Communities and Local Government

A review of the alternative approaches to regional casino-led regeneration

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Executive Summary

- In response to the House of Lords rejecting the Secretary of State's decision to accept the Casino Advisory Panel's recommendation that Manchester should be granted the licence for a regional casino, the Government has examined whether deprived areas can be equally well served by other forms of regeneration.
- Local authorities have been keen to explore the potential for casinos to achieve regeneration through the creation of jobs in deprived areas, physical change to an area through investment in projects on brown field land sites, and producing wider indirect benefits to an area through multiplier effects.
- There is uncertainty about the scale of these benefits. Specifics about the location are obviously important and international evidence is mixed as to the success of casinos in regenerating areas. It is also important to distinguish the degree of additionality from the development, taking account of: what could have been expected to have occurred in the absence of a casino; how much of the benefit will accrue outside the immediate area; and how far activity will be displaced from elsewhere.
- As with most regeneration projects there are economic and social costs associated with casino-led regeneration. In the case of a regional casino there are potentially significant costs that would arise as a result of an increase in compulsive gambling.
- There are a significant number of alternatives to casino-led regeneration. These include other examples of inward investment projects as well as more tailored supply side interventions. The viability of alternative options will be highly contingent on the local circumstances of the area.
- In isolation, it will be challenging for any one of these alternatives to achieve the scale of economic benefits that could be secured through a regional casino due to the unique circumstances associated with such a project. However, the extent to which these benefits are truly additional is not clear and once the potential economic and social costs of a regional casino are included and a package of alternative options is considered, the difference is much reduced and may be eliminated.

Section 1. Introduction

Policy Background

1.1 The Gambling Act 2005 modernises the system of regulation for gambling, much of which has been in place for forty years, and for the first time places the protection of children and other vulnerable people at its heart.

1.2 The earlier legislation has restrained the development of large casinos in this country by imposing a strict cap on the number of gaming machines (20) and the maximum prize on offer (£4,000 for a £2 stake) that casinos may offer. A number of local authorities had become interested in the potential of larger casinos to drive regeneration in their areas – and 68 authorities ended up applying to the Casino Advisory Panel (CAP) for the right to license a new casino.

1.3 While the government's primary objective has always been the protection of children and vulnerable people, it decided to allow through the legislation a cautious liberalisation of the regulatory regime for casinos. The Act permits the establishment of a limited number of casinos on a scale not previously seen in the UK, and will allow one regional casino (often referred to in the media as the "supercascasino") which will be permitted to offer a significantly larger number of slot machines with unlimited stakes and prizes (known as "Category A" gaming machines). The government's policy has been to limit the number of new casinos while the social and economic impact can be properly assessed.

1.4 The legislation allows for the licensing of 17 new casinos: one regional casino, eight large and eight small casinos. Under section 175(4), the Secretary of State is required to make an order identifying which local authorities should be permitted to licence the new casinos.

1.5 Following a 16 month competition, in January 2007 the independent CAP recommended that Manchester should be the only local authority permitted to licence a regional casino. Following the government's decision to accept the Panel's recommendation, while the Commons approved the order, the Lords narrowly rejected it. There was a clear consensus that the 16 large and small casinos should be awarded to the authorities identified by the CAP.

1.6 The decision by the Lords reflected concerns in Parliament and outside regarding the potential of a regional casino to increase problem gambling within the regional catchment area.

1.7 In view of these concerns regarding the regional casino, it was agreed that there was a need to **"examine afresh whether deprived areas can be equally well served by other forms of regeneration"**[1].

Aim of this Review and use of evidence

1.8 The aim of this Review is to review the evidence on whether **regional** casinos are the best way to regenerate specific deprived areas. The Review will draw heavily on evidence within the various bid documents submitted to the CAP for the licensing of a regional casino; published literature on casinos specifically; and published literature on the benefits of regeneration more generally.

1.9 The Review is built around economic appraisal principles[2] that will provide a framework for understanding the potential net benefits from regional casinos and contrasting these to alternative options.

1.10 Where appropriate quantitative evidence has been presented. Given the available evidence it is not possible to give a quantified assessment of the net benefits of regional casinos or their alternatives.

1.11 The evidence base on the economic case for regional casinos is not large and is strongly influenced by both specific location factors or by the purpose for which the research was undertaken. Therefore the evidence has been used to provide general conclusions about the nature of the costs and benefits and the relative magnitudes.

1.12 This Review is structured into five main sections. These are:

- What is the regeneration need which casinos are thought to meet and what is the nature of the market failures involved?
- What are the economic benefits of casino-led regeneration?
- What are the economic and social costs of casino-led regeneration?
- What are the alternatives to casino-led regeneration that could be considered?

1 The Secretary of State for Culture, Media and Sport (James Purnell) – Written Ministerial Statement: Casinos, 16th July 2007.

2 HM Treasury's *Green Book: Appraisal and Evaluation in Central Government* has been used as the principle source for structuring this analysis with the use of supplementary guidance including: ODPM's *Assessing the Impacts of Spatial Interventions: Regeneration, Renewal and Regional Development, 'The 3Rs guidance'* (May 2004); English Partnerships' *Additionality Guide (September 2004) and CLG's Adjusting for Optimism Bias in Regeneration Projects and Programmes: General Guidance Note* (March 2007).

