



department for
**culture, media
and sport**

GAMBLING ACT 2005:

Proposals for Gambling Commission Fees from 1 August 2009

8 April 2009

improving
the quality
of life for all

Our aim is to improve the quality of life for all through cultural and sporting activities, support the pursuit of excellence, and champion the tourism, creative and leisure industries.

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Section 1: Introduction

- 1.1 The Gambling Act 2005 (the Act) gives the Secretary of State for Culture, Media and Sport the power to make regulations setting fees to be paid to the Gambling Commission (the Commission). In doing so, the Secretary of State intends to ensure such fees are set in accordance with the Act and HM Treasury's rules and guidance on fees, levies and charges set out in *Managing Public Money*¹ and at a level that enables the Commission to recover the full costs of delivering its responsibilities, while avoiding cross subsidisation and ensuring fairness and value for money for the gambling industry.
- 1.2 This is a joint consultation exercise by the Department for Culture, Media and Sport (the Department) and the Commission.
- 1.3 In 2008, the Secretary of State undertook to review fees in the light of the Commission's experience of the first full year of compliance and enforcement work with the industry. Licensing arrangements have been in place since 1 January 2007 and the Commission has been fully operational since 1 September 2007. Although it is still in the early stages, the Commission now has more information on which to assess and review its workload, costs and fees. This consultation therefore describes in more detail the Commission's approach and cost basis as a background to the proposed fees.
- 1.4 The consultation also seeks to reflect the current difficult economic climate and to minimise the burden of regulation on operators wherever possible.
- 1.5 The Department is committed to making any changes to the fee regime from 1 August. The Department and the Commission have been working hard to limit any increases in fees in the current economic climate and this work has taken longer than we hoped. In order to consider responses to the consultation properly and complete any necessary Parliamentary processes in time for 1 August, we have had to shorten the consultation period to less than the recommended 12 weeks. However, the Department will work actively with interested parties to seek responses to the consultation, including holding an open consultation workshop with the Commission in May.
- 1.6 This consultation paper sets out the Department's proposals for the fee levels to apply from 1 August 2009 and invites comments on them. The proposed fees are at Appendix 1. The fee regulations will be subject to the 'negative resolution' procedure in Parliament. An initial impact assessment is attached at Appendix 2.

Summary

- 1.7 The Commission's overall fee level from a constant workload has not been increased since the original fee structure was introduced in 2006. Since then, the Retail Price Index (RPI) has increased by some 9% and the Commission's costs have correspondingly increased. This consultation document proposes fee increases that absorb over a third of those cost increases for the largest operators and significantly more than that for smaller operators, reflecting the efficiencies being delivered by the Commission, and proposes that the aggregate fee level will now be held until 2011. The proposed fees avoid any cross subsidisation between categories and types of fees.

¹ Managing Public Money HMT, October 2007

1.8 The main proposals set out in this document are:

- Increases in annual fees charged to operators to recover the Commission's costs, offset by efficiency gains and reductions in planned activity and reflecting the experience of delivering the new compliance and enforcement regime in practice. The changes proposed are:
 - No increase in annual fees for general betting (limited) and society lottery operators in categories A and B or the new category of general betting (standard) operators (covering betting shops with no gaming machines). We estimate that this covers 850 operators.
 - An increase of 4.75% for all other category A and B operators (except 1968 Act and 2005 Act casino operators) and all other categories of society lottery operators.
 - An increase of 6.25% for all other operators (including all casino operators in categories A and B).
- A reduction in the current discount on annual fees for operators holding multiple licenses from 10% to 5% to reflect the actual cost of delivering compliance and enforcement work in such operators.
- Changes to the largest non remote fee categories to reflect variations in workload more closely.
- The introduction of a new category to cover holders of non remote general betting (standard) licences where gaming machines are not made available
- The introduction of a new 'linked licence' category for operators that already hold a general betting licence and are also users of exchanges and require licensing as using exchanges 'in the course of business'.
- The introduction of revised arrangements for calculating working days for general betting (limited) licence holders to recognise the anomalous market conditions faced by such operators standing at greyhound meetings staged for broadcast to the off-course betting industry, rather than to satisfy local market demand.
- A reduction of 5% in operator licence application fees to reflect increased efficiency in the Commission's processes, which should reduce barriers to entry.
- The introduction of revised arrangements for fees charged to operators providing remote gambling that relies on a random number generator (RNG) in line with the discussion proposals included in the 2008 consultation.
- Reductions in some of the fees charged for variations to operating licences and for changes in control in line with the reductions in application fees. Other miscellaneous fees held at current levels.
- Increased fees for personal licences to reflect increased costs, in particular those relating to processing Criminal Records Bureau (CRB) checks.
- Correction of an anomaly in the fee bandings for external lottery managers.

How to respond to the consultation document

- 1.9 The Secretary of State and the Commission welcome comments on these proposals and the initial Impact Assessment from all those who may be interested, including existing and potential new operators in the gambling industry, faith groups, those involved in problem gambling prevention and treatment, other interested stakeholders, and individuals. Copies of the consultation document are available at the Department for Culture, Media and Sport and Commission websites (www.culture.gov.uk/ and www.gamblingcommission.gov.uk/).

The closing date for responses is **23 June 2009**. Please send your comments by e-mail to gambling.consultations@culture.gsi.gov.uk or to:-

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Victoria Square House
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- 1.10 All information in responses, including personal information, may be subject to publication or disclosure under Freedom of Information legislation. If a correspondent requests confidentiality, this cannot be guaranteed and will only be possible if considered appropriate under the legislation. Any such request should explain why confidentiality is necessary. Any automatic confidentiality disclaimer generated by your IT system will not be considered as such a request unless you specifically include a request, with an explanation, in the main text of your response. This consultation is being carried out in accordance with the Cabinet Office Code of Practice on Consultation. The criteria are listed on the Department's and the Commission's websites, together with details of who to contact with any comments on the consultation procedure or complaints about the way it is being conducted.

Section 2: Proposals for consultation

- 2.1 The Commission licenses and regulates virtually all commercial gambling in Great Britain, including casinos, bingo, betting, arcades, larger lotteries and the manufacture, supply and use of gaming machines and gambling software. The Commission licenses operators in both the non-remote and remote sectors. The Commission does not license or regulate the National Lottery, which remains the responsibility of the National Lottery Commission, or spread betting, which remains the responsibility of the Financial Services Authority.
- 2.2 The Commission licenses new applicants for operator licences and issues personal licences to relevant personnel who are new recruits to the industry and for those managers who did not require a personal licence under the previous regime. It carries out compliance and enforcement work under the Act in relation to both licensed and unlicensed operators. The Commission's experience of its first 15 months of full operation since September 2007 is reflected in this consultation document.
- 2.3 The overall picture is that levels of work and effort are slightly higher than originally forecast and costs have increased from 2006 levels. Efficiency gains at the Commission have allowed fees to be held at current aggregate levels for three years and these, combined with the development of a more risk based approach, have enabled the proposed increases to be held below the general rate of cost increases since 2006 and until 2011.
- 2.4 The Commission has also undertaken a number of other reviews as well as this fees review:
- The Commission has put in place plans to develop and improve its approach to regulation taking into account its Hampton Implementation Review.
 - The Licence Conditions and Codes of Practice have been reviewed and revised.
 - The licensing process, with changes implemented from mid 2008.
 - A review and streamlining of its operational and support arrangements to improve efficiency and focus as it moves into a business as usual phase.

Proposed approach to setting fees

- 2.5 The legal framework for setting fees is summarised at Appendix 3.
- 2.6 The Government remains of the view, set out in previous consultations, that none of the costs of Commission activities associated with licensing, compliance and enforcement should fall on the taxpayer, but rather on those choosing to provide and engage in licensed activities. The Government considers that this approach is consistent with good regulatory practice and the Commission will continue to operate on a full cost recovery basis, funded by licence fee income.
- 2.7 Fees will therefore be set by the Secretary of State at such a level as to enable the Commission to recover the full costs of its regulatory activities, while ensuring fairness and value for money for the gambling industry. The Secretary of State has given particular attention to the burden imposed on the industry by the fees charged in the current economic climate and in particular has sought to minimise the impact on the smallest operators.

- 2.8 Grant-in-Aid from the Department will be used, as in previous years, to fund agreed research, including plans for further studies on the prevalence of gambling. Currently the Department looks to the industry to fund the costs of education on responsible gambling and of research into and treatment of problem gambling voluntarily. The Secretary of State would still prefer a voluntary solution to improve the current arrangements in place to tackle problem gambling. However, pending agreement on a satisfactory voluntary scheme, a separate consultation exercise is being undertaken on proposals to replace the current voluntary scheme with a statutory levy. This consultation document is available at www.culture.gov.uk/reference_library/consultations/5722.aspx.
- 2.9 The Commission is required to recover its reasonable operational costs from fees. As with previous consultations on the Commission's fees, these proposals reflect the estimated costs of activities that will be required to deliver the Commission's responsibilities. This section of the consultation document therefore describes:
- The Commission's activities and associated costs to date and plans to 2011/12.
 - The actions taken by the Commission to control and review its activities and associated costs.
 - The impact of the Commission's activities and cost levels.
- 2.10 The Commission has been fully operational since September 2007 and data is now available on many of its activities, although this is still not as comprehensive as would be desirable. Data on the industry from regulatory returns and the Commission's compliance work, which is essential for an effective assessment of scale and risk, is still in its infancy and continues to require considerable development work and effort. It does, however, allow a fuller description of the Commission's activities and related cost levels and supports further moves towards a more risk based approach, further underpinning its compliance with Hampton Principles².

The Commission's activity levels

- 2.11 The impact assessment that accompanied the Act gave some wide ranges for the scale of the gambling industry and the cost of the new regulatory regime, including the Commission. However, it acknowledged the lack of information then available on the scale of the newly regulated industry (most notably betting, arcades and the remote sector) and on what the actual cost of the new scheme of regulation would be.
- 2.12 After its establishment, the Commission worked with the industry and other stakeholders to develop initial information as to the scale of the industry and its various sectors. The results of this work formed the basis of the first fees consultation document published in 2006. At that time it was assumed that, in line with the impact assessment, there would be growth in the industry as a result of the changes introduced by the Act and the general growth in the economy.
- 2.13 The estimated activity levels for the Commission were revised as a part of the 2008 fees consultation process. This included changing the assumptions to allow for a reduction in the numbers of smaller operators in the light of feedback from the industry. This reduction stemmed from a number of factors, including challenging market conditions for several gambling sectors, continuing consolidation within the industry and increased opportunities for gambling, such as the internet and gambling from home.
- 2.14 The reduction in the number of small operators over the last year has been broadly in line with the 2008 forecast, and in the current economic climate there is no reason to suspect

that this trend will change, although the number of licences surrendered or revoked has been offset in part by a steady volume of new applicants.

- 2.15 However, current indications are that, although the number of smaller operators has reduced, the aggregate level of gambling activity has not declined, with business being picked up through, for example, consolidations, additional premises opened by larger operators and internet gambling.
- 2.16 The Commission has reviewed and revised the estimated volume of activity it expects to license for 2009/10 and the cost and income estimates in this document reflect those assumptions. Although the current economic climate means that these figures are a best estimate only, they are based on:
- The prospective impact of the current economic climate on the industry.
 - The current rates of new licence applications.
 - The current rates for licence surrenders, revocations and significant licence variations.
 - The prospective impact of operators locating, or relocating, overseas.
- 2.17 The Commission's proposed activity levels and the key drivers for 2009/10 and estimates for 2010/11 and 2011/12 are set out in the following paragraphs. The activity is considered under each of the Commission's strategic objectives:
- **Regulating gambling in the public interest:** delivering a proportionate regulatory regime which delivers best practice licensing and enforcement and ensures compliance by licensees.
 - **Providing authoritative advice on gambling and its regulation:** building the Commission's knowledge base through knowledge management, intelligence and research.
 - **Engaging with stakeholders:** ensuring that the Commission is accountable, properly balanced and informed in its work.
 - **Developing its employees and organisation:** delivering professional, responsive, accountable and fair regulation.

