

Evaluating the impact of the first Regional Casino in Great Britain

**Europe Economics
Chancery House
53-64 Chancery Lane
London WC2A 1QU
Tel: (+44) (0) 20 7831 4717
Fax: (+44) (0) 20 7831 4515
www.europe-economics.com**

26 February 2007

TABLE OF CONTENTS

1	SUMMARY	1
2	HOW DOES GOVERNMENT EVALUATE PROJECT IMPACTS?.....	4
	Sources of guidance.....	4
	Regeneration effects.....	6
3	OVERSEAS EXPERIENCE OF CASINO EFFECTS	9
	Introduction.....	9
	Economic impacts	9
	Social impacts	10
	Gambling and problem gambling prevalence	11
4	EVALUATING THE FIRST REGIONAL CASINO	13
	Process and timing.....	13
	Government, the Advisory Panel and the bidders	14
	Critical success factors for a Regional Casino	14
5	SUMMARY OF RECOMMENDED STEPS IN THE EVALUATION.....	22
	APPENDIX 1: DISPLACEMENT AND MULTIPLIER EFFECTS	24

1 SUMMARY

Background

- 1.1 Under the terms of the 2005 Gambling Act, the Government intends to allow the licensing of seventeen new casinos of three different types – “Regional”, “Large” and “Small”. This report is concerned only with the single Regional Casino that the Act initially allows.
- 1.2 The Government appointed, on September 30th 2005, an independent panel – the Casino Advisory Panel – to recommend to the Secretary of State locations for all seventeen new casinos. During 2006 it invited and evaluated applications from local authorities interested in licensing one or more of them.
- 1.3 For the Regional Casino the Panel received sixty-seven applications, from which it short-listed eight.¹ It then sought supplementary information from the applicant authorities and held Examinations in Public with them. All the material that the Panel received was published on its website.²
- 1.4 The Panel announced its recommendations on January 30th 2007, and for the Regional Casino recommended Manchester. Assuming that the Secretary of State agrees, both with this and with the Panel's sixteen other recommendations, she has to bring an Order before Parliament to put them into effect. It is expected that the Order will be debated and voted on in mid-March 2007.
- 1.5 The Government has said that it regards the first Regional Casino as a pilot which will be formally evaluated in order to help it to decide whether to license more. Minister for Sport Richard Caborn said in October 2006, “A scoping study is currently under way which will establish the methodology for the assessment of the social and economic impact of the new casinos permitted by the Gambling Act 2005..... We will then undertake an assessment of the social and economic impact of the new casinos no earlier than three years after the award of the first premises licence.”
- 1.6 On January 30th 2007, announcing the Casino Advisory Panel's recommendations to the House of Commons, the Secretary of State went a little further by saying, “We have commissioned a group of academics led by Lancaster University to advise on the methodology for that assessment.” So far as we are aware, the scoping study has not been made public, and it is not entirely clear from the Secretary of State's choice of words whether it will be.

¹ The eight authorities short-listed were, in alphabetical order, Blackpool, Brent (London), Cardiff, Glasgow, Greenwich (London), Manchester, Newcastle, and Sheffield. Brent withdrew its bid following a change of council, and the Panel did not replace it, so the short list became seven.

² <http://www.culture.gov.uk/Cap>

This report

- 1.7 The purpose of this report is to provide an independent, economics-based commentary on how that evaluation should be conducted. Since, in effect, the Government's future policy in relation to Regional Casinos hangs on the evaluation, it is vital that it be done independently, objectively and thoroughly. The report was commissioned in December 2006 on behalf of an umbrella group of interested parties within the leisure sector, including betting and gaming facilities, bars, restaurants, night clubs and other leisure facilities.
- 1.8 We argue first that the evaluation must be done by a wholly independent body and that the evaluation process must be made properly transparent. For the avoidance of doubt, this means that the body which commissions research (if that is necessary) and analyses evidence should have no commercial interest in the outcome.
- 1.9 We argue that the evaluation should be conducted under the two principal headings identified by government, namely:
- what **social impacts** is the casino producing? The Government attaches importance to forestalling under-age gambling and criminality. It also wishes to protect "the vulnerable", by which it usually means problem gamblers, existing and potential. Under-age gambling and criminality are relatively easily measured by reference to police and local authority statistics. Problem gambling, however, requires levels of prevalence to be measured (we suggest by mass survey) before the casino opens, and then at regular intervals thereafter.
 - what **regeneration benefits** is the casino delivering? Here there is a need to disentangle the effects ascribable to the casino from the effects of regeneration programmes and other social and economic trends that were already established. There is also a need to take account of any adverse effects that the casino may have generated, so that only net benefits are credited.
- 1.10 However, and importantly, underlying the assessment of regeneration benefits is the need for the Regional Casino to show evidence of commercial success. The Government has said nothing about commercial viability, but the fact is that without it none of the expected economic benefits will materialise. Worse, if the casino fails, it could act as a drain on the very economy it was intended to bolster.
- 1.11 Given the need for substantial amounts of evidence to be gathered before the formal evaluation is carried out, we suggest that an independent person or body be appointed shortly after Parliament approves the Order sanctioning the 17 new casinos. In this way the necessary data can be specified and gathered over the period leading up to the evaluation.
- 1.12 We begin by summarising the generality of techniques that Government uses to evaluate projects (Section 2). Next we turn, very briefly, to overseas experience of casino effects (Section 3). In Section 4 we consider evaluation issues arising specifically in relation to

summary

the pilot Regional Casino in Britain, and we summarise with a recommended set of main questions for the evaluation in tabular form in Section 5.