Section 2. What is the regeneration need which casinos are thought to meet and what is the nature of the market failures involved?

The need for regeneration

2.1 Regeneration is the integrated process of reversing economic, social and physical decline in areas where market forces will not do this without intervention.

2.2 There are a number of reasons why areas may have declined and it is often a combination of factors that have come together in the place, leading to concentrations of deprivation.

2.3 Globalisation lies at the heart of the problem for deprived areas, as some areas have failed to restructure their economies away from traditional industries, which have increasingly come under intense competition from emerging economies[3].

2.4 The challenges resulting from structural economic change can combine with personal characteristics and spatially concentrated place-based factors[4], which can perpetuate or worsen poor outcomes for a community. These inter-locking drivers of area deprivation can be categorised into the following groups[5]:

- a weak economic base – barriers to work for individuals, poor skills or connectivity or factors discouraging business investment;
- poor housing and local environments and unstable communities, characterised by concentrations of poor vulnerable residents, high levels of disorder and antisocial behaviour, and poor physical connectivity with labour markets; and
- poor performing public services and delivery of support to deprived areas.

2.5 Without intervention, the market would struggle to deliver the changes needed to reverse this decline. Private investors would not necessarily take account of the social benefits from improving deprived areas and there are likely to be informational and coordination failures that mean private firms will not work together to realise the potential benefits.

[3] HM Treasury, (2007) *Review of sub-national economic development and regeneration*, – July 2007.
[4] HM Treasury (2007) para. 1.27.
[5] HM Treasury (2007) para. 1.28.

2.6 There is therefore a case, both from an efficiency and equity perspective, for Government to intervene to regenerate deprived areas to reverse the physical, social and economic decline.

How could a regional casino meet this need?

2.7 A number of local authorities have become interested in the potential of a regional casino to help drive regeneration in their areas, both through providing direct employment opportunities and through stimulating other economic activity in the locality.

2.8 Casinos in Great Britain are tightly regulated. An unregulated market would not take account of the social costs associated with problem gambling or the potential increase in crime rates that may occur. As a result an unregulated market would oversupply the number of casinos than is socially optimal.

2.9 The Gaming Act 1968 sought to prevent proliferation by restricting casinos to 54 permitted areas. Within these areas, applications for casino licences were subject to a "demand test" which required operators to demonstrate that there was unmet demand for a casino in these areas. At the same time, the size of casinos was controlled in effect through a cap on the number of gaming machines – casinos licensed under the 1968 Act are limited to 20 gaming machines.

2.10 The Gambling Act 2005 replaced this with a new system of regulation rooted in the Act's licensing objectives: to prevent gambling from being a source of crime or disorder; to ensure that gambling is conducted in a fair and open manner; and that children and other vulnerable people are protected.

2.11 The Act seeks to prevent a proliferation of casinos primarily by establishing minimum size limits for casinos. The Act creates three new categories of casinos (small/large/regional), which will be defined by minimum and maximum size limits.

2.12 The Act also enables the Secretary of State to prescribe limits on the number of casinos in each category that may be licensed at any one time. It provides for a maximum of 17 new casinos i.e. up to 1 regional, 8 large and 8 small. The intention behind this restriction is to minimise the risks to the public arising from these new casinos while a proper assessment can be undertaken of their social and economic impact, before Parliament considers any increase in their number.

2.13 In October 2005, the then Culture Secretary established the independent Casino Advisory Panel to advise her on the areas in which the new casinos should be located. While the primary criterion was that the areas selected should provide an effective test of the social impact of the new casinos, the government also asked the CAP to prioritise those areas that would benefit most in terms of regeneration and employment from a new casino.

2.14 While the protection of the public has been and remains the primary driver of casino policy, by regulating the market – through minimum size limits, and limiting the number of casinos and their location – it is possible for Government to use the development of the new casinos as a regeneration tool, and to create jobs largely using private sector investment.

Section 3. What are the economic benefits of casino-led regeneration?

Appraising the benefits

3.1 The economic benefits associated with casinos are not unique, as they are essentially a specific case of leisure-based regeneration. The methodology used for assessing the benefits is no different to that used for assessing any inward investment project, based largely on the Green Book methodology.

3.2 Attention is needed when analysing the potential benefits to identify the additionality of a regional casino project. The additional benefits are calculated by taking account of the deadweight of the project i.e. the benefits of what would happen in the area being considered in the absence of a casino. While a regional casino will bring benefits to the country as a whole, the use of casinos as a regeneration tool focuses analyses on the net additional benefit to the local area from the project, which takes into account six factors[6]:

- leakage effects: the proportion of benefits that benefit those outside of the regeneration project's target area;
- displacement: the proportion of project benefits accounted for by reduced outputs elsewhere in the target area;
- substitution effects: where a firm substitutes one activity for a similar one to take advantage of public sector assistance;
- multiplier effects: further economic activity in the area associated with additional local income and longer term development needs (i.e. complementary services);
- acceleration – due to the high level of interest from potential investors, the delivery of regeneration benefits may be more expedient in the case of the casino development; and
- crowding out: a decrease in further private investment elsewhere, resulting from higher levels of government expenditure[7].