Regulating gambling in the public interest

- 2.18 The main drivers for the Commission's work are the volume of gambling activity, the number of licensed operators, and the volume and complexity of technical and policy issues put to the Commission. These drive the Commission's assessments of scale and risk and, consequently, its work on compliance and enforcement and licence changes and variations, as well as the basic management of the regulatory regime. Table 1 sets out the assumed and actual workload by sector for the period 2007/08 – 2008/09 and estimated workload for 2009/10. Where available, figures from the original impact assessment are included for comparative purposes.

Table 1: Assumed and actual workload 2007/08 – 2009/10

Sector	Licensed operators					
	April-2005	2007/08		2008/09		2009/10
	Original IA	Est	Act	Est	Act	Est
Non Remote operators						
Casino: 2005 Act	17	17	5	7	3	3
Casino: 1968 Act	153 Casinos	34	87	87	92	92
Bingo	696 clubs	169	221	221	304	304
General Betting (Limited)			726	736	781	778
General Betting (Standard)	4000 bookmakers,	1387	695	725	750	775
Pool Betting	8000 shops	34	29	29	25	42
Betting Intermediary		2	4	4	5	8
Gaming machine general: AGC		286	637	647	579	588
Gaming machine general: FEC	2000 arcades	588	359	359	330	330
Gaming machine technical: Full		36	60	60	46	47
Gaming machine technical: Supplier	750	650	594	694	591	588
Gaming machine technical: Software		16	10	10	11	14
Gambling Software			45	45	49	58
Lottery Managers		15	20	250	26	27
Society Lotteries	700	661	531	531	595	636
Total non-remote		3895	4023	4405	4187	4290
Remote Operators						
Casino: 2005 Act		7	18	20	20	20
Bingo		1	9	9	10	23
General Betting (Telephone Only)		10	44	44	39	38
General Betting (Standard)			88	100	73	90
Pool Betting			30	30	42	41
Betting Intermediary		8	16	16	21	21
Betting Intermediary: trading rooms				0	0	0
Gaming machine technical: Full			18	18	14	14
Gaming machine technical: Supplier			3	3	2	3
Gaming machine technical: Software			4	6	3	6
Gambling Software			39	41	43	49
Lottery Managers		21	15	15	11	12
Society Lotteries		10	18	18	78	78
Total remote		57	302	320	362	395
Total all		3952	4325	4725	4549	4685

Sources: Gambling Act 2005, Regulatory Impact Assessment; Gambling Commission

- 2.19 **Compliance and enforcement work in the licensed sector:** This is the Commission's largest area of activity. Initial work has, in line with its plans, focused on identifying licensed operators and supporting the development of awareness and delivery of the statutory licensing objectives.
- 2.20 The Commission's work in this area is becoming increasingly based on risk and impact and will therefore focus on the large and medium sized operators. In the initial phase, time spent on the smaller operators has exceeded initial estimates. However, the Commission's developing approach will allow work on the smaller operators to require fewer physical visits and, on average, be in line with the baseline workload levels estimated by the Commission and shown in table 1, upon which fee levels are based.
- 2.21 The first annual cycle of work in support of annual fees suggests that, in addition to its risk based cycle of work, the Commission will need to identify and address:
- The continuing level of complex legal and regulatory issues arising from developing understanding of the Act as operators push to establish legitimate boundaries.

- The impact of the recession, which is likely to increase the desire among operators to identify new ways of generating business and is expected to increase the risk to the licensing objectives arising from the pressure on some operators to cut corners to reduce costs.
- Developing and focusing the Commission's work on integrity in betting. For example, making sure operators support the 'fair and open' objective (making reports on suspicious patterns of activity and possible breaches of rules).
- Developing the Commission's response to remote gambling, including the impact of overseas operators on consumers in Great Britain.
- Work in relation to advising the Government on ways of minimising harm from gambling, in particular through commissioning advice from the newly established Strategy Board. It is clear from the Commission's review of research, education and treatment³ that the Commission has to play a more active part than had been expected in securing the necessary evidence on which to formulate its policy and advice.

2.22 **Licence management:** The Commission is required to manage the licensing process. Estimated workloads are at Appendix 4. These activities include:

- Processing operating licence applications.
- Processing personal licence applications.
- Maintaining of licences, including changes and variations, collection of fees.
- Revoking licences.

2.23 **Enforcement against illegal activity:** As well as its work in the licensed sector, the Commission is responsible for enforcement against those providing gambling unlawfully. As explained in paragraph 2.6 (above) and as set out in previous consultation documents, the Department considers that this work should be funded through fees paid by those providing and engaging in licensed activities. The effective policing of this boundary protects the activity of licensed operators (for example, activity against illegal lotteries increases the potential income available to good causes through licensed society lotteries.) Resources in this area have been under significant pressure as risks to the licensing objectives have been identified. These currently include:

- Threats to integrity in betting (where the Commission is working with the Department to develop the focus of work by all parties involved in sports betting).
- Illegal poker clubs.
- Illegal supply and operation of gaming machines.
- Money laundering.
- Illegal lotteries, eg TV quizzes and house lotteries, presented as competitions.

2.24 The Commission recognises the sensitivity of the need to balance the discharge of its policing responsibilities in this area and the burden this places on the licensed sector. It is therefore proposed that the cost of enforcement activity against the unlicensed sector is maintained within the original envelope of £0.5m.

Development and maintenance of the regulatory framework:

2.25 The Commission is responsible under the Act for the development and maintenance of licence conditions and codes of practice that apply to licences issued by the Commission to

³ Review of Research Education and Treatment, Gambling Commission, October 2008

gambling operators and personal licence holders in Great Britain. In addition, the Commission publishes and maintains other guidance and standards that support regulation. It also provides analysis of data to support the delivery of risk based regulation.

- 2.26 The development and maintenance of the regulatory framework requires significant input from the Commission's senior staff and legal advisers. This reflects the complexities of the impact and consequences of the new legislation and the volume of issues and queries raised with the Commission by operators.
- 2.27 The Commission also supports the Department in identifying and promulgating common standards for overseas operators. Monitoring activity provided in the UK by remote operators is an increasing burden on the Commission's resources. This was offset, in part, by a Grant In Aid (GIA) contribution to support certain specified activities in 2008/09.

Providing authoritative advice on gambling and its regulation

- 2.28 The Commission has a duty to provide advice to the Secretary of State on matters relating to gambling, either in response to specific requests from the Secretary of State or where the Commission thinks this is appropriate.
- 2.29 Examples of Commission activity in this area include the gambling prevalence study, advice on the potential impact of stakes and prizes increases and the review of gambling research, education and treatment.
- 2.30 Wherever possible, the Commission is developing its intelligence and strategic assessments based on open source information and the data that it collects from operators in the course of its regulatory work, rather than making specific enquiries. This information is essential for the Commission, underpinning effective risk and evidence based policy making and delivery.
- 2.31 To this end, the Commission has sought to collect data through its Regulatory Returns at a level which strikes an appropriate balance between the Commission's needs and the burden placed on operators. However, significant numbers of operators failed to complete their returns by the end of the first annual period (October 2008). This has resulted in additional costs in the collection of data and delayed the analysis of that data. A system of financial penalties has now been introduced for those who do not submit their returns promptly without reasonable excuse.
- 2.32 In addition, the Commission does, from time to time, need to collect additional information:
- For the delivery of the prevalence study (funded from GIA).
 - For the additional work required in relation to gambling research, education and treatment identified as a part of the Commission's review for the Department, including securing advice from the newly established Strategy Board.
- 2.33 The Department has, in streamlining of its own resource in this area as a part of its transformation process, become increasingly reliant on the Commission for support. This has included, for example, significant volumes of work at senior level on:
- Gambling research, education and treatment.
 - White listing (which has been supported by some additional funding from GIA in 2008/09).
 - Advice on machines and prizes.
 - Thematic studies, such as on betting in pubs, the introduction of the threshold approach to money laundering controls and 'mystery shopping'.

Engaging with stakeholders

- 2.34 The Commission works closely with its stakeholders including the Department, operators, industry representative bodies, licensing authorities and the Third Sector.
- 2.35 This activity includes regular meetings with stakeholder groups and the provision of associated secretarial support, specific meetings on consultation issues and ad hoc meetings to discuss specific policy issues, which have included for example discussions on split premises and primary purpose, innovative arrangements for gambling and stakes and prizes. There will continue to be a real cost in senior Commission staff time to deliver clear and transparent relationships in a 'business as usual' environment.
- 2.36 Routine activity in this area also includes providing advice and guidance through the Commission's enquiries team. This facility is most frequently used by smaller operators and individuals interested in providing non-commercial gambling, such as lotteries and raffles.
- 2.37 In complex cases, working with stakeholders can involve significant requirements for expensive policy and legal advice.
- 2.38 The Commission has also identified a need to develop and improve its work with local partners, most particularly licensing authorities, a theme expected to be highlighted in the Hampton Implementation Report (see paragraph 2.53, below).

Developing its employees and the organisation

- 2.39 The activities in this area comprise:
- The governance of the Commission.
 - Financial management.
 - People and organisational development.
 - Internal communication.
- 2.40 The Commission recognises that it must balance the overhead costs required to provide effective support to the delivery of its operational functions with the burden this imposes on those funding its regime. The Commission has, therefore, conducted a major review of its operational support activities. This has led to a reduction in the number of directors and senior management costs, but also identified the need for greater specialist expertise in operational areas (for example, remote gambling and forensic accounting)
- 2.41 The Commission is also investing in training and development of its employees and systems to support improvements in consistency and understanding of the delivery of the regulatory regime, again, a theme expected to be highlighted in the Hampton Implementation Report (see paragraph 2.53, below).

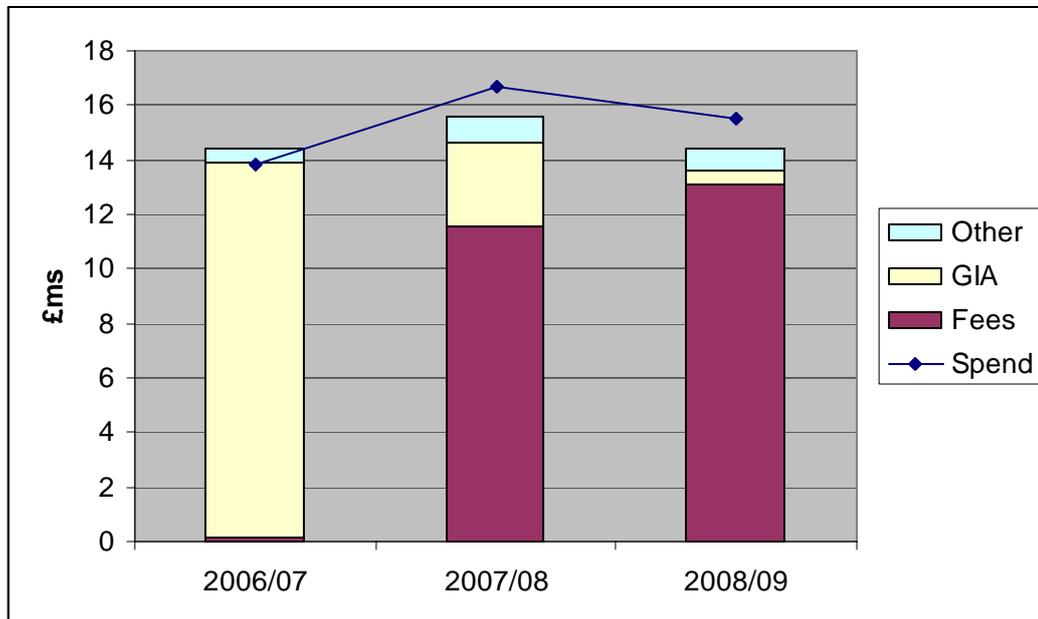
The Commission's costs

- 2.42 The regulatory impact assessment that accompanied the Act⁴ suggested that the cost of the Commission would be in the range £11.9m - £15.3m (including CRB costs) at 2004 prices. This was, however, described as being "illustrative only" and based on the very broad estimated workloads (set out in table 1, above). At January 2009 prices, this range would equate to £13.3m - £17.1m.
- 2.43 As described above, the actual workload has been significantly different to that described in the impact assessment. Table 2 sets out the actual spend to date and income by source.