2 HOW DOES GOVERNMENT EVALUATE PROJECT IMPACTS?

Sources of guidance

- 2.1 There are two principal sources of official guidance on project evaluation – the *Green Book* published by HM Treasury, and the *Additionality Guide* published by English Partnerships.

HM Treasury – the *Green Book*

- 2.2 The Treasury's *Appraisal and Evaluation in Central Government* (known for short as the *Green Book*) describes itself as “a best practice guide for all central government departments and executive agencies”.³ It is a high-level document whose key components include justifying action; setting objectives; appraising the options; developing and implementing the solution; and evaluation. It includes annexes on government intervention; valuing non-market impacts; land and buildings; risk and uncertainty; distributional impacts; and discount rate.
- 2.3 The *Green Book* is most valuable as guidance for making a choice between more than one project. This is not the case here. The Panel may have relied on the *Green Book* in adjudicating rival bids, but the intended evaluation covered by this report will deal only with a single chosen location.
- 2.4 On certain topics, the *Green Book* recommends guidance from English Partnerships.

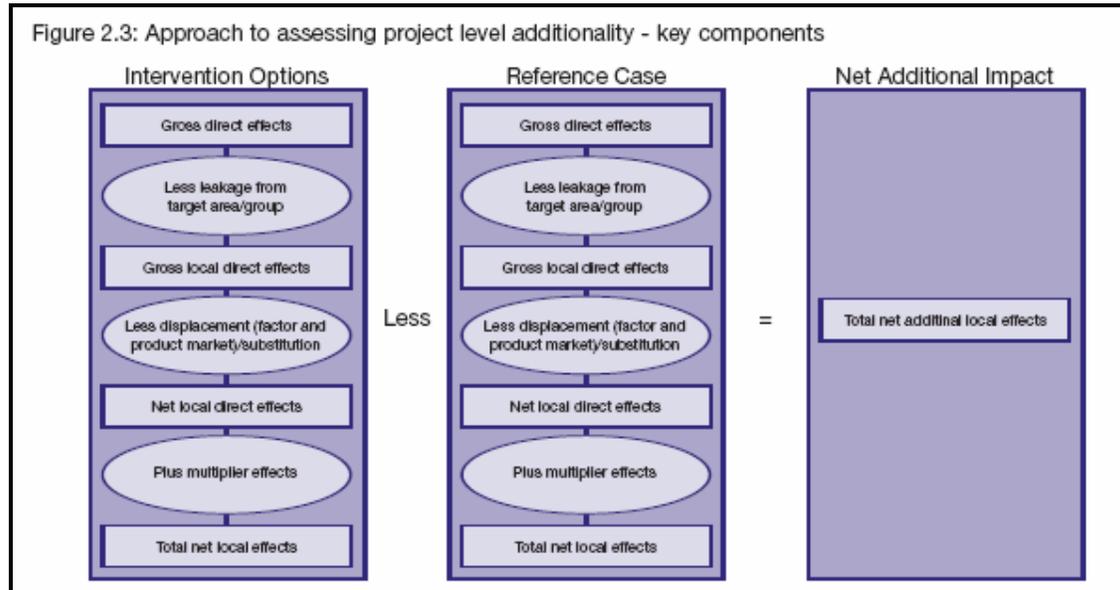
English Partnerships – the *Additionality Guide*

- 2.5 English Partnerships describes itself as “the national regeneration agency helping the Government to support high quality sustainable growth in England”.⁴ Most importantly in the context of this report, English Partnerships publishes an *Additionality Guide* which explains how to assess the additional impact, or additionality, of a regeneration project.⁵
- 2.6 Additionality is the extent to which, as a result of an intervention, something happens which would not have occurred otherwise. The approach that English Partnerships adopt for assessing additionality is shown diagrammatically below:

³ <http://greenbook.treasury.gov.uk>

⁴ <http://www.englishpartnerships.co.uk>

⁵ *Additionality Guide: A Standard Approach to Assessing the Additional Impact of Projects*, Method Statement, 2nd addition, September 2004.



Source: *Additionality Guide, English Partnerships, p5*

Leakage and displacement

2.7 The diagram above introduces the terms “leakage” and “displacement”. These are, potentially, highly relevant to casino evaluation. They are defined as follows:

- **leakage** is the percentage of results (in this case from the casino) that are of unintended benefit to people or areas outside the target area. An example is where people outside a given area take up training places intended for residents within that area.
- **displacement** is the percentage of results that cause a reduction of other activity within the target area. For instance, supermarkets are said often to cause the closure of (i.e. they “displace”) other shops in the vicinity. Thus, a Regional Casino might displace existing casinos, betting shops, adult gaming centres and family entertainment centres (which themselves may feature extensive adult gaming centre facilities), while the casino resort (as distinct from the casino proper) may also have a displacement effect on competing businesses such as restaurants and other leisure outlets.

2.8 Displacement can be estimated in a variety of ways, for example, including local authority records, employment surveys, business directory searches, and discussions directly with businesses affected, whether beneficially or adversely. Where there is a shortage of reliable local information, the *Additionality Guide* provides a “ready reckoner” for assessing displacement, which we reproduce in Appendix 1.

- 2.9 The Casino Advisory Panel was, so far as we are aware, very much concerned to probe the displacement effects forecast by the short-listed bidders – and rightly so. It follows that actual displacement should be accounted for in the intended evaluation.