3.3 Particular focus has been given here to the potential employment that can be created through the development of a regional casino and the degree to which these jobs will be filled by the local workless population rather than attract employees from further afield.

[6] English Partnerships, (2004) *Additionality Guide: 2nd Edition* .

[7] ODPM, (2004) *Assessing the impacts of spatial intervention: Regeneration, Renewal and Regional Development*.

3.4 The benefits from building a regional casino will, to some degree, be contingent on the specific circumstances of the scheme. Therefore, in order to consider the benefits on a more generic level, a number of sources of information have been used. A key source of information has been the various bid documents that were submitted as applications for a licence for a regional casino[8]. Where appropriate, we have also used other sources of information including independent studies on the economic and social impact of casinos and international experiences[9].

Fixed-term benefits

3.5 If an area was chosen for the development of a regional casino then there will be some fixed-term benefits that can be realised from the construction phase of the project. However, it is uncertain the degree to which these benefits will be additional to what would have been undertaken anyway and the extent that these benefits are realised within the deprived area.

3.6 The size of these benefits will be contingent on the scale of the project, both in terms of the size of the development itself and the degree to which the site and local infrastructure need improving. This is reflected in the estimates of potential jobs created during the construction phase of the project.

Table 1: Local Authority estimates of potential jobs created during construction phase included in a selection of the Regional Casino bids to the Casino Advisory Panel[10]

Casino Bid	Jobs	Casino Bid	Jobs
Cardiff	1,300	Manchester	520
Coventry	193	Newcastle	199-308
Greenwich	570	Solihull	500
Glasgow	534	Southampton	1,769
Havering	400-1,000		

3.7 It is clear from these estimates that, although the size of the increase will be dependent upon local circumstances, there is the potential for a short-term positive impact on employment from the development of a regional casino.

3.8 What is less clear is the extent to which these will be new jobs and how many will be displaced from elsewhere. Also, it is uncertain how many of these additional jobs will be filled by the local population.

[8] Casino Advisory Panel Proposal Documents (http://www.culture.gov.uk/cap/proposals.htm)
[9] A full list of the sources of evidence is references at the end of the document.
[10] Casino Advisory Panel Proposal Documents.

3.9 Given the magnitude of the development, it is almost certain that the construction phase will be taken on by a large development company. It is therefore likely that a number of the design and management jobs created by this scheme would be filled by existing staff that move over from other potential schemes.

3.10 There will be some additional semi-skilled and unskilled jobs that are created in the area from a casino development. Potentially some of these jobs could be taken up by the local workless population; however, given the short-term nature of the jobs this will not necessarily lead to a sustainable return to employment and could also come under intense competition from labour supply from outside the immediate locality.

Job Creation

3.11 One of the key advantages of a regional casino is the number of jobs that could potentially be created from the development. Casinos are labour intensive, essentially being a service industry and so developing a large casino will create direct employment.

3.12 There are a number of factors which will affect the number of jobs created. These will be influenced by local circumstances but will ultimately be a function of the number of visitors that the casino attracts, which in turn will be based upon its size and location and offer to customers.

3.13 As well as direct employment in the casino, there is also likely to be indirect employment benefits from the casino development. This could be through employment in supporting businesses that explicitly co-locate next to the casino, such as bars, restaurants and hotels, or through existing businesses in the area looking to expand in response to increased visitor numbers in the area.

3.14 The size of these local **multiplier effects** will again be dependent upon the specific circumstances of the area. These include:

- the number of visitors attracted to the area as a result of the casino development;
- whether these visitors are local or tourists, since the catchment area of the casino will be large, it is thought that the proportion of visitors that come from the local area will be small;
- the degree of competition for leisure activities from neighbouring areas;
- the availability of appropriate land nearby for supporting development; and

- the extent to which the area is connected to other urban amenities and transport hubs.

3.15 Analysing the job estimates quoted in the bid documents for casinos provides some useful insight into the potential employment opportunities that a regional casino could deliver. These figures do not distinguish between estimates of direct and indirect benefits.

Table 2: Local Authority estimates of the potential jobs created (both directly and indirectly) as a result of developing casinos for a selection of the bids to the Casino Advisory Panel[11]

Casino Bid	Size of Casino	Estimated jobs created
Blackpool	Regional	2,950
Bournemouth	Large	914
Cardiff	Regional	4,100
East Lindsey	Small	113
Greenwich	Regional	4,548
Glasgow	Regional	1,221
Lincolnshire	Small	223
Manchester	Regional	2,770
Sheffield	Regional	1,220

3.16 There is a considerable degree of variation in the number of jobs between the various bids. For example, the range of estimates for regional casinos differs by over 3,000 jobs.

3.17 Without any regional casinos in the UK it is difficult to be clear on what the likely job creation may be. It is worth looking at international evidence, where regional casinos have actually been built, both as a comparator for the employment potential of regional casinos and to try and understand what drives the success of casinos in creating jobs.