⁴ Gambling Act 2005, Regulatory Impact Assessment paragraph 1.51

Throughout the period, the Commission's total costs have remained within the range projected in the RIA.

Table 2: Commission spend and resources 2006/07 to 2008/09



Source: Gambling Commission Annual Reports and Accounts

2.44 The Commission became fully operational from September 2007 and the pattern of expenditure to date has been influenced by:

- Transition costs incurred in 2006/07 (approximately £2.25m) and 2007/08 (approximately £1.0m).
- The extensive re-licensing exercise in 2007/08 (approximately £2.2m).
- The active management of staff resources across the period to ensure that the Commission had the right staff at the right time to minimise costs during start up.
- Completion of responsibilities under the previous legislation in the period to October 2007 (approximately £0.78m)
- The costs associated with establishing the new compliance and regulatory regime in the field, involving a focus on developing industry awareness of the statutory licensing objectives and identifying all licensed operators.

2.45 As a result, there is, as yet, no reliable pattern of expenditure for the Commission's activities. The forward projection therefore reflects:

- The Commission's assessment of regulatory workload in the light of its improving data on the industry and the related approach to risk assessment. This is discussed later in this report, where estimated workloads for each licence type and banding are set out.
- The development within the Commission of the expertise necessary to regulate effectively in specialist areas, including the various industry sectors and the continuing impact of developments in the provision of remote gambling.
- Work necessary to discharge the Commission's responsibilities in respect of enforcement against illegal operators. No additional resource allocation over and above the £0.5m originally identified has been made for this area of work in these projections.

- Advice commissioned from the Strategy Board, set up to oversee the delivery of gambling research, education and treatment in line with proposals agreed by ministers. This amounts to an additional £0.25m per annum.
 - Reductions in costs and improvements in efficiency which flow from the Commission's review of its operating and operational support structures as it moves towards, 'business as usual'.
 - Identified savings from cost reductions within the Commission, for example from improved purchasing arrangements and the delivery of ICT investment.
- 2.46 Two options have been considered, a "no change" option and a proposal for a modest increase in fees. The preferred option assumes that there will be a fee increase and that, for the next two financial years, expenditure and staffing levels will be maintained broadly in line with current projections, at £15.7m including depreciation. This depends on the delivery of significant efficiency savings against the Commission's original plans and year on year efficiencies in line with the Commission's funding agreement. These will be subject to review in the light of actual workload and regulatory requirements.
- 2.47 Table 3 sets out the Commission's expenditure under the preferred option, analysed against its strategic objectives.

Table 3: 2009/10 expenditure analysed by strategic objective⁵

	Totals	
	£ms	%
Strategic Objective 1	10.36	66%
Strategic Objective 2	2.29	15%
Strategic Objective 3	1.55	10%
Strategic Objective 4	1.46	9%
Total	15.66	100%

Source: Gambling Commission provisional budget

- 2.48 Income projections assume that in each year there will be a further average net decline in the number of smaller operators of 9% and consolidation amongst larger operators with an annual impact of £0.30m in 2009/10 and a further £0.30m in total in the following two years.
- 2.49 It is assumed that no significant interest will be earned on balances during the period, given current interest rates. Previously the prudent deposit of fee income, in line with the Commission's investment policy had earned interest at around £0.2m - £0.3m each year in 2007/08 - 2008/09, a reduction in planned available resources of some £0.6m - £0.9m for the three years to 2011/12.
- 2.50 The preferred option would allow the Commission to recover its costs from the fees charged in each of the next two fee periods (1 September - 31 August). Table 4 (below) summarises the Commission's forecast financial position for the fee year's 2009/10 and 2010/11 under the preferred fee scenario and the spending commitments described in this consultation document.

⁵ Strategic objectives are set out in the Commission's strategic plan (see paragraph 2.17, above)

Table 4: The Commission's preferred budget framework fee years 2009/10 and 2010/11

September 2009 - August 2011		2009/10	2010/11
Income and expenditure		Sept-09 - Aug-10	Sept-10 - Aug-11
		£	£
		Total	Total
Income			
Application Fee		292,833	250,841
Annual Fee		13,311,808	13,547,283
Personal licence fee		959,231	1,016,931
Other income		12,085	19,167
Total revenue		14,575,957	14,834,222
Total employee costs		9,429,854	9,427,417
Other expenditure		5,136,826	5,178,833
Depreciation		1,176,522	1,198,582
Total expenditure		15,743,202	15,834,832
Release deferred government grant reserve		815,184	803,296
Provisions		150,000	250,000
Interest payable		11,000	9,000
Tax incurred on interest received		2,000	3,000
Surplus/(deficit)		(515,061)	(459,314)
Financing			
Grant in aid income		530,000	500,000
Surplus/(Deficit) after funding & adjustments		14,939	40,686
Accumulated Deficit Position			
Deficit B/Fwd		(1,980,527)	(1,965,588)
Surplus/(Deficit) after funding & adjustments		14,939	40,686
Surplus/(Deficit) C/Fwd		(1,965,588)	(1,924,903)

Source: Gambling Commission budget, provisional

2.51 The Commission seeks to deliver its regime in a way which is economic, efficient and effective. In the course of the last two years the Commission has reduced its costs in a number of ways. These include:

- The Commission was able to establish the organisation well within the parameters originally set by the Department and returned £1m of Grant in Aid to the Government as a result.
- Reducing the number of licensing staff by 43 immediately following the initial licensing setup process and immediately on completing of the relicensing exercise. At the same time the Commission managed the recruitment of compliance and enforcement staff to minimise period of overlap and therefore additional costs. This staff reduction saved £0.9m.

- The Commission manages its vacancies actively to ensure that it maintains the right staff skill mix and utilises staff effectively.
 - The Commission has identified savings totalling £65k per annum through improved procurement processes and effective purchasing during the period.
 - The Commission has reviewed and improved the efficiency of its licensing process in the light of the initial relicensing exercise and feedback gained from operators, allowing the proposed reduction in application fees.
 - The Commission recognises that it needs to keep its processes under regular review. To this end the Commission has carried out a significant review of both its operations and its operational support activities; as a result the management structure of the Commission has been changed to reduce costs and ensure effective focus on operational delivery.
 - The Commission is using the information that it has collected and the intelligence it has acquired during the first 15 months of operation to review and improve its risk assessment process. The aim is to ensure that regulation is properly focused and risk based in accordance with the Hampton Principles.
- 2.52 The Commission recognises that the industry faces the same pressures as others in the current recession. It has reduced its original expenditure plans (as set out in earlier fees consultations) for the three financial years to 2010/11 by £1.2m (partially offset by additional costs of £0.75m over that period for securing advice on research, education and treatment) and plans to contain its expenditure at current levels to 2011. However, the Commission must have adequate resources to discharge its responsibilities effectively and the impact of the fee regime and its costs on the effectiveness of the regulatory regime will be kept under review.
- 2.53 The Commission is subject to external review to ensure that its activities are properly conducted. During the last year this has included:
- Audit of its accounts by the Comptroller and Auditor General. A clear opinion was issued on the Commission's accounts for each year to 2007/8; the 2008/09 accounts will be completed and audited by July 2009.
 - Regular review of its activities by the Commission's internal audit.
 - Assessment of the start up processes under the Gateway arrangements of the Office of Government Commerce. The final Gateway review concluded that the Commission "has successfully completed its start up phase" and concluded that "the likelihood of the Commission maintaining a successful standard of its services and functions" is such that "successful delivery appears probable, however constant attention will be needed to ensure risks do not materialise into major issues threatening delivery"..
 - A review of the Commission's compliance with the Hampton Principles carried out by an external review team under the auspices of the Department for Business, Enterprise and Regulatory Reform (BERR) and the National Audit Office (NAO). The results of this Hampton Implementation Review are expected to be published by BERR in April. The report is expected to support the Commission's efforts to develop its risk based approach and an increased focus on working with other stakeholders, local licensing authorities in particular. The Department and the Commission will continue to work together to identify the scope for further reductions in the administrative burden on the industry, with specific measures – which might include, for example, a shift to GGY as the basis of fee calculations – to be incorporated in an annual simplification plan.

The fee proposals

- 2.54 The Commission is required to recover all of its costs with the exception of some of its costs relating to research, primarily the gambling prevalence study, for which a grant-in-aid contribution is received from the Department (currently £0.5 million until 2010/11).
- 2.55 The Commission's first fees were set, following a consultation exercise carried out in 2006. The fees were reviewed in 2008 and the balance between the smallest and largest operators was adjusted. However, the aggregate level of the fees (assuming a consistent workload) collected from the industry was maintained at the level set in 2006.
- 2.56 Revenue from fees and other sources, including interest, has been significantly below the levels originally expected and will not be sufficient to cover the Commission's forecast costs of regulation. The main reasons for this are:
- The volume of operators has not grown in line with the assumptions made following the passing of the Act, although the overall number of operators remains broadly in line with the Commission's initial assumptions and the volume of gambling has increased.
 - Some larger operators have moved all or part of their remote operations to white listed or European jurisdictions, resulting in a fall in the Commission's revenues; others have expanded the remote side of their businesses outside the UK although the social impact of the related gambling still falls within the Commission's remit.
 - The fall in interest rates has reduced the Commission's income by between £0.2m - £0.3m each year.
 - Although the Commission has made savings in its running costs and will continue to seek further savings, the Commission's costs have increased since 2006 (for example, there have been significant increases in costs for energy and travel costs during 2008/09 and staff pay has increased in line with Government pay guidelines). The need to develop specialist expertise to support regulatory work continues to put pressure on the Commission's costs.
 - The costs of advising on research, education and treatment are estimated to be some £0.25m per annum greater than previously estimated as the Commission is not able to rely, as had been expected, on other bodies, including the Responsibility in Gambling Trust (RIGT) to provide the necessary strategic input.
 - The pattern of consolidation within the industry has continued, reducing the number of operators, while the volume of gambling does not decrease.
- 2.57 In establishing its budget, the Commission has paid particular regard to the current economic climate and the pressures that this places on all operators. Nevertheless, the Commission must still ensure that it has adequate resources to deliver effective regulation as required by the Act. It is required to recover its costs and must recover those costs from those sectors where the costs fall.
- 2.58 Because of the current considerable uncertainty in the economy, it is particularly difficult to predict what income will actually be generated. The current estimates allow for a significant decline in the volume of operators during the period under consideration, but there is of course potential for a further reduction in the number of operators, for example from consolidation, with no commensurate reduction in the volume of gambling to be regulated.
- 2.59 Two scenarios have been considered in respect of the fee proposals. These are set out below, together with an outline assessment of their likely impact. In each case, the expenditure commitments that form the basis of these assessments are consistent with Table 4. The scenarios considered are:
- Scenario one: no change to the current fee levels.

- Scenario two: (the preferred option) medium-range fee increase, held for two years (ie until 2011), to allow the Commission to achieve full cost recovery in fee year 2009/10 and in 2010/11. (No assumptions as to future fee increases are made).