Economic multiplier effects

- 2.10 A substantial project may well generate measurable economic knock-on effects. These are known in the jargon of economics as multiplier effects. They arise from the further economic activity, measurable as jobs, expenditure or income, which occurs as (in this case) the casino generates income for its employees and for the local suppliers from which it buys goods and services. As jobs are created in the casino, the money that casino employees earn is spent among other firms in the locality and gives rise to further employment among those firms.
- 2.11 There are two main types of economic multiplier:
- a **supply linkage multiplier** (also referred to as an indirect multiplier) ascribable to purchases made from linked firms along the supply chain.
 - an **income multiplier** (also referred to as a consumption or induced effects multiplier) representing local expenditure by those who earn money from the casino.
- 2.12 Multiplier effects vary substantially with economic activity mix and the type of project – in effect with the type of relevant area. As with displacement effects, the *Additionality Guide* provides ready reckoner ranges at the local (neighbourhood) level and the regional level. These too are reproduced Appendix 1.
- 2.13 Calculating net additionality in relation to the new casino involves making adjustments for leakage, displacement and multipliers. Additionality can, of course, be assessed over any given geographic area.

Regeneration effects

- 2.14 At an early stage of the Gambling Bill, the Government was proposing to allow market forces to determine the number of Regional Casinos. Later, however, Press and Government and Opposition MPs alike began to voice strident concerns about a possible sharp rise in problem gambling if no limits were place on casino expansion. The Government's defensiveness over these concerns, coupled with severe timetable problems for the Gambling Bill arising from the 2005 General Election, caused it to settle on only one Regional Casino. By that stage, its rationale in favour of the Regional Casino had settled on the regeneration benefits that could be secured, although it was still quite consistently saying that social impacts (particularly adverse social impacts) would also be of vital importance in the process leading up to licensing and in the evaluation thereafter.

- 2.15 In summary, the Government attaches high importance to testing the social impact of, and to obtaining regeneration benefits from, the designated Regional Casino location. In this way it intends to treat the first such casino as a pilot for the possible licensing of more.

Indices of deprivation and Super Output Areas

Indices of Multiple Deprivation

- 2.16 Targeting and measuring regeneration in England and Wales characteristically involves using Indices of Multiple Deprivation (IMD).⁶ These seek to measure objectively the experiences of citizens in a number of aspects deemed important to overall quality of life.

- 2.17 The IMD are now the responsibility of the Department for Communities and Local Government (DCLG – <http://www.communities.gov.uk/index.asp>), which explains them as follows:

“The Index of Multiple Deprivation 2004 (IMD 2004) is a measure of multiple deprivation at the small area level. The model of multiple deprivation which underpins the IMD 2004 is based on the idea of distinct dimensions of deprivation which can be recognised and measured separately. These are experienced by individuals living in an area. People may be counted in one or more of the domains, depending on the number of types of deprivation that they experience. The overall IMD is conceptualised as a weighted area level aggregation of these specific dimensions of deprivation.”

- 2.18 IMD are established on the basis of seven “domains” (in plain English, aspects of life), as follows: income, employment, health/disability, education/skills/training, housing/services, crime and “living environment”. Each of these domains has attached to it one or more attainment levels below which deprivation is said to exist, and the percentage of people in the area under consideration who fall short of the prescribed level contributes towards the calculation of the IMD. Each of the seven domains is weighted according to Table 1 below:

Table 1: Domain weights for the IMD 2004

Income	22.5%
Employment	22.5%
Health/disability	13.5%
Education/skills/training	13.5%
Housing/services	9.3%
Crime	9.3%
Living Environment	9.3%

Source: DCLG

⁶ Separate indices, though using substantially similar techniques, have been devised for Scotland.

Super Output Areas

- 2.19 IMDs are normally assessed over “Super Output Areas” (SOAs). Essentially, SOAs define “neighbourhoods” in a way that would be meaningful to those who live in them. However, the process of defining SOAs is as yet far from complete. The Government’s aim is that, eventually, three “layers” of SOA will be recognised – effectively small, medium and large areas.⁷
- 2.20 The lowest layer has an average population of 1500 and produces just over 34,000 SOAs for England and Wales together. These were, in ONS’ words, “generated by a computer programme [which takes] into account measures of population size, mutual proximity and social homogeneity.” The middle, or next largest, layer of SOAs has an average population of 7,200. There are just over 7,000 for England and Wales.
- 2.21 No upper layer SOAs have yet been devised, although it is intended that these will have an average population of about 25,000, which implies that there will be about 2,000 of them.
- 2.22 We include this material at some length because Indices of Multiple Deprivation at SOA level appear were used or implied in claims about regeneration by all the short-listed Regional Casino bidders. This being so, regeneration achievements for the Regional Casino – which are an important element of the intended evaluation – will need to be verified in the same way.
- 2.23 This concludes our overview of how Government itself approaches the evaluation of project impacts. We turn now to a brief review of the impacts of casino developments overseas.