3.18 International evidence, in terms of the success of casino-led regeneration is mixed. There are some examples where the casino has had real success, such as in Melbourne where the development of a regional casino in the city centre as part of an upmarket hospitality and leisure development has created an estimated 7,500 jobs. Other places have had less success, for example Atlantic City employs a large number of people directly within casinos but has not created the expected multiplier effects[12].

[11] Casino Advisory Panel Proposal Documents.

[12] Harrison, B. (2007) *Casinos and regeneration, the story so far*, Centre for Cities Briefing Paper No1

3.19 Even in areas where casinos have been built, there is uncertainty over the precise employment impact of casino developments. For example Grinol (1994) found that six out of eight casinos in Illinois had no significant impact on employment after their introduction; however, Hewings, Schindler and Nafziger (1996) found that the Illinois casinos created 17,000 jobs[13].

3.20 As the international experience shows, there is a certain degree of risk and uncertainty in the size of the benefits realised from the casino investment. The level of uncertainty is also dependent upon the regulatory framework of the country and local circumstances, though there is some suggestion that (irrespective of the potential costs) casinos bring greater regeneration benefits in larger city or regional economies and have less impact in smaller cities or towns that rely on too narrow a range of economic activities and where the multiplier effect is consequently reduced.

3.21 One way to try and reflect the uncertainty is to use the concept of optimism bias. This is the term used to describe the demonstrated, systematic tendency for project appraisers to be overly optimistic about key project parameters[14]. Guidance from Communities and Local Government suggest that for large regeneration projects that benefits, including job creation, can in practice be 40% below initially estimated[15]. This should be taken into consideration when viewing the estimates of jobs created within the bid documents; however, given the level of scrutiny of the projects, it is possible that a more accurate appraisal was made then for standard regeneration projects and as such the degree of any optimism bias may be less that the 40% limit.

Additionality

3.22 The evidence presented so far looks at estimates of the gross number of jobs created. However, in terms of assessing the economic benefits from casino-led regeneration, the key consideration is the net benefits for the area from job creation.

3.23 If the development of a casino, with the associated direct and indirect (via the multiplier effect) job creation that it brings, is to have a regeneration benefit on the local area then a substantial number of the jobs created should be filled by those in the local area. The success of casinos as regeneration projects will be dependent on the extent to which these **leakage effects** are minimised.

[13] Evidence cited in Lee, K. (2006) *Casinos: Social Impact and Regeneration*.

[14] HM Treasury, *The Green Book: Appraisal and Evaluation in Central Government*, p85.

[15] Communities and Local Government, (2007) *Adjusting for Optimism Bias in Regeneration Projects and Programmes: General Guidance Note* – March 2007.

3.24 There are a number of factors that are specific to casinos that suggest the leakage effects may not be that large, including:

- the areas identified for locating casinos tend to have high levels of unemployment and worklessness, indicating that there is a potential supply of labour to meet the increased demand as long as they are actively looking for work;
- estimates of the entry requirements for work in a regional casino suggest that around two thirds of the jobs created will require no formal qualification[16]; and
- evidence from other large inward investment leisure and retail projects suggest employment comes from the local area, for example the 64% of those employed at the Meadowhall Centre in Sheffield live within a 3 mile radius and 93% within an 8 mile radius[17].

3.25 However, there are some factors specific to casinos that suggest there could be leakage effects, with the new jobs created being filled by commuters into the area who are either already in employment elsewhere or as migrant labour. These factors include:

- evidence suggests that pay within casinos is relatively higher than for similar skilled jobs and this wage premium could attract people to move jobs or commute[18];
- a number of the casino bids included training options for new staff and so may be attractive to low skilled people currently in employment who are looking for development opportunities[19]; and
- employment law within the UK does not allow restrictions to be made on where people can be recruited from.

3.26 As well as potential leakage issues, there is also the potential for **displacement** as a result of locating a regional casino in an area. The benefits from new jobs created by the casino should be offset against any jobs lost as a result of displacement of activity elsewhere.

16 Casino Advisory Panel Proposal documents.

17 Evidence submitted by Vince Taylor Associates.

18 Southampton City Council cite a report by Deloitte Consulting that claims "the annual average wage associated with the casino development exceeds the current local wage by £8,000". Source: Casino Advisory Panel Proposal Documents.

19 Casino Advisory Panel Proposal Documents.

3.27 The evidence on the degree of displacement is mixed, with the degree of displacement highly contingent upon local circumstances. International experiences of regional casinos suggest that displacement is a potential problem, particularly where casinos are located in metropolitan areas, where there is a greater degree of trade diversion away from other entertainment services[20].

3.28 There are also potential displacement effects on existing and potential local enterprises. Casinos look to maximise the amount of time individuals spend within the casino complex and this could potentially damage other local businesses[21]. For example, the number of eating and drinking establishments in Atlantic City in 1977 before the establishment of the casino was 242; however, after three years of casino operation in 1981, the figure had declined to 160 and was down to 142 by 1996[22].

