regime. The compliance and enforcement regime is applied across all of the gambling industry in Great Britain, except the National Lottery and spread betting, and there will be no differential impact on new firms.

**13.2** The business sectors affected will be all of those in the British gambling industry. As well as regulating over 3,500 operators, the Commission has direct or indirect responsibility for regulating approximately:

- 8,500 betting shops;
- 600 society lotteries;
- 640 bingo clubs;
- betting facilities and operations at 59 horse tracks;
- betting facilities and operations at 31 licensed greyhound tracks;
- over 3,000 adult gaming centres and family entertainment centres;
- 50 gaming machine manufacturers;
- 500 gaming machine suppliers; and
- 150 casinos.

**13.3** Any new entrant to the regulated industry will be required to establish proper business systems and controls, as well as policies and procedures, to ensure compliance with the specific licence conditions and codes of practice required under the Act. The Commission will neither discriminate against new entrants nor discourage innovation.

### **Gambling Commission November 2007**

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The Gambling Commission regulates gambling in the public interest. It does so by keeping crime out of gambling, by ensuring that gambling is conducted fairly and openly, and by protecting children and vulnerable people from being harmed or exploited by gambling. The Commission also provides independent advice to government on gambling in Britain.

For further information or to register your interest in the Commission please visit our website at: [www.gamblingcommission.gov.uk](http://www.gamblingcommission.gov.uk)

Gambling Commission  
Victoria Square House  
Victoria Square  
Birmingham B2 4BP

T 0121 230 6500  
F 0121 230 6720  
E [info@gamblingcommission.gov.uk](mailto:info@gamblingcommission.gov.uk)

CMP1 IA