⁷ Super Output Areas are more fully defined by the Office of National Statistics at <http://www.statistics.gov.uk/geography/soa.asp>

3 OVERSEAS EXPERIENCE OF CASINO EFFECTS

Introduction

- 3.1 This section of our report does not purport to be a world-wide survey of casino impacts. We make this disclaimer for several reasons:
- first, the field is only patchily covered, principally because of differences in gambling prevalence, gambling preferences, gambling regulation and social and economic achievement in different jurisdictions.
 - secondly, we found a shortage of research that could be regarded as objective. Much appeared to be biased either towards or against gambling itself.
 - lastly, none of the studies we found is up-to-date: the most recent dates only from 2003.
- 3.2 The United States is by far the best-documented country in respect of casino impacts. We have also reported briefly on Canada and South Africa, and considered material from Australia, New Zealand and Sweden.
- 3.3 Overseas evidence about impacts points in a number of directions, whether in relation to gambling generally or to casinos particularly.
- 3.4 We proceed now to look at overseas evidence under three headings: economic impacts, social impacts, and impacts on gambling and problem gambling prevalence.

Economic impacts

- 3.5 The economic impact of the Seneca Niagara casino, opened in New York State in December 2002, was found to be beneficial in respect both of primary effects (from employment at the casino) and secondary (through the spending of casino employees and the casino itself). But there was only limited evidence as regards the impact of the casino on surrounding neighbourhoods and local businesses, and it is thus difficult to draw firm conclusions.
- 3.6 A substantially similar pattern, though on a much smaller scale, emerged in relation to a casino opened in Omaha, Nebraska, in 2000. Displacement effects were apparent and led to reduced net benefits.
- 3.7 Atlantic City, New Jersey, presents a picture first of substantial economic advantage, then of encroaching adverse effects.

- 3.8 In Canada, a report entitled *First Year Impacts of Casino Gambling in a Community*⁸ presented the first year impact of the Casino Windsor on the gambling behaviour of the population of Windsor, Ontario, a community of some 200,000. Increases in gambling expenditure among Windsor residents proved to be minimal, which may indicate that most of the money spent by locals substituted for other gambling activities. But again, no detail is given of wider economic impacts, so firm conclusions are difficult to draw.
- 3.9 In South Africa casino operators have generally been required to fund non-gambling infrastructure, such as conference centres and other attractions designed to increase South Africa's tourism earnings. Impacts are thus in some respects managed rather than naturally occurring. In any event, these developments occurred against a vacuum of legal gambling.

Social impacts

- 3.10 The social costs of the Seneca Niagara and Omaha casinos were found to be, on the whole, negative, though not on any great scale.
- 3.11 A 2000 report on Atlantic City, *Impact of Gambling - Economic effects more measurable than social effects*⁹ by the United States General Accounting Office (GAO) identified adverse social impacts and a mixed picture overall. Neither the 1988 nor the 2000 study could find *conclusive* evidence that gambling had increased social problems in Atlantic City.
- 3.12 *Casinos, Crime and Community Costs*¹⁰, examined the relationship between casinos and crime using county-level data from every US county between 1977 and 1996. It was found that casinos were associated with an increase in all crimes except murder. Roughly 8 per cent of 1996 crime in counties which hosted a casino was found to be attributable to the casinos themselves. The authors also investigated whether crime in casino counties was attracted from other regions (reducing crime rates there) or created in areas close to the casino. Counties neighbouring casino counties did not experience crime reductions, suggesting that crime was created in casino counties rather than that it was imported from outside.
- 3.13 The overall picture that emerges in the US as regards the social impacts of casinos is more consistently one of an increase in adverse effects.

⁸ In Human Sciences Press, Inc, 1998, by Richard Govani, G Ron Frisch, Nicholas Rupcich, and Heather Getty.

⁹ United States General Accounting Office, Report to the Honourable Frank R. Wolf, House of Representatives, April 2000.

¹⁰ Earl L. Grinols and David B Mustard, in the *Review of Economics and Statistics*, February 2006, 88(1): 28-45.

Gambling and problem gambling prevalence

- 3.14 In the US, a 1999 study by NORC (National Organisation for Research at the University of Chicago), *Gambling Impact and Behaviour*¹¹ brought together the results of several local case-studies, national surveys and site surveys of patrons visiting gambling establishments in order to establish the prevalence and effects of gambling (including, but not only, casino gambling). The analysis was carried out in 100 communities with and without casinos over the period 1980-1997.
- 3.15 The following impacts of *newly opened* casinos were identified, although it needs to be borne in mind that the gambling environment in the US is very different from that in the UK:
- per capita rates of bankruptcy, health indicators and violent crime did not change significantly;
 - unemployment rates, welfare outlays and unemployment insurance declined by about 14 per cent;
 - construction, hospitality, transportation, recreation, and amusement earnings rose, but bar, restaurant and general merchandise earnings fell;
 - per capita incomes remained the same, indicating more jobs but not necessarily better or better paid jobs.
- 3.16 The views (not necessarily statistically based) of community leaders were that levels of indebtedness, youth crime, forgery and credit card theft, domestic violence, child neglect, problem gambling and alcohol/drug offences had increased.
- 3.17 In Canada, no significant changes were found in rates of problem gambling among men or women one year after the opening of the Casino Windsor in Ontario. But it was acknowledged that the situation might alter once the casino had been in operation longer.
- 3.18 For South Africa, *Gambling and Problem Gambling in South Africa – A National Study 2003*¹² reported on gambling and problem gambling behaviour in South Africa. The research found principally that between 2001 and 2003 problem gambling in the population as a whole had risen from 1.1 per cent to 1.3 per cent, not necessarily because of casinos, since the report was concerned with gambling in general.

¹¹ *Report to the National Gambling Impact Study Commission*, April 1, 1999, NORC and partners at Gemini Research, The Letwin Group, and Christiansen/Cummings Associates.