3.29 Displacement effects may not be confined to the local area. Research carried out by the Henley Centre, commissioned by the British Amusement Catering Trades Association (BACTA) into the likely impacts of the new legislation suggested that most spend in casinos will be diverted from spending within the existing leisure sector, including: bingo halls (–32%), amusement centres (–11.3%), and wider leisure activities, e.g. pubs (–9%) and clubs (–5.5%) and the national lottery (–2.5%). These are average effects; impacts in individual areas will be dependent on their proximity to the casino. Other businesses in the wider area could therefore be adversely affected by the development of a regional casino, leading one researcher (Harrison, 2007) to conclude that "if less than half a casino's customers are derived from outside a given city, the overall impact is likely to be 'redistributive rather expansionary'"[23].

Wider Economic Benefits

3.30 The multiplier effects, in terms of indirect job creation, have already been discussed but there are also wider economic benefits that could be realised through increased investment in the regeneration of an area as a result of locating a regional casino there.

[20] Ng, J. (2004) "Economic gains from casinos may be exaggerated says expert at forum" (http://www.smu.edu.sg/news/smunews2004/sources/CNA_041117_1.pdf).

[21] Thomas, D. (2005) *Get Rich Quick? Is Legalised Gambling a Winning Proposition?* American Planning Association Vol 71/6 and Adam Rose and Associates, (1998) *The Regional Economic Impacts of Casino Gambling: Assessment of the Literature and Establishment of Research Agenda*, CGR Washington.

[22] GAO (2000) *Impact of Gambling: Economic Effect More Measurable Than Social Effect*, CGR Washington.

[23] Harrison (2007), *op cit*.

3.31 Developing a regional casino could act as a flagship for an area and leverage further private sector investment. This could lead to improvements in the local infrastructure in the area; indeed increased visitor numbers may provide an increased demand for improved public transport services. Also, there could be land use benefits, all regional casino bids were on brownfield sites[24], and hence there could be investment in remediating derelict land.

3.32 There may also be secondary benefits to public sector finances, through reduced benefit payments to those entering the labour market as employees in the casino, benefits accrued from any associated Section 106 agreements and through increases in business rates in the area.

3.33 Schedule 9 to the Gambling Act[25] provides the process licensing authorities must follow when inviting applications for the new casino premises licences. They must run competitions, and invite competing applications, for these licences. This provides that a local authority shall determine which of the competing applications would, in the authority's opinion, be likely if granted to result in the greatest benefit to the local authority's area.

3.34 When considering these wider benefits, it is important to remember that the issues around displacement and leakage that applied to assessing the additionality in terms of job creation can also apply here. For example, increases in business rates from the casino and supporting enterprises may be offset by reductions as a result of displacement.

[24] Casino Advisory Panel Proposal Documents.

[25] Specifically paragraph 5(3)(a) of the Schedule.

Section 4. What are the economic and social costs of casino-led regeneration?

Appraising the costs

4.1 The economic costs can be broadly categorised into three types. The costs to the public sector from developing a regional casino, wider impact costs on the local area from locating a casino and the social costs associated with a potential increase in problem gambling brought about by the casino.

4.2 Similarly to the economic benefits, there is a fair degree of uncertainty over the magnitude of these costs and will be dependent upon local circumstances. This assessment will acknowledge the uncertainty where it exists.

Costs to the public sector

4.3 Licensing costs relating to the regional casino will be recovered by the Gambling Commission and relevant licensing authority via application and annual fees. The fees must be set to recover only the estimated regulatory costs that will be incurred, and will be kept under review. However, the net result for the public sector should be cost neutral.

4.4 These costs will include the provision of licences, the granting of planning permissions, any associated enquiries, monitoring and enforcement. There may well be additional costs on the public sector in order to ensure that leakage and displacement effects are minimised.

4.5 As discussed, the relative attractiveness of casino-based jobs compared to other employment opportunities for low-skilled individuals, could mean that there is a degree of competition for these jobs and lead to leakage of these employment opportunities. In order to ensure the local population can benefit from these opportunities, there may be some additional costs on the public sector in actively matching of the jobs created with the local workless population, over and above the existing system of supporting jobless people.

4.6 The other additional costs on the public sector that could occur from developing a casino are the increased pressure on public service, in particular the police and health service. There will be direct costs associated with additional visitors to the area, though these will mostly be displaced from elsewhere. However, there may be additional pressure on these services because of specific casino factors. The section below on social costs will discuss this in more detail.

Impact costs

4.7 The development of a regional casino would have an impact on the local area. This could include environmental costs from the development and congestion costs from the increased visitor numbers to the area.

4.8 The environmental costs will include both ongoing costs, such as emissions from the development and from the change in land use. However, it is unlikely that these will be significantly different from other developments and the fact that casinos are likely to be developed on brownfield sites will mitigate their impact on land use, and as discussed could be beneficial in terms of remediation of derelict land.

4.9 Congestion costs may be more significant, given the high numbers expected to visit a regional casino. Obviously, the location of the site and the degree of connectivity and other local circumstances will have an impact upon the potential costs from congestion. One factor that may reduce the size of congestion costs is that casinos will tend to have predominantly "out-of-hours" travel patterns so may not place too much additional congestion on the peak time transport system, but this in turn may create demand for additional "out-of-hours" transport e.g. night buses or taxis.