Scenario one: no change to the current fee levels

- 2.60 The impact of holding fees at current levels would be to require the Commission to reduce its planned spending by a further £3.7m in the three years to 2011/12. The Commission would still fail to cover its full costs from fees before 2011/12. These reductions would be in addition to the significant changes already included in the spending projections set out above.
- 2.61 The impact of making such reductions, equivalent to further reductions in excess of £1m a year, would be significant and would, in our view, fundamentally undermine the effectiveness of the regulatory regime at a time when the volume of gambling has not declined and the statutory objectives are likely to be under increasing pressure. The majority of the Commission's costs relate to its staff and the costs of maintaining its premises in Birmingham (already well below West Midland's government estate levels). Whilst these costs can be reduced in the medium term there would be short-term additional costs (for example, redundancy costs for staff and the penalty conditions in the building lease).
- 2.62 A zero fee increase would mean a significant change in the Government's approach to the regulation of gambling from that which has been followed since the Act. The key changes would be:
- Reduction in staff costs across the organisation, requiring compulsory redundancies, and having a significant impact on the Commission's developing knowledge and skills base.
 - The Commission would have to accept a significantly higher level of risk to the licensing objectives in order to reduce effort on compliance within the regulated sector to match reduced resources.
 - There would be little or no active enforcement in the illegal sector (that will have to be done, if at all, by local authorities, which would place additional pressure on the premises licence fees).
 - The Commission would be unable to monitor and respond promptly to the industry's innovation.
 - The Commission would be unable to develop the efficiency of the regime as required by the Hampton Principles, for example through better working with local authorities and other enforcement agencies.
 - The Commission would have to suspend developments in improvements to the regulatory regime that are potentially to the industry's advantage, for example the analysis and utilisation of regulatory return data to develop and focus regulatory and best practice efforts.
 - The Commission's ability to deliver some key functions for Ministers has come to rely on would be removed or, at least, seriously curtailed. For example, general advice, the machines research programme and international remote policy.
 - The Commission would not be able to enhance its compliance regime for remote operators, particularly for foreign operators.
 - Development of work on betting integrity would be significantly curtailed.
 - The remit given to the Strategy Board would have to be severely curtailed or postponed.

- The likelihood that the Commission would still end the period with a significant deficit, given its cost structure.

Scenario two (the preferred option): medium-range package of fee increases

2.63 This is the preferred option. Fees would be changed as follows.

Proposed changes to fees

2.64 The proposed changes to fees are set out in the following paragraphs. It is estimated that the impact of these increases on the Commission's income would amount to £0.57m in the financial year 2009/10 and would total £2.57m for the three financial years to 2011/12.

Application fees

2.65 The Commission has reviewed its arrangements for issuing the licences, taking particular account of the feedback from applicants to date. Combined with revised ICT arrangements, this allows the Secretary of State to propose a reduction of 5% on all operator licence application fees. It is expected that this will help reduce the entry costs for businesses that are starting up in the sector during the recession

Annual fees

- 2.66 The Commission's costs have increased across all operators, as described earlier in this consultation document. The preferred option is, therefore, for annual fees to increase from 1 August 2009 to achieve full cost recovery in fee year 2009/10 and in 2010/11, after the reductions and efficiencies described above.. Around 850 operators will have their fees frozen (as set out below). For the remainder, the proposed increases would amount to 4.75% on current annual fees for most category A and B licences (other than casino licences) and 6.25% for other categories (including category A and B casinos).
- 2.67 These fee proposals would, for example, increase the cost for a small bookmaker by approximately £75 (less than £1.50 per week) in 2009/10 and £13,937 for the largest bookmakers. The revised fee tables and the impact of the proposed increases on individual categories are set out at appendix 1.
- 2.68 The Commission recognise that there are particular burdens on small businesses, but as described above, many of the smallest businesses will have their fees frozen and the proposed fees remain in line with the costs of regulating businesses. The following changes to annual fees are proposed to certain categories of small operators:
- In the case of the smallest bookmakers, it is our view that those operators which do not make available gaming machines incur less compliance effort than those with such machines as generally gross gaming yield is lower and the range of compliance issues narrower. A new category of fee is therefore proposed and fees for this group of operators will not increase from the level paid currently.
 - In the light of our review of risk and the associated reduction in compliance effort required in accordance with the Hampton Principles, the Secretary of State and the Commission do not propose any increases in the annual fees for category A and B general betting (limited) - ie on-course - and society lottery operators.
 - The introduction of revised arrangements to recognise the anomalous market conditions faced by bookmakers standing at greyhound meetings primarily staged for broadcast to the off-course betting industry, rather than to satisfy local market demand. Ways of discounting or reducing the number of days counted for fee purposes are considered.

- 2.69 The Secretary of State expectation is that there would be no further increase in the aggregate level of fees before August 2011, unless there is significant and unforeseen change that would require a further review.
- 2.70 For those with multiple licences, a discount is currently given on annual fees for the second and subsequent licence. However, experience shows that costs on multiple licences are not significantly less than for individual licences. The actual workload and costs for individual activities is the same and the costs of corporate reviews are higher, taking longer than originally projected and requiring more expensive staff. To ensure that only the actual costs are recovered, it is therefore proposed that this discount should be reduced from 10% to 5%.
- 2.71 We have identified that operators using exchanges 'in the course of a business' require a remote betting intermediary licence. However, such operators and their activities do not pose significant additional risk to the licensing objectives as the main risks are handled by the betting exchanges. We also recognise that existing operators holding general betting licences (whether remote or non-remote) may already use betting exchanges 'in the course of a business' and that this is already addressed within the existing regulatory work and fees.
- 2.72 A new category of licence is proposed for operators that use exchanges 'in the course of a business':
- For those using exchanges 'in the course of business' but not already holding a gambling operator licence, the application fee will be £198 and the annual fee will be £280, the same as for a category A, non-remote betting intermediary.
 - Operators that already hold a general betting licence, whether remote or non remote, also require a remote intermediary licence to use exchanges 'in the course of business' - for example for hedging. However, this will not involve the Commission in any additional cost and operators should not have to carry any additional costs. On their next renewal, therefore, all betting operators will be issued with the necessary additional licence or licence variation at no cost to the operator; the annual fee for such operators will be set at zero as the additional compliance costs are negligible.

Personal licences

- 2.73 Personal licences are subject to a five yearly review by the Commission. The fees charged have not changed since the original 2006 fee structure, but the costs of delivering these licences has increased, notwithstanding the improvements made in processing applications. In particular the cost of processing CRB checks and enforcement activity in respect of Personal Function Licence (PFL) holders is in excess of original estimates. It is therefore proposed to increase:
- the cost of a PFL from £165 to £185
 - the cost of Personal Management Licence (PML) from £330 to £370

Other fees

- 2.74 Charges for changes and variations are largely based on application fees and will be reduced as a result of the proposals in this consultation document. The basis of charge will not change and the relevant proposals are in appendix 1.
- 2.75 Fees for ancillary and linked licences will remain at current levels and are set out in appendix 1.

Impact of these changes

2.76 The impact of these fee changes would be to allow the Commission to recover the costs of regulation (as shown in Table 4.). This would allow the Commission to continue its operations and activities at its planned, more cost effective levels.

Workload and effort assumptions

2.77 This section sets out the workload and effort assumptions which support these proposals. It sets out the volumes that the Commission expects for and workload assessments for:

- Applications for operator licences
- Applications for personal licences
- Operating licences
- Change and variation requests

Applications for operator licences

- 2.78 The Commission had assumed, in the 2008 consultation, that it would handle approximately 400 applications for operator licences each year. This is in line with experience to date, but the assumption has been revised in the light of the economic downturn. It is now assumed that 235 applications will be received in 2009/10, 229 in 2010/11 and 219 in 2011/12, all for the smallest categories of licence.
- 2.79 The workload required for applications for operating licences has been reviewed in the light of the Commission’s experience and as a result of improved efficiencies in the Commission’s processing arrangements. These efficiencies allow the proposed 5% reductions in application fees described above.
- 2.80 The application fee effort assumptions are set out in table 5.

Table 5: Application fees effort assumptions: average person days per application

Operating Licence Type	Average effort to support licence application work									
	Non-remote					Remote				
	A	B	C	D	E	F	G	H	I	J
Casino: 2005 Act	72	95				18	36	54	72	95
Casino: 1968 Act	18	27	54	54	54					
Bingo	3.0	5	27	45	54	9	20	45	54	72
General Betting: Standard	3.0	4.5	30	45	105	9	20	45	54	72
General Betting: Standard - no machines	3.0	4	35							
General Betting: Limited	3.0	3.5	4			3.5				
Pool betting	3.0	4.5	13.5			3.5	4.5	13.5	17	45
Betting Intermediary	3.0	4	5			18	36	45	54	72
Betting Intermediary: Trading Room only						3	5	13.5		
Gaming Machine General: AGC	3.0	4.5	13.5	45	54					
Gaming Machine General: FEC	3.0	4.5	13.5	45	54					
Gaming Machine Technical: Full	3.0	4.5	45			3.5	4.5	45		
Gaming Machine Technical: Supplier	3.0	4.5	13.5			3.5	4.5	13.5		
Gaming Machine Technical: Software	3.0	13.5	45			3.5	13.5	45		
Gambling Software	3.0	13.5	45			18	36	45		
External Lottery Manager	3.0	4.5	6.5			3	4.5	6.5		
Society Lottery	0.5	0.8	1			0.5	0.8	1		

2.81 The estimates for the number of personal licence applications are set out in table 6.

Table 6: Personal licences, expected numbers

Personal licence type	Expected applications per annum	Estimated reductions (surrendered, lapsed, revoked, etc per annum)
Personal management licences	500	17
Personal functional licences	5,000	34
Total	5,500	51

Operating licences

2.82 The estimated aggregate number of operator licences is set out in table 1 (above). The estimated number of operator licences by licensing category for 2009/10 is set out in table 7.

Table 7: Estimated number and type of operating licences 2009/10

Operating licence type	Number of operators									
	Non-Remote					Remote				
	A	B	C	D	E	F	G	H	I	J
Casino: 2005 Act	1	2				18	2	0	0	0
Casino: 1968 Act	71	16	5	0	0					
Bingo	286	14	2	0	2	23	0	0	0	0
General Betting (Standard)	650	75	16	5	5	73	13	1	0	0
General betting - standard no gaming machines	0									
General Betting (Limited)	446	257	48			35				
Pool Betting	21	3	0			37	1	0	0	0
Betting Intermediary	4	0	0			20	0	1	0	0
Betting intermediary (Trading Rooms)						2	0	0		
Gaming machine general: AGC	440	80	18	5	1					
Gaming machine general: FEC	296	24	4	3	0					
Gaming machine technical: manufacturer	17	19	9			3	7	4		
Gaming machine technical: Supplier	157	17	3			2	1	0		
Gaming machine technical: Software	10	1	0			5	1	0		
Gambling Software	43	13	2			27	15	4		
Lottery Managers	8	8	12			6	4	2		
Society Lotteries	74	59	68			28	14	35		

2.83 The workloads that support the annual fee calculation are set out in Table 8. The Commission has reviewed the actual time and staff requirements for the delivery of its activities in the first year of operation against the various types and classes of operator. The pattern of activity is likely to continue to change as the Commission develops its risk based approach, but the analysis supports the existing workload assessments for most fee categories. Where the workload and staff costs have required, fees are being adjusted as described in this consultation document. This includes the fee levels for those operators where no increase is proposed and the continuation of the shift in cost and effort away from the smaller operators and into the larger operators.