¹² National Responsible Gambling Programme, National Centre for the Study of Gambling, University of Cape Town, South Africa

Conclusion

3.19 We end by quoting from Professor Peter Collins, Director of the Centre for the Study of Gambling at the University of Salford. He was one of a number of witnesses examined by the House of Commons Joint Committee on the Draft Gambling Bill in 2004.¹³ Prof. Collins was asked if he thought a casino would support existing leisure industries in seaside resorts, and replied:

“It depends a bit on how it is done. The experience of Atlantic City is that it was very good for all those ancillary businesses which were located within the casino complexes, but very bad for all the restaurants, and so forth, that were located outside....There are examples of different kinds of regulations which produce very successful casino projects from the point of view of public appreciation and regeneration and there are examples of disasters of all sorts.” (July 8th 2004)

3.20 Overseas evidence is so mixed that it cannot reliably be used either to support or to attack casino policy in Great Britain, if only because such substantial dissimilarities of gambling provision, culture and legislation arise. There is some evidence to suggest that casino impacts are related to the manner in which they are managed by the local authority: that benefits are not produced automatically but require always to be managed and monitored.

3.21 Overseas evidence also suggests to us that the timing of a first evaluation is important. A casino takes time to work up to capacity utilisation and stable profitability, and social and regeneration impacts characteristically take time to appear too. If the first Regional Casino in Great Britain is truly to be treated as a pilot, there is no merit in reaching premature conclusions based on inadequate evidence.

¹³ Joint Committee on the Draft Gambling Bill, Minutes of Evidence, Examination of Witnesses (Questions 400-404), Thursday 8 July 2004.

4 EVALUATING THE FIRST REGIONAL CASINO

Process and timing

- 4.1 As we have already said, the Government is committed to an evaluation of the first Regional Casino no sooner than three years after award of the premises licence. It has also said that a scoping study was to be completed by December 2006 to establish the methodology for such an evaluation. To the best of our knowledge, no report on this subject has been made public.
- 4.2 Given that the government itself has identified what it sees as the key outcomes to be tested – social impacts and regeneration impacts – it is self-evident that these should form the core tests in the evaluation. We develop this point in more detail below.
- 4.3 A further important consideration is that the evaluation should be conducted independently and objectively. If it was right to delegate recommendations for the 17 casino locations to an independent panel, consistency of process no less than the public interest dictate that the evaluation should be carried out in the same way. Again we develop this point below.
- 4.4 There is also a timing issue. If the evaluation is to be dated from the award of the premises licence, it seems to us that three years could be much too soon for a thorough evaluation based on an adequate time-series of reliable data. Some 18 months to two years could elapse between the award of the premises licence and the opening of the casino, and in our view there is little information that could usefully be accumulated for evaluation within what could be as little as the remaining 12 to 18 months.
- 4.5 It is in our view important that the novelty attaching to the new casino should not obscure the underlying reality that the evaluation needs to get at. Such factors as visiting patterns, customer spend and patterns of gambling need to achieve a reasonably settled state before evaluation is attempted, and these will predictably take a few years rather than a few months to evolve. We suggest either that the Government should extend the three year period from the award of the premises licence (although we accept it has said that three years is a minimum) or to date the evaluation relative to the opening of the casino. There is some value in timetable certainty so our recommendation would be in favour of the latter.
- 4.6 Finally, since the first Regional Casino is regarded by the government as a pilot, with the evaluation influential in determining whether more casinos should be licensed, the evaluation needs to consider whether the area surrounding the casino is broadly representative of other areas of Great Britain where further licences might be granted. In our view, Manchester does at first sight appear to be such an area: it encompasses a very substantial population living in areas of affluence as well as of deprivation; it has a large mixed economy embracing a wide variety of commercial, industrial and public sector activities; and its anticipated catchment area includes city centre, suburban, urban and rural components. The Casino Advisory Panel recognised all these features in

recommending Manchester. What the evaluation needs to do is to verify which components of the area are impacted by the casino, and how, and the extent to which similar components in other parts of the country might be similarly impacted.

Government, the Advisory Panel and the bidders

4.7 The Secretary of State's appointment of the Casino Advisory Panel in September 2005 recorded that:

"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."¹⁴

4.8 The Panel's report and recommendations leave no doubt that it attached very great importance to both social and economic impacts, and rightly so. Unsurprisingly, the short-listed Regional Casino bids submitted sought to make convincing cases under the headings of social and economic impact.

Three possible sets of evaluation criteria

4.9 We are thus confronted with three possible sets of evaluation criteria:

- those that the Government will choose for itself, based on the as yet unpublished scoping study;
- claims put forward by the winning bidder; and
- criteria that we ourselves suggest, based on what we have defined in earlier work on casinos as "Critical Success Factors".

4.10 We think it likely that these three sets of criteria will overlap, and that such differences as arise will be differences of degree rather than of kind. We therefore concentrate largely on developing our own "Critical Success factors" into evaluation criteria.

4.11 In effect, we argue that factors applicable *ex ante* to determining where the first Regional Casino should be sited are factors that should be used *ex post* in evaluating its impacts.

Critical success factors for a Regional Casino

4.12 Our view is that a hierarchy of considerations needed to be applied to the casino bids; and our belief, based on questions put back to bidders by the Panel, further documents published by them, and the Panel's own final report, was that in broad principle this hierarchy was adopted.