Wider social costs

4.10 One of the most significant costs associated with the development of a regional casino is the increase in social problems that could occur as a result of increased gambling. These costs may be more pronounced with a regional casino than with other categories of casino permitted by the Act for a number of reasons:

- it will be the only casino of its type in Great Britain and its profile is already such that it would be able to attract significantly larger numbers of customers;
- it will be far larger – the regional casino will be required to offer a minimum gambling area of 3,500m^2, as well as a minimum non-gambling area of 1,500m^2;
- it will be able to offer far more jackpot gaming machines than any other casino – 1,250 as opposed to 150 in the eight large casinos, 80 in the eight small casinos and 20 in existing casinos; and
- uniquely it will be able to offer unlimited stake and prize gaming machines – as opposed to the £2 maximum stake and £4,000 maximum prize gaming machines found in other casinos.

4.11 There is a wide range of literature devoted to analysing the social problems associated with gambling but there is no consensus in terms of precisely measuring the overall social cost inflicted upon society[26]. Attempts to quantify the social costs tend to focus on specific aspects including crime impacts, public health impacts and community life impacts.

4.12 The other challenge is attributing problems associated with gambling to specific gambling opportunities. There is some debate as to what degree developing a regional casino would displace gambling behaviour from elsewhere, how much additional gambling would occur and to what extent this would be problem gambling.

4.13 The Gambling Commission's Prevalence Study estimated that between 236,000 and 284,000 adults could be defined as problem gamblers (approx. 0.5% of the adult population)[27]. However international evidence suggests that the type of gambling opportunities offered in regional casinos, particularly Electronic Gaming Machines (EGMs) are highly addictive[28] and that increased access to gambling facilities leads to an increase in gamblers and problem gamblers[29].

4.14 Given these uncertainties, it is difficult to give a precise estimate of the social cost that would be associated with the development of a regional casino. The rest of this section will therefore provide a discussion of the types of social cost that could occur and, where appropriate, draw upon international evidence.

4.15 **Crime** is one area that may increase as a result of developing a regional casino. Potential crime impacts could include[30]:

- in-house crime within casinos;
- crime committed in order to acquire funds to gamble or pay off gambling debts; and
- crime as a by-product of gambling behaviour, including domestic violence.

[26] GAO (2000) op cit.

[27] Gambling Commission, (2007) *The British Gambling Prevalence Study 2007*, Sept 2007.

[28] NGISC (1999) *National Gambling Impact Study Commission Final Report*.

[29] Abbott, M. and Volberg (1999) *Gambling and Problem Gambling in the Community: An International Overview and Critique*, Report No.1 of the New Zealand Gaming Survey, Dept of Internal Affairs, Wellington.

[30] Lancaster University, Gemini Research and University of Salford (2007) *Scoping Study for a UK Gambling Act 2005, Impact Assessment Framework* prepared for the Department for Culture, Media and Sport – Casino Scoping Study (ITT no.636).

4.16 The three licensing objectives of the Gambling Act are to prevent gambling from being a source of crime or disorder, to ensure that gambling is conducted in a fair and open way and to protect children and other vulnerable persons from being harmed or exploited by gambling.

4.17 The Act includes a list of offences, with penalties attached. The Gambling Commission and licensing authorities have enforcement and compliance duties to ensure that gambling operators comply with the legislation. Both will undertake visits to assess compliance or to investigate any complaints.

4.18 The Gambling Commission, LACORS (Local Authorities Coordinators of Regulatory Services) and ACPO (Association of Chief Police Officers) have developed a risk-based approach to these duties and will take appropriate action where the licensing objectives of the Act are compromised. Licensing authorities will take responsibility for individual premises, with the Commission monitoring compliance on a national and regional basis.

4.19 The evidence directly linking increased criminal activity to gambling is weak, due to the complexities involved and the difficulties associated with disaggregating the causes of crimes. However, evidence from Grinols (2001) does suggest that there is some correlation between the two, with 62% of all problem gamblers being treated in their survey having committed illegal acts as a result of their addiction[31].

4.20 Another factor that could be affected by casino gambling, particularly that offered by regional casinos, is **public health**. These include both personal health problems and the pressure put on the public health system more generally. The two main types of health problem associated with problem gambling are[32]:

- stress Disorders: pathological gamblers have been found to be at heightened risk for a number of stress-related physical illnesses and psychiatric disorders including hypertension and heart disease; and
- addictive Disorders: there is significant overlap between problem gambling and addictive disorders such as alcohol and drug dependence.

4.21 The other key area where an increase in problem gambling as a result of a regional casino could lead to a social cost is through **community life impacts**.

[31] Grinols, E. (2001) *Cutting the Cards and Craps: Right thinking about gambling economics*, NCALG.

[32] Evidence from a variety of sources, cited in Lancaster University, Gemini Research and University of Salford (2007).