Table 8: Average workloads for annual fee purposes

Operating Licence Type	Average effort to support annual fee work									
	Non-remote					Remote				
	A	B	C	D	E	F	G	H	I	J
Casino: 2005 Act	40	88				14	39	75	114	150
Casino: 1968 Act	16	52	60	267	359					
Bingo	4.0	9	19	38	137	14	39	75	114	150
General Betting: Standard	4.0	9	16	33	192	15	41	79	120	158
General Betting: Standard - no machines	3.5	7	13							
General Betting: Limited	3.5	4.0	5.0			2.0				
Pool betting	2.5	3.5	4.0			9	39	75	114	150
Betting Intermediary	2.5	3.5	5.0			14	39	75	114	150
Betting Intermediary: Trading Room only	0.0	0	0	0	0	2.0	8	20		
Gaming Machine General: AGC	3.0	9	16	29	38					
Gaming Machine General: FEC	2.5	6	9	19	32					
Gaming Machine Technical: Full	4.5	8	60			8	20	40		
Gaming Machine Technical: Supplier	5.0	7	30			8	20	40		
Gaming Machine Technical: Software	2.0	5.0	7			8	20	40		
Gambling Software	2.0	5.0	8			10	25	50		
External Lottery Manager	3.0	3.0	3.0			8	20	40		
Society Lottery	0.5	1.0	2.0			0.5	1.0	2.0		

2.84 The review has identified a number of issues which are addressed in these proposals:

- The allocation of costs between different classes of operator.
- The cost of enforcement work against unlicensed operators
- Workloads for the largest categories of non-remote operators.
- Fee arrangements for remote operators relying on random number generators.

Cost allocations between classes of operator

2.85 In the 2008 consultation, the Secretary of State made an adjustment in fee levels to better allocate the costs of the Commission's specialist staff. The Commission's review has identified further areas where the central costs should more properly be allocated to larger operators. These include, for example:

- Costs of gambling strategy consideration and guidance
- Costs of delivering corporate assessment
- Commission's legal costs
- Commission's national sector specialists.

2.86 These changes are reflected in the fee proposals described in this consultation document.

Workloads for the largest categories of non-remote operators

2.87 Categories of operator within the fee scales reflect relative operator levels of activity and risk to the licensing objectives. For larger operators, the activity required comprises two elements:

- The corporate review of an organisation's central compliance arrangements and policies.
- Sample checking of approximately 10% of the organisation's gambling activity (for example, 10% of premises).

2.88 The review of Commission workload shows that more work is required for the largest operators than originally forecast. This is because the work required to carry out a corporate assessment is greater than originally forecast and the expected efficiencies for multiple licence holders have not happened in practice.

- 2.89 In addition, the consolidation of the industry means that the allocation of time for sample checking the delivery on the ground of central corporate policies needs to be flexible enough to accommodate a growing base of gambling activity within an organisation (for example, when a large operator takes over a smaller one).
- 2.90 The additional costs of dealing with the central corporate assessment reflected in the revised fee levels for larger operators and the removal of the discount for those holding multiple licences.
- 2.91 The current fee bands are broad enough to accommodate current levels of activity and related costs. However, the band for general betting (standard) has been the source of some confusion as the operators currently in this band are all significantly above the 200 licensed premises base for the band. One way of dealing with this would be for operators in this band to have their fees calculated with reference to a fixed component, reflecting the corporate workload for a large, complex organisation and a variable component determined by the time required to visit a sample of premises. This will allow a clearer link between the variable costs of sample visits in large operators and the fee tables. This proposal should not make a significant difference to the fees charged to the operators currently in this band, but would make the fees more transparent and resilient to increased costs to the Commission as a result of consolidation or restructuring changes.
- 2.92 **Other fee banding issues:** The Commission has recognised that there are particular issues for general betting (limited) licence holders where fee bands are set by reference to days worked. The Secretary of State and the Commission propose revised arrangements for calculating working days for general betting (limited) licence holders to recognise the anomalous market conditions faced by such operators standing at greyhound meetings staged for broadcast to the off-course betting industry, rather than to satisfy local market demand.
- 2.93 In such cases, attendance at meetings would only be counted as 0.5 days rather than a full day.

Arrangements for remote operators relying on random number generators

- 2.94 As a part of the 2008 consultation, revised arrangements for remote licences for operators relying on random number generators (RNGs) were considered. This covered the current remote casino and bingo licences and the element of general betting that relates to providing remote facilities for betting on the outcome of virtual events (section 68 (4) of the Act).
- 2.95 The Commission has had the opportunity to consider and discuss these proposals further with operators over the past year. Its view remains that these activities have distinct synergies and are subject to the same regulatory consideration, the key issue being that the RNG and other supporting systems are working correctly, not how the game is portrayed to the user. Consequently, although combining these activities introduces a level of complexity to the Commission's work, it is worth pursuing as it is questionable whether current fee structures are the best reflection of the work required.
- 2.96 The Department and the Commission also believe that a composite licence fee for RNG based remote activities would help to avoid some of the current fee related concerns as to what category a particular game should properly belong, or whether a particular game is a betting, bingo or a casino game, by reducing the financial impact of holding the right licence types. It is therefore proposed that revised arrangements for RNG based fees should be introduced.
- 2.97 In order to address the issue fully, it will be necessary to split the current general remote betting licence by applying conditions to limit licences to either betting on real events or virtual events. This approach has not been taken previously, but our expectation in setting current workload and fee assumptions had been that the volume of betting on virtual events would be very small. The Commission's initial information suggests that this is the case.

Work required to regulate both real and virtual event betting provided by the same operator on any scale would be significantly greater than the current fees allow.

- 2.98 It is proposed that fees would be calculated based on the aggregated gross gambling yield (GGY) derived by an operator from the relevant activities (remote casino, bingo and betting on virtual events), rather than on the individual GGY for each activity. The additional complexity involved in regulating a combined licence would be addressed through the addition of a fixed rate licence fee for each additional activity.
- 2.99 The Secretary of State is seeking to set fees at levels which continue to recover costs, but do not have a significant impact on individual operators. The Commission's information shows that very few operators are likely to be affected initially. The advantages would become increasingly available to operators as activity in this area develops.
- 2.100 The application and annual fees for this group would be set against a longer fee scale than the current scale to allow a better fit of fee to licensing activity. The proposed fees are set out in Appendix 5.
- 2.101 The composite fee for the RNG activities would be treated as a single fee within the overall fee structure and would be subject to discounts, where applicable, if held with other licences.
- 2.102 We are also considering the possibility of extending the use of gross gambling yield as the basis for all gambling activity fees. A discussion paper on how this might work will be issued later this year, but such a move would not be possible in time for 2009 fees.

Payment by instalments

- 2.103 The Commission has also considered again the occasional request that we receive for payment by instalments. The Secretary of State and the Commission recognise that such arrangements might help operators with cash flow management, particularly in the current economic climate. However the Act requires that application fees are paid in advance and that an application is therefore not valid until the full application fee has been paid. Similarly, annual fees must be paid in advance, so instalments in arrears have not been possible. The Department and the Commission will therefore review this issue as part of a possible simplification plan.

Section 3: consultation questions

You are invited to comment freely on any aspect of this consultation document. However, you may find it useful to refer to the checklist of questions below, which cover the main points on which we would particularly welcome views. Where possible, please:

- Be as specific as possible in your responses;
- Explain, where appropriate, the reasons behind your agreement or disagreement with a proposal;
- Suggest what alternative you would prefer in place of any proposals you may disagree with.

- Consultation question 1:** Do you have any comments generally on the approach to setting fees?
- Consultation question 2:** What are your views on the proposed reduction of 5% on all operator licence application fees and change and variation fees based on application fees?
- Consultation question 3:** Do you agree with the approach that differentiates between bookmakers who do not make available gaming machines and those who do?
- Consultation question 4:** What are your views on the proposed arrangements for reducing the number of days counted by the Commission for annual fees for bookmakers attending greyhound events primarily for the benefit of off-course betting?
- Consultation question 5:** What are your views on the proposed new licence category for those using exchanges “in the course of business”?
- Consultation question 5:** What are your views on the estimated workloads set out in Appendix 4?
- Consultation question 6:** Do you have any comments on the other fees and charges set out in Appendix 1?
- Consultation question 7:** Do you have any comments on the approach for setting fees for GGY operators, set out in paragraphs 2.93 - 2.101 and in Appendix 5?

Appendix 1 Details of proposed operating and personal licence fees – application fees

Operating licence type	Proposed licence application fees									
	Non-Remote					Remote				
	A	B	C	D	E	F	G	H	I	J
Casino: 2005 Act	£28,641	£37,591				£6,517	£13,018	£19,551	£28,641	£37,591
Casino: 1968 Act	£6,509	£9,763	£19,528	£19,528	£19,528					
Bingo	£977	£1,627	£3,255	£17,087	£20,504	£3,259	£7,169	£16,274	£19,551	£28,641
General betting: standard	£977	£977	£3,417	£17,087	£40,032	£3,259	£7,169	£16,274	£19,551	£28,641
General betting: standard no gaming machines	£977	£977	£3,417							
General betting: limited	£178	£355	£979			£593				
Pool betting	£651	£1,627	£4,882			£651	£1,627	£4,882	£4,882	£4,882
Betting intermediary	£198	£198	£198			£6,346	£13,018	£16,274	£19,551	£28,641
Betting intermediary: trading rooms						£593	£977	£1,627		
Gaming machine general: AGC	£977	£977	£1,627	£4,882	£16,274					
Gaming machine genera: FEC	£977	£977	£1,627	£4,882	£16,274					
Gaming machine technical: full	£977	£1,627	£16,274			£977	£1,627	£16,274		
Gaming machine technical: supplier	£977	£1,627	£4,882			£977	£1,627	£4,882		
Gaming machine technical: software	£977	£4,882	£16,274			£977	£4,882	£16,274		
Gambling software	£977	£4,882	£16,274			£6,346	£13,018	£16,274		
Lottery manager	£977	£1,627	£2,278			£977	£1,627	£2,278		
Society lottery	£163	£244	£325			£163	£244	£325		

Note: The application fee for non-remote betting intermediaries also applies to those using exchanges in the course of business and who do not hold another gambling operator licence.

Appendix 1 (continued)

Details of proposed operating and personal licence fees – Annual fees

Operating licence type	Annual licence fees									
	Non-Remote					Remote				
	A	B	C	D	E	F	G	H	I	J
Casino: 2005 Act	51,877	108,132	216,264			13,529	38,128	74,012	117,746	155,425
Casino: 1968 Act	17,378	23,112	74,112	329,711	443,526					
Bingo	1,646	7,413	17,914	39,928	87,127	13,529	38,128	74,012	117,746	155,425
General betting - standard	1,646	7,413	17,914	41,124	236,927	13,529	38,128	74,012	117,746	155,425
General betting - standard no gaming machine	1,571	7,077	16,860							
General betting - limited	200	467	1,346			1,594				
Pool betting	2,222	4,277	4,338			1,594	38,128	74,012	117,746	155,425
Betting intermediary	280	4,277	4,338			13,529	38,128	74,012	117,746	155,425
Betting intermediary (Trading Rooms)						1,594	6,765	19,063		
Gaming machine general: AGC	1,638	6,771	13,736	29,550	41,124					
Gaming machine general: FEC	1,097	4,905	9,950	23,749	39,928					
Gaming machine technical: manufacturer	3,102	6,625	15,813			6,765	19,063	37,006		
Gaming machine technical: supplier	1,258	3,397	4,338			6,765	19,063	37,006		
Gaming machine technical: software	1,608	4,044	6,575			6,765	19,063	37,006		
Gambling software	1,608	4,044	6,575			6,765	19,063	37,006		
Lottery managers	2,075	2,368	2,700			6,765	19,063	37,006		
Society lotteries	348	692	1,458			365	725	1,458		

Note: The annual fee for Category A non-remote betting intermediaries also applies to those using exchanges in the course of business and who do not hold another gambling operator licence.