¹⁴ DCMS Press statement, "Independent panel appointed to advise Government on new casino locations", September 30th 2005.

Local authority credibility

4.13 For the Secretary of State, the location of the first Regional Casino remains a high-profile, high-risk decision. In bringing an Order¹⁵ before Parliament she needs to know that the Casino Advisory Panel had satisfied itself that the winning authority has the knowledge, experience and resources to manage a project of this scale. In the case of Manchester, the Panel recorded explicitly that it was satisfied that the City Council would be a safe pair of hands. Given all this, there is no evident need to apply the credibility test *ex-post*, although the efficacy of the local authority's management of the project and its impact will be for assessment.

Social impacts

4.14 A fundamental condition of liberalisation envisaged by the 2005 Act is that gambling:

- should not become a source of crime or disorder;
- should be conducted in a fair and open way; and
- should protect children and the vulnerable from harm and exploitation.¹⁶

4.15 We now turn to these three issues.

Crime and disorder

4.16 In major respects, the evaluation of casino impacts on crime and disorder needs to establish a counterfactual, i.e. what was happening before the casino began operation. We suggest that the evaluation would need to consider:

- the general crime position in the areas affected by the casino development, disaggregated by type of crime;
- the prior incidence of gambling-related crime; and
- what improvement or deterioration in crime rates was already taking place.

Gambling to be conducted in a fair and open way

4.17 The Act does not specify what “fair and open” means, but the Gambling Commission is currently consulting on regulations to be applied across a wide variety of gambling forms. On the assumption that these are finalised by the time the Regional Casino evaluation

¹⁵ We understand that a single Order will cover all 17 casinos to be licensed. It will thus not be possible for some recommended locations to be accepted while others are rejected.

¹⁶ *Gambling Act 2005: What it means for licensing authorities*, DCMS, July 2005

takes place, we suggest that the Commission's regulations, and any actions they take to enforce them in relation to the casino, be used in the evaluation.

Protection of children

- 4.18 Evaluating whether the protection of children¹⁷ has been successful needs to draw on actual achievement by the local authority and the Regional Casino operator.

Protection of "the vulnerable"

- 4.19 In discussions about the 2005 Act, and in the assessment of rival Regional Casino bids, the term "vulnerable" people has been used to describe those who are, or are at risk of becoming, problem gamblers. At the time the Casino Advisory Panel was appointed Minister Richard Caborn said that the government's priority was to get a proper assessment of the social impact that the new types of casino would have, particularly on problem gambling. Accordingly we focus here on the evaluation of problem gambling effects.

- 4.20 Historically, problem gambling in the UK has attracted only minimal attention. The Budd Report of 2001 remarked that:

"problem gambling remains an under-researched phenomenon, and the research that has been undertaken does not produce much in the way of definite conclusions."
(Chapter 17, p.85)

"...we strongly believe that current provision [of measures to limit and treat problem gambling] is woefully inadequate." (Chapter 32, p.173)

- 4.21 Although in its response to Budd the Government showed concern over problem gambling, it has also revealed uncertainty and inconsistency in dealing with it. To illustrate:

- when Fixed Odds Betting Terminals (FOBTs) started to become widespread in 2002/2003, DCMS Ministers contemplated a complete ban on them on grounds that they could only lead to an explosion of problem gambling. Eventually, DCMS settled for a negotiated Code of Practice with the betting sector.
- Government chose to exclude the National Lottery from the Gambling Commission's remit, yet DCMS has never undertaken or commissioned research on whether the Lottery and its near-monopoly scratch card business might be associated with problem gambling. Although it is estimated that the Lottery attracts a low percentage of problem gamblers, this low rate applies to a very

¹⁷ Defined, in relation to casinos, as those aged under 18.

large number of users, so the absolute numbers of problem gamblers who might be associated with the Lottery could be high.

- DCMS' strategy for dealing with current and future levels of problem gambling is essentially to leave it to the industry through the Responsibility In Gambling Trust

4.22 However shaky the Government's track record in understanding and reacting to problem gambling may look, it must require the evaluation to consider evidence about problem gambling in the catchment area of the casino on a before and after basis. There are, we suggest, two aspects to assessing the "before" situation, namely the quantitative and the non-quantitative.

Quantitative assessment

4.23 A certain level of problem gambling already exists across Great Britain, although we are aware of no detailed geographic breakdown. It will therefore be necessary:

- first to establish a benchmark level of problem gambling in the relevant geographic area *before* the Regional Casino opens its doors and begins to attract customers; and
- then to repeat it in each of the three (or more) years before the formal evaluation is undertaken.

4.24 We suggest this can only be done by mass surveys based on either a random sample or a quota-based sample of the relevant population in the casino catchment area. Although more expensive, a random sample is statistically more reliable. Given the importance of the issue, government needs to think carefully about whether cost is the primary consideration.

4.25 It is of course possible that the actual catchment area will prove to be different from the area envisaged in Manchester's bid. It would therefore be wise to break the overall area down into meaningful socio-geographic units – preferably the Super Output Areas (SOAs) already described or (more realistically) groups thereof. In this way, continuity of research can be achieved in areas which are present both in the forecast and actual catchment areas.

4.26 We cannot too strongly emphasise that the evaluation of impacts on problem gambling has to be done for gambling as a whole, not for the casino alone. It may be very difficult to isolate the impact of the Regional Casino on problem gambling because new gambling products constantly emerge and disappear, and because the overwhelming majority of problem gamblers are known to participate in multiple gambling forms. Nevertheless, all efforts should be made to disentangle the impact of the casino.