4.22 The effects of compulsive gambling are not confined to the individual, and it is estimated that one compulsive gambler affects on average 10-15 other people[33]. The biggest impact that problem gambling can have is on family function, which often leads to them suffering: emotional distress; financial problems; and/or health problems[34]. Rates of separation and divorce are significantly higher among problem and pathological gamblers[35] and evidence from the US found increases in personal bankruptcy in seven out of eight communities with casino developments[36].

4.23 As discussed above, it is difficult to measure precisely the social costs associated with a regional casino development. However, given international evidence of the range of problems associated with increased gambling within casinos, they are potentially significant. Particularly as the location of casinos in deprived areas could well lead to problems for people who live nearby that may have a high vulnerability to gambling addiction[37].

[33] John Mark Ministries (1997) *Gambling and Health*, Australia.

[34] Dickson et al, (2005) cited in Lancaster University, Gemini Research and University of Salford (2007).

[35] National Research Council (1999) cited in Lancaster University, Gemini Research and University of Salford (2007).

[36] Stitt, G. et al (2003) cited in Lee, K. (2006).

[37] Harrison (2007) *op cit*.

Section 5. What are the alternative approaches to casino-led regeneration that could be considered?

Considering the alternatives

5.1 The optimal approach for regenerating an area will be dependent upon a number of factors and will be contingent on the specific problems and circumstances within the area. The options here therefore need to be considered in their specific context.

5.2 The aim of this section is to highlight some of the potential approaches that could be taken and discuss the relative magnitude of the likely benefits and costs of these approaches compared to a casino, highlighting where there are risks and uncertainty.

Alternative inward investment projects

5.3 Regional casinos are a specific type of inward investment project. As has been highlighted, there are a number of characteristics of a casino project, such as the numbers of jobs created and the high levels of private investment, which make them a special case. However, there are other projects that could be considered including other leisure based developments, retail and commercial development or housing-led regeneration.

5.4 One of the most logical alternatives to a regional casino worth considering would be the development of a **smaller casino** (the Gambling Act currently permits the establishment of eight large and eight small casinos both of which are smaller than the proposed regional casino). This would obviously have less direct benefits than the larger alternative, both in terms of job creation and increased visitor numbers to the area, though if combined with other developments the marginal benefits of the proposals may be more comparable.

5.5 It is also likely that the risks or costs associated with a smaller casino are likely to be lower – both because attendance would be lower and because the large and small casinos permitted by the Act will be permitted to offer fewer gaming machines and will not be permitted to offer unlimited stake and prize gaming machines. Instead, large and small casinos will be permitted to offer 150 and 80 category B1 gaming machines respectively, with a maximum stake of £2 and a maximum prize of £4,000.

5.6 This is in line with the maximum permitted stake and prize limits in existing casinos. The main differences between the existing and new casinos would be that the new casinos could offer these machines in significantly higher quantities (existing casinos may offer up to 20 such machines). As with the regional casino, they would also be permitted to offer new combinations of gambling: the large casinos would be able to offer betting and bingo; the small casinos would be able to offer betting. These differences, while still sufficient to justify the limited pilot to which the government is committed through the Act, would not carry the same level of risk to the public as the regional casino.

5.7 There are a number of issues with this alternative. Firstly, given the licensing arrangements for casinos, it would need to be investigated whether this was a viable option. Secondly, a smaller casino may not create as large multiplier benefits, as there would be a uniqueness of a regional casino that could potentially draw proportionally more visitors than a smaller variety would.

5.8 Another option available would be to pursue alternative **leisure and tourism attractions**. One of the big advantages of casinos as a regeneration project is the visitors that they bring to the area and subsequent employment opportunities. Other attractions could be considered for the area that looked to bring visitors in. Options include new sports arenas, concert venues, entertainment complexes or general leisure developments.

5.9 In principle, these attractions could deliver similar benefits to a casino development in terms of direct job creation and multiplier benefits from complementary developments. However, the size of these benefits, relative to those from casinos, will be clearly determined by local circumstances. Some places will already have a number of these facilities and so there may not be the demand for a new facility. Given the uniqueness of a regional casino project as a cash-rich private sector led development, it is unlikely that an alternative leisure attraction would be able to generate the same scale of benefits.

5.10 However, when considering the costs, it is likely that the social costs associated with these options would be smaller than for a regional casino. Although, there are likely to be similar impact costs and pressure on public services, these developments do not have the specific social costs associated with problem gambling.

5.11 It is interesting to note that a number of places that bid unsuccessfully for a regional casino are looking to pursue alternative leisure and tourism projects. For example Hull have identified a mixed use leisure and tourism project as an alternative to a regional casino and expects this to create 2,500 jobs, according to the Government Office for Yorkshire and the Humber.

5.12 Another related option that could be pursued would be for a **cultural development**. This could include the development of new museums, theatres or galleries. It is unlikely that these developments would have the job creation potential of casinos, or even other leisure developments, and, there is again uncertainty around the extent to which new jobs created would benefit the local population. It is also likely that this option would require more public sector investment to establish and support.

5.13 Where this option does have an advantage over others is that there are potential social benefits from this development. Cultural attractions can potentially create positive externalities in the area and, if well designed, could create educational opportunities and benefits for local residents.