Appendix 1 (continued)

Details of proposed operating and personal licence fees – Annual fee increases

Operating licence type	Annual licence fees									
	Non-Remote					Remote				
	A	B	C	D	E	F	G	H	I	J
Casino: 2005 Act	3,052	6,361	12,721			796	2,243	4,354	6,926	9,143
Casino: 1968 Act	1,022	1,360	4,360	19,395	26,090					
Bingo	75	336	1,054	2,349	5,125	796	2,243	4,354	6,926	9,143
General betting - standard	75	336	1,054	2,419	13,937	796	2,243	4,354	6,926	9,143
General betting - standard no gaming machine	0	336	1,054							
General betting - limited	0	0	0			94				
Pool betting	101	194	255			94	2,243	4,354	6,926	9,143
Betting intermediary	13	194	255			796	2,243	4,354	6,926	9,143
Betting intermediary (Trading Rooms)						94	398	1,121		
Gaming machine general: AGC	74	307	808	1,738	2,419					
Gaming machine general: FEC	50	222	585	1,397	2,349					
Gaming machine technical: manufacturer	141	300	930			398	1,121	2,177		
Gaming machine technical: supplier	57	154	255			398	1,121	2,177		
Gaming machine technical: software	73	183	387			398	1,121	2,177		
Gambling software	73	183	387			398	1,121	2,177		
Lottery managers	94	107	159			398	1,121	2,177		
Society lotteries	0	0	66			17	33	66		

Appendix 1 (continued)

Details of proposed operating and personal licence fees – other fees and charges

		Fee	
Changes in control			
	Changes in control (when acquiring entity is not licensed)	75% of standard licence fee	
	Changes in control (when acquiring entity is licensed and there are financial or structural changes)	50% of standard licence fee	
	Changes in control (when acquiring entity is licensed and there are no financial or structural changes)	£100	
	Change resulting from divisions	75% of standard licence fee	
Variations			
	Add licensed activity	25% of standard licence fee	
	Amend licensed activity	25% of standard licence fee	
	Remove licensed activity	£25	
	Change details	£25	
	Change details (where a Personal Declaration - Annex A is required)	£100	
	Add a condition to the licence	25% of standard licence fee	
	Amend a condition to the licence	25% of standard licence fee	
	Remove a condition to the licence	25% of standard licence fee	
Copy of licence		£25	
Copies of the register of operating licences (NB available via email for no charge)		£25	
Application for a permit under Section 250(2) - Single gaming machine permit		£25	
		Application fee	Annual fee
Ancillary Licence Types			
Hand held terminals		£100	£25
General betting		£100	£25
Bingo: National game		£100	£25
Gaming machine technical: software		£100	£25
Non-remote Linked Licence Type			
Gaming machine technical: supplier		£364	£500
Gaming machine technical: software		£364	£500
Gambling software		£364	£500
Remote Linked Licence Type			
Gaming machine technical: software		£165	£375
Gambling software		£165	£375

Appendix 2: Initial impact assessment

Initial Impact Assessment

Summary: Intervention & Options

Published: March 2009

Department /Agency:DCMS /Gambling Commission		Title: Proposals for Gambling Commission Fees from August 2009	
Stage: Review		Version: 1	Date: March 2009
Related Publications: Gambling Act 2005 - Proposals for Gambling Commission Fees (DCMS, March 2008); Final Impact Assessment - Gambling Commission Fees (DCMS July 2008); Proposals for Gambling Commission Fees – Consultation Paper (DCMS, July 2006); Summary of Responses to ‘Proposals for Gambling Commission Fees – Consultation Paper’ (DCMS, December 2006); The Gambling (Operating Licence and Single-Machine Permit Fees) Regulations 2006 (The Stationery Office, December 2006); The Gambling (Personal Licence Fees) Regulations 2006 (The Stationery Office, December 2006).			

Available to view or download at: www.culture.gov.uk

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What is the problem under consideration? Why is Government intervention necessary?

Under the Gambling Act 2005 (the Act) persons wishing to provide gambling facilities and opportunities to the public must hold a licence from the Gambling Commission (the Commission), the body responsible for regulating gambling in Great Britain. The full requirements of the Act came into effect on 1 September 2007. In line with *Managing Public Money*,⁶ the Department for Culture, Media and Sport (the Department) reviews the level of licence fees annually and proposes changes if necessary. The consultation document published alongside this assessment sets out proposals to modify the fee structure with effect from 1 August 2009.

What are the policy objectives and the intended effects?

The objective of the fee structure is to enable the Commission to recover its operating costs in full while ensuring fairness and value for money in regulating the gambling industry. The principle underlying this approach is that the fee paid by licensees will reflect the resources expended by the Commission on ensuring licensees comply with the licensing objectives set out in the Act. This ensures that the industry is not subsidised by the tax payer and that one sector or class of operator does not subsidise another. Thus fee levels reflect the Commission's full operational costs, including the cost of policing the illegal sector and vary according to the sector and risk and scale of the licensee. DCMS agreed that this review should be conducted in the light of the Commission's experience of the first full year of compliance and enforcement work with the industry.

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

1. No change to the existing fee structure and levels. The impact of this scenario is set out in the consultation document.
2. Medium range fee increases to allow the Commission to recover its operating costs. This option is set out in the consultation document and summarised in the assessment of options in this Impact Assessment. **This is the preferred option** as, on the basis of available information, it best meets the objective of ensuring that the Commission is adequately resourced to carry out its regulatory functions while at the same time ensuring fairness for the gambling industry and paying due regard to the current economic climate.

⁶ Managing Public Money, HM Treasury, July 2007

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

The fee settlement under consultation is intended to cover 2 years and therefore the next review will be in 2011, subject to the requirement in *Managing Public Money* to review costs annually and the need to make adjustments in the light of any significant unforecasted cost changes.

Ministerial 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 costs, benefits and impact of the leading options.

Signed by the Minister for Sport:

..... Date:

.....

Gerry Sutcliffe

Chief Executive and Commissioner, Gambling Commission

Summary: Analysis & Evidence

Policy Option: 2		Description: A package of modifications as set out in the consultation document and summarised in the assessment of options in this Impact Assessment.	
COSTS	ANNUAL COSTS		<p>Key monetised costs by main affected groups.</p> <p>The increase in annual fees will increase costs to most operators (excluding around 850 of the smallest operators and society lotteries (see below)). Based on the current operators, the increase will amount to £416k in 2009/10 and £738k in a full year.</p> <p>The reduction, from 10% to 5%, in the discount available for holders of multiple licences is estimated to cost the industry £44k in 2009/10 and £78k a full year.</p> <p>The increase in fees for personal licences is estimated to cost the industry £76k in 2009/10 and £83k in a full year.</p>
	One-off	Yr	
	£		
	Average Annual Cost (excluding one-off)		
£ 899k		Total Cost (PV)	£ 899k
Key non-monetised costs by main affected groups. None identified.			
BENEFITS	ANNUAL BENEFITS		<p>Key monetised benefits by main affected groups.</p> <p>The Commission predicts that it will receive approximately 285 operator licence applications next year, all in the smallest categories. Based on the reduction of 5% on application fees the industry will save costs of £14k compared to the current fees.</p> <p>Fees for changes and variations to licences are based on application fees and will be reduced as a result of the 5% reduction in application fees. It is not possible to estimate the impact of this reduction in costs as it relates to unpredictable levels of activity.</p> <p>The freezing of annual fees for certain categories of small operator in annual fees for the smallest operators will affect 800 licensed operators, reducing costs to the industry by £11k during 2009/10 and £21k in a full year.</p>
	One-off	Yr	
	£		
	Average Annual Benefit (excluding one-off)		
£35k		Total Benefit (PV)	£35k
Key Assumptions/Sensitivities/Risks			
Price Base Year	Time Period Years	Net Benefit Range (NPV) £	Net Benefit (NPV Best estimate) £
What is the geographic coverage of the policy/option?			Great Britain
On what date will the policy be implemented?			1 August 2008
Which organisation(s) will enforce the policy?			Gambling Commission
What is the total annual cost of enforcement for these			n/a
Does enforcement comply with Hampton principles?			Yes
Will implementation go beyond minimum EU			n/a
What is the value of the proposed offsetting measure			n/a

What is the value of changes in greenhouse gas					n/a
Will the proposal have a significant impact on					No
Annual cost (£-£) per organisation (excluding one-off) (approximate)		Micro - £ 75	Small £ 75	Medium £ 300	Large £ 3000
Are any of these organisations		No	No	No	No
Impact on Admin Burdens Baseline (2005 process)					(Increase – Decrease)
Increase of	£ 0	Decrease of	£ 0	Net Impact	£ 0

Evidence Base

What is the problem under consideration?

Summary

- Under the Act, persons wishing to provide commercial gambling facilities and opportunities to the public must hold a licence from the Gambling Commission, the body responsible for regulating gambling in Great Britain, and thereafter pay regular fees to maintain their licences. Fee levels are set by the Secretary of State for Culture, Media and Sport so as to enable the Commission to recover its operating costs in full while at the same time ensuring fairness and value for money in regulating the gambling industry.
- The full requirements of the Act came into effect on 1 September 2007, although operators were able to apply for licences from 1 January 2007. Following a joint consultation exercise with the Commission, DCMS set fee levels in 2006 to apply from 1 January 2007. A review was conducted in 2008 to ensure that the assumptions underlying the regime were correct and to see whether improvements might be made. No change was made to the aggregate take from fees at this stage although the burden between different operators was adjusted.
- In the consultation paper *'Proposals for Gambling Commission Fees for August 2009'* the Commission and the Department set out proposals for modifying the fee structure with effect from 1 August 2009. This Impact Assessment looks at the impact of the proposals on the gambling industry.

Background

- The Act put in place new arrangements for regulating gambling in Great Britain and repealed previous legislation, such as the Betting, Gaming and Lotteries Act 1963, the Gaming Act 1968 and the Lotteries and Amusements Act 1976. The Act also established the Gambling Commission as the body responsible for regulating all gambling in Great Britain, except the National Lottery and spread betting which are regulated by the National Lottery Commission and the Financial Services Authority respectively.
- Government policy on fees, charges and levies charged by public bodies is set out in *Managing Public Money*⁷. This states the general principle that fees should be set so as to recover the full cost of the service provided. This principle applies in the case of gambling licences even though

⁷ *Managing Public Money* HM Treasury, July 2007

the function of the Commission is to regulate the gambling industry in the public interest, rather than to provide a service to the industry.

6. The Commission issues two types of gambling licence: operating and personal. Both are subject to a one-off application fee. Under the fee structure in place from 1 January 2007 fees for operator licences are based on fee bands and vary according to the sector and the appropriate fee band. Fee bands are based on either:
 - number of licensed premises owned by an operator (bingo, standard betting and arcades)
 - gross gaming yield (existing casinos)
 - gross gambling yield (pool betting, betting intermediaries and remote casino, bingo and betting)
 - annual gross sales (gaming machines)
 - annual proceeds (lotteries)
 - size of premises (new casinos)
 - number of working days (limited betting – ie on-course bookmakers).
7. Operators must pay an annual fee to keep the licence. The level of annual fees is also determined by the same relevant fee band.
8. There are two categories of personal licence:
 - personal management licence – required by all persons who occupy a specified management office in respect of the holder of an operating licence
 - personal functional licence – required by those individuals who perform any function which enables them to influence the outcome of gambling or who are involved in the receiving or paying of money in connection with gambling.
9. There is a flat rate for personal licence applications, which do not have an annual fee, although a maintenance fee is payable every five years after the licence has been issued.
10. Fees are also payable to the Commission should the licence holder wish to change or vary an operating or personal licence. These fees are charged on the basis of the average effort (and therefore cost) relative to the variation.
11. Any person providing commercial gambling opportunities to the public from fixed premises, rather than remotely, will need to purchase a premises licence from the relevant local authority. Premises licences are subject to an annual fee set by the local authority. As they are not administered by the Commission, premises licences were not included in this review of licence fees and hence are not considered in this Impact Assessment.