4.27 An important component of the quantitative assessment should be coverage of the new unlimited-prize Category A slot machines that will be available only in the Regional Casino. Past studies of gambling (most notably the Gambling Prevalence Study of 2000

and our own reports of 2005 and 2006) either do not distinguish between table games and slots within a casino, or if they do, do not distinguish slots in different locations, whether in casinos or elsewhere.

- 4.28 The Regional Casino will have a Category A machine monopoly until such time as further Regional Casinos are licensed. It is thus not unreasonable that the *quid pro quo* for the monopoly should be transparency.
- 4.29 There are mixed claims and counter-claims about the addictiveness of slot machine gambling, and Category A machines are new and untried. The evaluation of the Regional Casino could and should add to knowledge on the addictiveness of different types of slot machine. We therefore argue that surveys of gambling habits undertaken before the evaluation itself should distinguish between:
- low stake/low prize AWP machines, most commonly known as fruit machines;
 - higher stake/higher prize machines commonly known as jackpot machines;
 - fixed odds betting terminals; and
 - Category A slot machines in the Regional Casino.
- 4.30 In the first two categories (AWP and jackpot machines) the research needs to consider where such machines are located and used.

Non-quantitative assessment

- 4.31 Manchester committed itself to the creation of a Responsible Gambling Unit within the City Council to measure and take responsibility for managing problem gambling.
- 4.32 Our suggestion here is that the evaluation should first simply check whether Manchester did what it said it would do. In the final section of this report, we summarise the headings under which more detailed evaluation should take place.

Regeneration effects

- 4.33 Because regeneration effects are among the Government's priorities for the Regional Casino, they must, self-evidently, be thoroughly assessed at the first evaluation.
- 4.34 However, because Manchester already has substantial regeneration programmes in progress, the regeneration effects ascribable to the casino need to be disentangled from the remainder. There are several ways in which this can be done.
- 4.35 The most transparent method would be for certain new programmes to be uniquely associated with, and wholly funded by, the casino itself. Such programmes would need to be identified at the time the authority concludes a contract with a casino operator, and it would need to be established that the programmes concerned would not have been implemented in the absence of the casino.

- 4.36 It is, however, perfectly defensible for Manchester to use the casino effects as a contribution towards, or as a means of accelerating, existing programmes. In this case, the evaluation would need to:
- establish trends in each programme *before* the casino starts to deliver impacts, so as to establish a counterfactual;
 - isolate the effects of the existing programmes, taking account of factors such as local economic growth that was already taking place; and then
 - observe the difference that the casino makes.
- 4.37 Regeneration targets and achievements are usually measured by reference to the seven “domains” of the IMD that we described in paragraph 2.16. We therefore suggest that the evaluation of casino impacts, once the effects of parallel programmes have been isolated, should take into account effects on these seven “domains”, namely income, employment, health and disability, education, skills and training, housing and services, crime, and “living environment”.
- 4.38 Measurement of effects under each of these headings requires established bases for the measurement of achievement under each of the “domains”. This should be no problem: an authority as experienced as Manchester in managing regeneration programmes will already have solid bases of measurement in place.

Commercial success – the underpinning of regeneration effects

- 4.39 Had Government allowed the market to decide how many Regional Casinos there should be, prospects for commercial success would not need to be evaluated. Since, however, there is to be only one, and since that one is to be regarded as a pilot, commercial success becomes crucially important. We say this because only a commercially successful casino will induce regeneration benefits of any kind. If the casino fails, it will not only not contribute to regeneration but could damage the very economy it was intended to assist. For both these reasons, progress towards commercial success must in our view figure prominently in the evaluation as a necessary condition of regeneration benefits.
- 4.40 There may be objections from the casino operator on grounds of commercial confidentiality. Our view is that it is not necessary for the evaluation to make commercially sensitive information public. But it is reasonable that such factors as numbers of casino visitors, information about where the visitors come from, what the casino visitors gamble on, and average customer drop should be made public; and that, from surveys, the “gambling demographic” make-up of customers should be depicted.
- 4.41 Among “gambling demographic” features that need to be evaluated, we suggest:
- customers’ place of residence (to establish the area over which customers are drawn);

- frequency of casino visit (to establish whether the casino is attracting regular players or occasional players);
- what forms of gambling casino customers regularly participate in (to establish whether casino visits are incremental to or substitutes for other forms of gambling);
- amount normally staked each visit (to compare with other gambling expenditure averages);
- propensity towards problem gambling (established from surveys using accepted problem gambling screens); and
- gender, socio-economic group, age, ethnicity, working status and marital status (to determine whether the Regional Casino is attracting disproportionate numbers from a particular segment or segments of the population)

4.42 These are all important characteristics in their own right. They would also usefully feed into assessments of gambling prevalence and problem gambling.

Whether Manchester is “representative”

4.43 As we have already said, the choice of Manchester as the location for the Regional Casino already incorporates a judgment by the Casino Advisory Panel that Manchester is a good test bed for the possible licensing of further casinos, in that it is generally representative of other large urban-centred areas of Great Britain.

4.44 Nevertheless, we suggest that the evaluation needs to consider *explicitly* the extent to which Manchester’s experience of the casino would apply to other parts of Great Britain. To do this, the evaluation would need to examine which components of Manchester and its surrounding area are impacted by the Regional Casino. For example

- how far out does the catchment area really run?
- what segments of the population visit the casino and how often?
- what has been the effect on traffic patterns?

