

# Critical success factors for regional casinos

A Europe Economics view





### Who is Europe Economics?

Europe Economics is an independent consultancy, based in London, which specialises in the application of economics and econometrics to business and public policy issues. We work at home and abroad across a wide variety of sectors. Our clients include companies large and small, central and local government, regulators and competition authorities, trade associations and law firms. We have done substantial amounts of work in the gambling field.

We have been retained by Manchester City Council to give an independent view on the factors that we think the Government's Independent Advisory Panel would or should take into account in recommending locations for seventeen new casinos to be licensed under the 2005 Gambling Act. Our remit covers only the single Regional Casino, for which Manchester City Council intends to submit an application.

### What are the duties of the Panel?

The Government statement appointing the Panel said: "The primary consideration of the Panel will be to ensure that the areas identified satisfy the need for the best possible test of social impact. They will also take into account the potential for regeneration in the areas." This wording is not wholly clear, nor has the Government prescribed how the Panel should work.

### Critical success factors

The tests that we think the Panel would or should apply are referred to as "critical success factors". To assess them we have drawn on our economics expertise in project appraisal, on first-hand experience of the way in which Government-appointed review bodies work, and on market research studies relating to casinos.

We think there is a hierarchy of issues that the Panel will need to address, and it seems to us that the Panel will need to satisfy itself that each bid passes the first test before it devotes time and resources to the second and subsequent tests.

We treat social impact and regeneration as over-arching policy requirements, but in our view there are prior tests to be applied.

### Credibility

The first is the experience and capacity – in a word, the credibility – of each applicant to take on the Regional Casino project. The Panel's recommendation and the Secretary of State's decision on the location of the pioneer Regional Casino will be high-profile matters; yet, at the same time the Regional Casino concept is untried in Britain. We take the view therefore that Government will want minimum risk. If so, applicant credibility should rank high. In practice a credibility test should require the applicant authority to show solid experience of managing major development projects and success in regeneration. This may well mean that for the single Regional Casino (but not necessarily for the eight Large and eight Small casinos defined by the Act) large city authorities have advantages of experience and project management capability over smaller or non-city authorities.

Closely related to credibility, but distinguishable from it, should be evidence of local support for the casino, not just the absence of opposition to it.

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## Commercial viability

The second most important factor is reasonable certainty of the casino's commercial viability. We do not argue that the panel should examine detailed accounts, but it should require, as a minimum, hard evidence of available demand. Without commercial success, regeneration and other social benefits required from the casino will simply not emerge. Indeed, if the casino proves unviable, it risks becoming a drain on resources – and will have denied benefits to another area.

Base demand for the casino should be plentiful, reliable and non-seasonal, and our reading of what makes for success in casino operation leads us to believe that strong local demand best fits this description. In this context local demand means demand from sufficient consumers with sufficient disposable income who can reach the casino within travelling times that they find acceptable. We would expect the Panel to pay close attention to the demographic profile of the relevant catchment area.

Another source of local demand, however, is business visitors. We would expect the Panel to acknowledge the importance of established commercial activities as reinforcing local demand.

With few exceptions (Las Vegas is one) long-distance or overseas demand by itself is seldom sufficient to secure long-term viability. But it can be valuable icing on the cake. In that context the Panel would be entitled to favour a Regional Casino where there is good transport infrastructure: long-distance road and rail connections for domestic consumers and an accessible international airport for overseas visitors.

The attractions of the casino itself need to be buttressed by the attractions of the surrounding resort, and all the elements of the package need to be susceptible to development in scale and scope – to cater, respectively, for growing demand and changing demand.

Finally, applicant authorities need to make clear not merely how and why the casino will be a commercial success but, in reasonably precise terms, how they will earn a return from it and what risks the authority bears. It should not be enough, we suggest, for authorities to rely wholly on economic multiplier effects.

**Regeneration** we suggest is the next most important factor.

We are reluctant to generalise here, since different areas may have widely differing regeneration needs. But we do urge that each applicant authority should provide evidence that (a) it has clearly defined and quantified regeneration needs, (b) it has the capacity and ability to manage regeneration programmes (c) the casino project forms part of an agreed regeneration framework and (d) the casino will contribute directly and distinctively to the regeneration programme. There are well-established Government-published indices of deprivation that could form a common basis for the quantitative assessment of regeneration needs and achievements.

We suggest the Panel might also want to consider whether a casino is the only means of securing regeneration objectives, and whether the need is for a Regional Casino rather than for one of the sixteen smaller casinos.

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Government has said that one of its aims in licensing a single Regional Casino is to treat it as a pilot for the possible licensing of further Regional Casinos. If so, the Panel would logically take into account the expected incremental regeneration impact (i.e. is the incremental regeneration impact in location X bigger than the incremental impact in location Y, even though Y may have a greater population than X?). We are inclined to think that more densely populated areas will have advantages over less densely populated area in this respect. The less dispersed the geographic area, the greater the likely impact.

To sum up on regeneration, we suggest the Panel might reasonably look for evidence of success in meeting regeneration need, evidence of continuing need, and evidence that a Regional Casino would be the most effective way of taking regeneration further.

**Social impacts** are not well defined in Government rubric so far, but we take it that they include concerns to keep gambling free of criminality, to prevent under-age individuals from entering casino gaming areas, and to forestall any potential increase in problem gambling.

In our view all three issues – legitimate though they are – cannot be comprehensively dealt with at the local authority application stage. However, the Panel would be entitled to look for evidence that the applicant authorities have considered the issues, know the relevant facts for their own areas, have consulted with specialist bodies, and are committed to appropriate safeguards when contracting with casino operators.

For further discussion please contact [bob.young@europe-economics.com](mailto:bob.young@europe-economics.com).