Why is Government intervention necessary?

12. When fee levels were set in 2006 for the first year of the new regulatory regime, the DCMS and the Commission agreed to review fees annually in accordance with the requirements of Managing Public Money and in light of actual experience of licensing and compliance activity and, if necessary, to make changes. A revised fee structure was introduced with effect from 1 August 2008.
13. Following the 2008 consultation exercise, the final Impact Assessment, published in July 2008, stated that both the Department and the Commission would keep matters under review and respond promptly if evidence emerged that a revision to fee levels or the fees structure was required. After a full year of compliance and enforcement activity and regulatory costs, there is now a sufficient evidence base to require a further review.

Policy Objectives

14. The objective of this intervention is to improve the fee structure in terms of setting fee levels at a level which enables full cost recovery of the Commission's licensing and compliance activities whilst ensuring fairness and value for money in regulating the gambling industry. This in turn underpins the Commission's functions, duties and powers in pursuing its three overarching licensing objectives set out 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
- Protecting children and other vulnerable persons from being harmed or exploited by gambling.

Intended effects

15. The intended effect of this review of licence fees is to set fees at a level which enables full recovery of the Commission's proper and reasonable costs of licensing and regulatory activities, including the policing of illegal activity, whilst ensuring fairness and value for money for the gambling industry.

16. The wider 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 that DCMS and the Commission are seeking, therefore, is a well-regulated and socially responsible industry.

Consultation

17. This consultation is expected to be primarily of relevance to the gambling industry and a wide range of other stakeholders who have an interest in the industry and in the proposals in the document *Proposals for Gambling Commission Fees for August 2009*, published in March 2009.

18. An analysis of issues raised in representations made and information on DCMS/Commission response to representations will be included here once consultation is concluded.

Assessment of the policy options

19. The assessment of policy options is determined primarily by the availability of evidence on which to base changes. As has been noted above, DCMS and the Commission agreed to review fees in 2008 to ensure that the regime was working as intended and to see whether improvements might be made. After this review only minor adjustments were made because of the limited evidence base. DCMS and the Commission now consider that there are grounds for making more far-reaching changes and, all things being equal, to hold revised fee levels until at least 2011.

20. The Commission's revenue from fees and other sources, including interest, has been significantly below the levels originally expected and will not be sufficient to cover the Commission's forecast costs of regulation. The main reasons for this are:

- The volume of operators has not grown in line with the assumptions made following the passing of the Act, although the overall number of operators remains broadly in line with the Commission's initial assumptions and the volume of gambling has increased.
 - Some larger operators have moved all or part of their remote operations to white listed or European jurisdictions, resulting in a fall in the Commission's revenues; others have expanded the remote side of their businesses outside the UK although the social impact of the related gambling still falls within the Commission's remit.
 - The fall in interest rates has reduced the Commission's income by between £0.2m - £0.3m each year.
 - Although the Commission has made savings in its running costs and will continue to seek further savings, the Commission's costs have increased since 2006 (for example, there have been significant increases in costs for energy and travel costs during 2008/09 and staff pay has increased in line with Government pay guidelines).
 - A combination of these factors means that the Commission had a deficit at 31 March 2008 of £0.7m which it must address.
 - The costs of advising on research, education and treatment are estimated to be some £0.25m per annum greater than previously estimated as the Commission is not able to rely, as had been expected, on other bodies, including the Responsibility in Gambling Trust (RIGT) to provide the necessary input.
 - The pattern of consolidation within the industry has continued, reducing the number of operators, while the volume of gambling does not decrease.
21. In proposing its budget, the Commission has had particular regard to the current economic climate and the pressures that this places on all operators. Nevertheless, the Commission must still ensure that it has adequate resources to deliver effective regulation as required by the Act. It is required to recover its costs and must recover those costs from those sectors where the costs fall. Two options have therefore been considered.

Options

Option 1: Do not make any changes to the current fees for operating and personal licences.

22. The Commission has held aggregate fees at 2006 levels by delivering efficiency improvements and savings. The impact of holding fees at current levels would be to require the Commission to reduce its planned spending by a further £3.7m in the three years to 2011/12. The Commission would be required to take action to reduce its deficit to zero in order to comply with the requirements of its funding agreement. These reductions would be in addition to the significant changes already included in the spending projections set out in the consultation document.
23. The impact of making such reductions would be significant and would fundamentally undermine the effectiveness of the regulatory regime at a time when the statutory objectives are likely to be under increasing pressure. The majority of the Commission's costs relate to its staff and the costs (already well below West Midland's government estate levels) of maintaining its premises in Birmingham. Whilst these costs can be reduced in the medium term there would be short-term additional costs (for example, redundancy costs for staff and the penalty conditions in the building lease).
24. A zero fee increase would mean a significant change in the Government's approach to the regulation of gambling from that which has been followed since the Act. The key changes would be:

- Reduction in staff costs across the organisation, requiring compulsory redundancies, and having a significant impact on the Commission's developing knowledge and skills base.
 - The Commission would have to accept a significantly higher level of risk to the licensing objectives in order to reduce effort on compliance within the regulated sector to match reduced resources;
 - There would be little or no active enforcement in the illegal sector (that will have to be done, if at all, by local authorities, which would place additional pressure on the premises licence fees);
 - The Commission would be unable to monitor and respond promptly to the industry's innovation.
 - The Commission would be unable to develop the efficiency of the regime as required by the Hampton Principles, for example through better working with local authorities and other enforcement agencies;
 - The Commission would have to suspend developments in improvements to the regulatory regime that are potentially to the industry's advantage, for example the analysis and utilisation of regulatory return data to develop and focus regulatory and best practice efforts;
 - The Commission's ability to deliver some key functions that the Department has come to rely on would be removed or, at least, seriously curtailed, for example, advice generally, the machines research programme and international remote policy;
 - The Commission would not be able to enhance its compliance regime for remote operators, particularly for foreign operators;
 - Development of work on betting integrity would be significantly curtailed;
 - The remit given to the Strategy Board would have to be severely curtailed or postponed; and
 - The likelihood, given the Commission's cost structure, that it would still end the period with a significant deficit.
25. DCMS and the Commission recognise that the current recession places particular burdens on the industry, but consider that making no changes to fees is not a viable option. A commitment was made to review the fee structure last year and evidence now exists to support changes in the fees charged to reflect the proper and realistic costs to the Commission of discharging its statutory responsibilities. In DCMS's view, the Commission could not discharge its responsibilities effectively without a fee increase. Also the purpose of the fee review is to make changes where justified by the evidence. Since there is evidence that changes are warranted, and could be implemented without undue disruption, it would be unacceptable to reject the opportunity of making improvements to the fee structure in favour of the status quo. This option is therefore rejected.

Option 2: Medium range fee increase as detailed in the consultation document and summarised in the assessment of options in this Impact Assessment.

26. This is the preferred option. Fees would be changed as follows.

Proposed changes to fees

27. The proposed changes to fees are set out in the following paragraphs. It is estimated that the impact of these increases on the Commission's income would amount to £0.57m in 2009/10 and would total £2.57m for the three years to 2011/12.

Application fees

28. The Commission has reviewed its arrangements for issuing the licences, taking particular account of the feedback from applicants to date. Combined with revised ICT arrangements, this allows the Commission to propose a reduction of 5% on all operator licence application fees. The Commission considers that this will help reduce the entry costs for businesses that are starting up in the sector.

Annual fees

29. The Commission's costs have increased across most operators since the original fee levels were set in 2006. The preferred option is, therefore, for annual fees to change as follows from 1 August 2009:
- No increase in annual fees for general betting (limited) and society lottery operators in categories A and B or the new category of general betting (standard) operators (covering betting shops with no gaming machines). We estimate that this covers 850 operators.
 - An increase of 4.75% for all other category A and B operators (except 1968 Act and 2005 Act casino operators) and all other categories of society lottery operators.
 - An increase of 6.25% for all other operators (including all casino operators in categories A and B).
30. These fee proposals would, for example, increase the cost for a small bookmaker by approximately £75 in 2009/10 and £26,090 for the largest casino operator. The revised fee tables and the impact on individual categories are set out at appendix 1 of the consultation document.
31. The Commission recognise that there are particular burdens on small businesses, but as described above, many of the smallest businesses will have their fees frozen and the proposed fees remain in line with the costs of regulating businesses. The following changes to annual fees are proposed to certain categories of small operators:
- In the case of the smallest bookmakers, it is our view that those operators which do not have any gaming machines incur less compliance effort than those with such machines as generally gross gaming yield is lower and the range of compliance issues narrower. A new category of fee is therefore proposed and fees for this group of operators will not increase from the level paid currently.
 - In the light of our review of risk and the associated reduction in compliance effort required in accordance with the Hampton Principles, we do not propose any increases in the annual fees for category A and B general betting (limited) - ie on-course - and society lottery operators.
 - The introduction of revised arrangements to recognise the anomalous market conditions faced by bookmakers standing at greyhound meetings staged for broadcast to the off-course betting industry, rather than to satisfy local market demand. Ways of discounting or reducing the number of days counted for fee purposes are considered.
32. For those with multiple licences, a discount is currently given on annual fees for the second and subsequent licence. However, work shows that costs on multiple licences are not significantly less than for individual licences. The actual workload and costs for individual activities is the same and the costs of corporate reviews are higher, taking longer than originally projected and requiring more expensive staff. It is therefore proposed that this discount should be reduced from 10% to 5%.

Personal licences

33. Personal licences are subject to quinquennial review by the Commission. The fees charged have not changed since the original 2006 fee structure, but the costs of delivering these licences has increased, notwithstanding the improvements made in processing applications. In particular the cost of processing CRB checks and enforcement activity in respect of PFL holders is in excess of original estimates. It is therefore proposed to increase:

- The cost of a PFL from £165 to £185.
- The cost of PML from £330 to £370.

Other fees

34. Charges for changes and variations are largely based on application fees and will be reduced as a result of the reduction in application fees.

35. Fees for ancillary and linked licences will remain at current levels.

Impact of these changes

36. The impact of these fee changes would be to allow the Commission to recover its remaining start up costs by 2013/14. This would allow the Commission to continue its operations and activities at its planned, more cost effective levels. The Commission would move to break-even on its operational activities from 2011/12.

37. If the Commission were required to take further action on costs to reduce this deficit to zero over three years, the impact of making such reductions, equivalent to a further reduction of £0.38m a year, would be significant and, in the Commission's view, this would undermine the Commission's effectiveness at the time when the statutory objectives are likely to be under increasing pressure. The key changes required would, as in the zero fee change option, be a combination of:

- Significant reduction in operational activity across the organisation.
- Stopping all work other than the absolute statutory minimum requirement, accepting a significantly higher risk threshold.
- Ceasing all work on behalf of the Department unless grant funded.
- Minimal enforcement work in the illegal sector, i.e. no work in areas such as integrity in betting, coverage of the impact of white listing activity, action against the unlawful supply of machines.

Economic impact

41 The overall impact of the changes in the preferred option would result in an estimated net increase in costs to the industry of £864k in 2010/11. This amounts to approximately 0.009% of the estimated £10bn gross gambling yield for Great Britain. This would be the first increase in the aggregate burden from fees since the fees were set in 2006. The increase proposed (approximately 6% in the first full year) is below the rate of inflation for 2006 - 2009 and no further increases are expected before 2011. The break down of the overall impact is set out in the following paragraphs.