4.45 If these results can be scaled to other city-regions, controlling of course for relevant differences and the possible effects of competition, it would be possible to gauge with reasonable precision the likely impacts of a Regional Casino elsewhere.

Independence and objectivity

4.46 If it was right for the government to delegate the evaluation of applications for the Regional Casino to an independent panel, it seems to us logical, consistent and above all conducive to public confidence that the evaluation should be similarly conducted. It is self-evident that no individual or body with a commercial or political interest in the

outcome of the evaluation should either lead it or sit on the group appointed to conduct the evaluation.

- 4.47 It also seems to us that the evaluation should be led by an individual or a group which had no involvement in the process leading up to the recommendation in favour of Manchester. This would imply that the Casino Advisory Panel should not undertake the evaluation since it might be thought that even that body would have its own recommendation to justify.
- 4.48 Since the evaluation will depend to a considerable extent on data gathered beforehand (in effect over three or more years leading up to the formal analysis) someone needs to take charge of data gathering at an early stage – to determine what should be done, to see that it is done, and to see that it is done consistently and to a prescribed standard. For this reason we suggest that it may be appropriate for an appointment to be made soon, perhaps shortly after Parliament approves the Order that the Secretary of State is due to bring before Parliament in mid-March.

5 SUMMARY OF RECOMMENDED STEPS IN THE EVALUATION

5.1 We now summarise preceding argument, developing specific questions for the evaluation and suggesting what evidence should be sought for the answers.

General heading	Specific question	Evidence to be evaluated
1. Appoint an individual or group to lead the evaluation	-	Conflicts of interest
2. Evaluation body to specify what evidence it wishes to gather prior to formal evaluation	What basis of evidence will be needed for a thorough evaluation?	DCMS scoping study, evidence available to the Casino Advisory Panel
3. Social impacts other than regeneration	3.1 What levels of crime and disorder are associated directly with the casino?	Police and LA statistics
	3.2 Has gambling at the casino been conducted in a fair and open way?	Comments and actions (if any) by the Gambling Commission
	3.3 Has under-age gambling been prevented?	Statistics from police, operator, and LA
	3.4 Has gambling prevalence been affected?	Survey evidence compared with pre-casino-opening levels
	3.5 Has problem gambling prevalence been affected?	Survey evidence compared with pre-casino-opening levels
	3.6 Has the LA put in place the problem gambling containment and/or treatment measures it promised?	Actions by the LA, compared with LA bid document and supplementary evidence to the CAP
	3.7 How effective have the containment and/or treatment measures been?	Survey evidence before and since the casino opening. Records of the Responsible Gambling Unit.

Continued...

General heading	Specific question	Evidence to be evaluated
4. Regeneration effects	4.1 What regeneration effects specifically tied to the casino have been achieved?	LA evidence under the seven IMD domains. Compare with LA bid document and supplementary evidence to the CAP
	4.2 How has the LA disentangled the effects of the casino from the effects of other programmes already in operation?	LA explanation
	4.3 What impacts achieved through indirect and multiplier effects?	LA estimates, with reference to the English Partnerships <i>Additionality Guide</i> . Consultation with those affected.
	4.4 What leakage and substitution effects?	LA estimates, with reference to the English Partnerships <i>Additionality Guide</i> . Consultation with those affected.
	4.5 What adverse regeneration effects have arisen?	Evidence of (for example) business closures and contractions, increased road congestion, increased pressure on social infrastructure. Consultation with those affected.
5. Commercial considerations (a subset of regeneration)	5.1. What is the catchment area of the casino?	Operator survey evidence. To be compared with LA bid document and supplementary evidence to the CAP
	5.2. What eligible residential population lies within that area?	Estimates of population within 30, 45 and 60-minute drive times, <u>and</u> breakdowns by socio-economic or ACORN group
	5.3. How many non-local (i.e. national and overseas) customers have been achieved?	Operator survey evidence. To be compared with LA bid document and supplementary evidence to the CAP
	5.4 In total, how many casino visits per annum have been achieved?	Summary of 2.1, 2.2 and 2.3
	5.5 What average customer drop (expenditure) has been achieved?	Operator survey evidence. To be compared with LA bid document and supplementary evidence to the CAP

APPENDIX 1: DISPLACEMENT AND MULTIPLIER EFFECTS

A1.1 Paragraph 2.8 refers to English Partnerships' ready reckoner for estimating displacement effects when little reliable local information is available. The ready reckoner is set out below:

Displacement "Ready Reckoner"

Level	Nature of displacement	Displacement extent
None	No other firms/demand affected	0%
Low	Some displacement effects, although only to a limited extent	25%
Medium	About half of the new activity would be displaced from existing firms	50%
High	A high level of displacement is expected to arise	75%
Total	All the new activity generated will be displaced from existing firms	100%

Source: *English Partnerships Additionality Guide*, p21

A1.2 Paragraph 2.12 refers to the *Additionality Guide's* ready reckoner for multiplier effects. The range of effects is set out in the table below.

Multiplier "Ready Reckoner"

Level	Description	Composite multiplier (neighbourhood level)	Composite multiplier (regional level)
Low	Limited local supply linkages and induced or income effects	1.05	1.3
Medium	Average linkages. The majority of projects will be in this category	1.1	1.5
High	Strong local supply linkages and income or induced effects	1.15	1.7

Source: *Additionality Guide*, originally based on DETR (October 2000)