Cost reductions

42. As a result of improved efficiencies in the licensing process, the preferred option is to reduce all application fees by 5%. This is expected to be of particular assistance to new small businesses as it will reduce the costs of entry to the market. The Commission estimates that it will receive 285 applications in the next year. The proposed reduction will reduce the costs to the industry by £14k.
43. Fees and charges for changes and variations to operating licences are based on application fees. As a result, these will also fall by 5%. It is not possible to estimate the impact of this change as it relates to unpredictable levels of activity.
44. Annual fees for the smallest operators would be frozen at current levels. This reflects the relative risk assessment attributed to these operators by the Commission. The categories included are non-remote general betting (standard), no gaming machines (all categories), non-remote general betting limited (categories A and B) and society lotteries (categories A and B). The Commission estimates that this would include over 800 operators (around 20% of total operators). This would reduce costs to the industry by £21k in 2010/11.

Cost increases

45. Annual fees will be increased by 4.75% for all other category A and B operators (except 1968 Act and 2005 Act casino operators) and all other categories of society lottery operators. This reflects the increases in the Commission's costs. These cost increases are lower for smaller operators because of the lower unit staff costs that are required and the relative risk of these operators. The impact of these changes would increase costs by £211k in 2010/11.
45. Annual fees for all other operators (including all casino operators in categories A and B) will be increased by 6.25%. This reflects the increases in the Commission's costs, in particular the higher unit costs of specialist staff and the technical demands placed on the Commission by larger, more complex operators. The impact of these changes would increase costs by £527k in 2010/11.
46. The discount currently applied to annual fees for holders of multiple licences will be reduced from 10% to 5%. This is because the discount has proved not to reflect actual workload requirements in such cases. This change will increase costs by £78k in 2010/11.
47. Personal licence fees will be increased to reflect the Commission's increased costs. In particular this relates to increased costs associated with Criminal Records Bureau (CRB). It is estimated that the increases in cost from these changes will be £83k in a full year, based on 5000 personal functional licences and 500 personal management licences.

Competition assessment

48. The Department and the Commission do not expect any significant changes in the structure of the gambling industry as a result of the proposed fee changes. The requirement is applied across all of the licensed commercial gambling industry in Great Britain, except the National Lottery and spread betting, which are regulated by other authorities.
49. A simple competition assessment of this proposal has been undertaken in accordance with Better Regulation Executive/Office of Fair Trade guidance and has concluded that a full competition assessment is unnecessary. The fees proposed reflect the regulatory costs as they relate to their licensing activities, which in turn reflect the risks and complexity posed to the statutory licensing objectives of the Commission. Thus, large complex, higher risk operations will be charged at a higher rate than smaller simpler and lower risk operations. This is because although the costs of

research and design will be similar no matter what the size of the gambling operation, monitoring and enforcement costs are both likely to increase as the size, complexity and risk of the operation increases. Also the fee levels do not become an unreasonable barrier for businesses wishing to operate in the gambling industry. The proposals are designed to be fair to all sectors of the gambling industry, whilst taking into account the size and of a business within a particular sector in determining the level of fees.

50. The Act removes restrictions and statutory requirements for businesses that may act as impediments to entry. The proposed fees will in all probability be passed on to customers. They are unlikely to affect competition between firms in the same sub-sector of the industry.
51. This form of differential pricing is unlikely to affect the structure of the industry or the number or size of firms. This is because the charges will be small relative to turnover or profitability. Moreover, they will affect existing firms in the same way as new firms both in terms of set up and on-going costs.
52. The gambling sector is characterised by rapid technological change. Recent years have witnessed major changes in the mechanisation of many forms of gambling. This trend is likely to continue and is unlikely to be affected by the proposed changes. In particular, there is nothing in the changes which affects the ability of firms to choose the price, quality, range or location of their product. Indeed, the Act incorporates a high degree of regulatory flexibility making it less likely than in the past that the licensing regime itself influences the structure of the gambling industry.
53. The overall conditions of competition in the British gambling industry are unlikely to be materially affected by the proposed changes.

Small firms impact test

54. The fee structure is designed to reflect the relative risk of operators in relation to the Commission's compliance activities – higher fees reflect higher levels of compliance activity. Thus smaller operators are required to pay lower fees than larger operators since they are judged to be a lower risk., This principle of proportionate charging, which ensures fairness to smaller operators, is not affected by the proposed changes to fees.
55. The package of modifications outlined within Option 2, balances the fee structure by addressing the cost and risk anomalies which have come to light with the existing arrangements. The reduction in application fees for the small operators is justified by information available regarding the resource requirements for licensing activity. Freezing fees for the smallest operators reflects the Commission's risk and workload assessments for such operators in the light of its regulatory activity to date.
56. DCMS's and the Commission's objectives, within the overall framework for effective regulation, is to minimise any disproportionate impact on small businesses and this is reflected in these proposals. Trade organisations that have both large and small operators as members and the Department for Business Enterprise & Regulatory Reform (BERR)'s Enterprise Directorate will be consulted on the proposed changes to the fee structure.
57. Neither DCMS nor the Commission consider that the regulation will unfairly impact upon small firms or new entrants into the gambling industry. However, these changes enable the Commission to re-balance the fee structure by addressing the anomalies which have come to light with the existing arrangements. This is in accordance of the Government's commitment through BERR's Enterprise Directorate support of small businesses.

Legal aid

58. Neither the Department nor the Commission consider that the regulation will have any impact on demand for legal aid. Under the provisions of the Act, individuals are required by law to pay fees to obtain and maintain licences.

Sustainable development and environmental impact

59. Neither the Department nor the Commission consider that there are any significant environmental considerations (such as in respect of sustainable development or carbon emissions) attributable to actions taken by the industry in complying with the regulation.

Health impact

60. The changes to the Commission's fees do not in themselves have implications for health. However, the changes enable the Commission to carry out its functions effectively and do have such implications. The Commission's activities include working with partners in Government and the industry to ensure that gambling is conducted in a socially responsible way and that steps are taken to reduce problem gambling. This is a health matter to the extent that 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.

Impact on equality and human rights

61. As a public body the Commission has specific responsibilities to promote equality and eliminate unlawful discrimination, and must assess all of its proposed policies and practices in relation to their consequences in this regard.

62. Neither the Department nor the Commission consider that the changes to the fees will have any impact on equality or human rights issues; but the Commission will provide operators with any advice and support they may need to adjust to the new fee structure.

Impact on rural areas

63. There is no reason to suppose that operators or outlets located in rural areas will be at a disadvantage from this measure. Neither the Department nor the Commission consider that the requirement will have a differential impact on rural areas.

Sectors and groups affected by the regulation

64. All sectors of the gambling industry, except the National Lottery and spread betting, are affected by the proposed regulation. This includes anyone wishing to enter the industry or to sell specialist equipment to it and the potential and actual staff employed in key roles. This numbers some 4,000 operators, varying from some of the biggest entertainment companies in Great Britain to owner/operators of single arcades and betting shops.

Future considerations

65. As the consultation document points out, it is still at the early stages of the implementation of this legislation and there are significant uncertainties for the industry, as with other sectors, in the current economic recession. As a result, the arrangements and priorities for the future are likely to change and such changes may impact differently on different sectors of the industry. For example the Commission is not yet able to predict accurately the work required to consider properly the issue of integrity in sport and its impact. Similarly in the machines area, the illegal supply and locating of machines continues to need considerable effort. In addition, recent

legislation on money laundering may well result in the need for increased compliance and enforcement activity beyond that already planned.

66. Changes to technology and business models always present a challenge to the regulator to ensure that the regulation is proportionate and properly focussed and new developments can radically change the face of the industry. Similarly there is evidence at present of a degree of consolidation among certain sectors this too may change the regulatory environment.

Specific Impact Tests: Checklist

Type of testing undertaken	<i>Results in evidence base?</i>	<i>Results annexed?</i>
Competition assessment	Yes	No
Small firms impact test	Yes	No
Legal aid	Yes	No
Sustainable development	Yes	No
Carbon assessment	Yes	No
Other environment	Yes	No
Health impact assessment	Yes	No
Race equality	Yes	No
Disability equality	Yes	No
Gender equality	Yes	No
Human Rights	Yes	No
Rural proofing	Yes	No

Appendix 3 - Authority to set fees

1. The Act contains powers for the Secretary of State to prescribe and the Commission to charge various fees for performing its licensing and regulatory activities.
2. The fees relating to operating licences are:
 - Application Fees, payable by anyone applying for an operating licence (section 69);
 - Annual fees, payable annually by all operating licence holders for the maintenance of their licence (section 100 of the Act) to meet the costs of the Commission's compliance and enforcement activities in maintaining the licence, which is indefinite in duration;
 - Change or Variation of Licence fees, payable by holders of operating licences when applying for specific types of amendment to the licence (section 101 (change of circumstance) or section 104 (variation of licence));
 - Change of Control fees, payable when seeking a determination that an operating licence can continue to have effect following changes in the corporate control of the licence holder (section 102) and
 - Copy of Licence fee, payable for the provision of a replacement copy of an operating licence (section 107).
3. The Act provides similar fee-setting powers in relation to personal licences. The Act allows for application fees, change and variation of licence fees and copy of licence fees (section 128). There are powers to set a periodic maintenance fee for a personal licence, which need not be annual, (section 132).
4. All of these fees are set by the Secretary of State through regulations, subject to the negative resolution procedure in Parliament. In all cases, the Secretary of State has the power to set the fees differentially, according to the class or type of licence, type of activity, or particular cases or circumstances (section 355(1), together with sections 69(5), 100(3), 132(3)).
5. The Commission itself can set fees for making registers containing information about licences available to the public (section 106). These fees must not exceed the reasonable cost of providing the service (section 106(3)).

Appendix 4: Licence management – estimated workloads

Effort assumptions for processing personal licence applications

Personal Licence Type	Average Effort for processing application (person days)
Personal Management Licence	0.5
Personal Functional Licence	0.3

Maintenance of Licences – Effort assumptions

Activity	Average Effort (person days) per licensed operator
Annual Fee Collection	0.5
Scanning, File Retrieval etc	0.1
Regulatory Return collection	0.5
Pro-active telephone contact with operators	0.5

Estimated Volume of and Effort Assumptions for Variations 2009

Number of Variations	Average Effort for processing application (person days)
Removal of Person from Schedule X Removal of Person from Schedule Y Change Trading Name Change Head Office address Change to Lower Category of Licence Removal of Licence Activity	0.25
Addition of Person to Schedule X Addition of Person to Schedule Y Change to Higher Category of Licence	0.5
Change of Corporate Control Addition of Licence Activity	1.5 days

Appendix 5: Fee table for Gross Gambling Yield operators

1. A revised approach to calculating fees for remote gambling which is driven by a random number generator (RNG) is set out in paragraphs 2.93 – 2.101 of the paper. This appendix sets out an illustrative framework for fees that would be charged under such an arrangement.
2. These proposed fees cover the RNG group – casino, bingo and betting on virtual events. An illustrative table of fees against bandings of gross gambling yield⁸ (GGY) and a standard additional licence fee to cover the complexity of combining these licences is set out below.

Fees framework for remote casino, bingo and betting on virtual events– application fees

Category	Aggregate GGY		Fee
	From	To	
	£ms	£ms	
1		0.5	2,933
2	0.5	5	7,169
3	5	25	16,274
4	25	100	19,551
5	100	250	28,641
6	250	500	37,591
7	500		37,591

Standard additional application licence fee: £1,050 (payable for the first and subsequent combined licences)

Fees framework for remote casino, bingo and betting on virtual events– annual fees

⁸ Gross gambling yield is calculated as the total amount paid to the licensee in stakes and/or other amounts (fees and sales) directly in connection with the activities authorised by the licence, as defined in S.I. 2006 No.3284

Category	Aggregate GGY		Fee
	From £ms	To £ms	
1	0.0	0.5	3,188
2	0.5	5.0	9,563
3	5.0	25.0	13,529
4	25.0	100.0	38,128
5	100.0	250.0	74,012
6	250.0	500.0	117,746
7	500.0		155,425

Standard additional annual licence fee: £2,500 (payable for the first and subsequent combined licences)