5.14 **Retail-led regeneration** is another approach that could be undertaken. Retail developments have huge potential to attract people to an area and create employment. For example, Bluewater shopping centre in Kent attracts more than 27 million visitors a year and has created a large number of jobs for local people, with 47% of people employed there having Dartford postcodes, including a number of long-term unemployed, single parents, ex offenders and disabled people[38].

5.15 There are a number of factors which will restrict the potential benefits from retail-led regeneration. The first of these is the availability of substitutes. The success of retail-led development will be dependent upon what existing retail outlets there are in the region. If there is already a large number within the catchment area then any new development is likely to either not attract enough customers to be viable or just displace activity from elsewhere.

5.16 The other factor to consider is planning policy. Planning Policy Statement 6 promotes the vitality and viability of town centres, recognising that retail has a key role to play in supporting this[39]. Given the preference for town and city-centre based retail development now enshrined in planning policy, retail-led regeneration on the sites considered for regional casinos would be unlikely to proceed.

[38] Renewal.net *Bluewater Regional Shopping Centre: Creating local jobs for local people* (2002).

[39] ODPM, *Planning Policy Statement 6:Planning for town centres* (2005).

5.17 Another inward investment option that could be considered as an alternative to casino-led regeneration would be **commercial development**.

5.18 There is a variety of options open for commercial development, including office, manufacturing, distribution or public sector developments. The viability of each of these will be dependent on local circumstances including demand side factors, which will determine whether there is a market for this development and supply side factors, in terms of availability of the appropriate labour and infrastructure.

5.19 Although commercial developments have the potential for job creation, the type of job created will be dependent upon the specifics of the development and it is less clear that they will be appropriate for people in the local area. Therefore there is likely to be a higher degree of leakage and displacement than for casino-led regeneration.

5.20 If the demand for commercial land is not that high in the area then it is possible that more public support will be needed to encourage development. The other area where the benefits may not be as high is the size of multiplier benefits. Commercial developments, by their nature, do not attract visitors to the area and so are less likely to increase the demand for supporting services that leisure and tourism attractions would have.

5.21 The other main type of inward investment activity that could be considered is **housing-led regeneration**. Increasing demand for housing has placed additional pressure on the need for housing growth across the country and in many places regeneration will be driven by investment in housing.

5.22 Within deprived areas, such as the areas envisaged for a regional casino, the aim of regeneration is as much about renewal of the housing stock as housing growth. Although housing renewal will not have the job creation potential that a casino would offer, other than construction and renovation activity, improvements to the housing stock can have positive impacts on the people living in the area[40] and attract new people in, which will benefit the local economy. In order to achieve the desired outcomes, it is likely that there will be additional costs on the public sector, particularly on the Homes and Communities Agency.

[40] *National Evaluation of the HMR Pathfinder Programme – Baseline Report.*

5.23 The housing approach has been considered as a viable alternative option in a number of places that failed in their bid for a regional casino, including Wakefield, Havering and the Millennium Village development of housing in Greenwich according to the Government Offices in London and Yorkshire and the Humber. However, a purely housing led approach will be unable to deliver the job opportunities that would be created by a casino.

Alternative options on the supply side

5.24 Supply side interventions will often require more active public sector involvement and hence impose larger costs on the public sector than a casino project would. However, these supply side options could be well targeted at people within the area and will therefore have less problems of additionality than physical regeneration projects. In many cases these supply side interventions could be complementary to demand side policies rather than a direct alternative.

5.25 One of the key problems within deprived areas is that of worklessness. Casino-led regeneration aims to reduce this through increasing the local demand, however, there is a strong argument that it is not lack of demand that is the problem but supply-side barriers to employment. Evidence submitted to this Review from the Department for Work and Pensions (DWP) suggests that there is very little relationship between employment rates and local labour demand, particularly in large cities.

5.26 Government's **welfare to work policy** focuses on getting individuals into work using supply side policies, in particular through engagement, motivation and activation of those people out of work. Through activity such as DWP City Strategy Pathfinders, which already exist in a number of cities that bid for a regional casino (Glasgow, Manchester, Newcastle, East London, and Sheffield) local consortia have the freedom to try out new ideas and tailor services to local need.

5.27 These supply side interventions have already had some success in supporting individuals into employment and further gains are possible through increased public support.

5.28 Similarly, worklessness and individuals welfare and opportunities more generally can be improved through the **provision of training and education**. Structural change in the economy is placing an increasing premium on skills. Providing training opportunities and increasing skills levels within deprived areas will provide those living there with the opportunity to compete within the labour market and raise living standards.

5.29 Investing in skills and training comes at a cost to the public sector but there is evidence that this has long-term benefits. For example investment by Connexions partnerships have mostly seen positive results, with reductions in young people not in education, employment or training (NEET)[41]. According to the Government Office for the East of England, Great Yarmouth (which unsuccessfully bid for the regional casino) and Luton (which unsuccessfully bid for a small casino) have identified improving education and training facilities as key options to pursue in the deprived areas.

5.30 The other key supply side option that could be used as an alternative to casino-led regeneration is **improvements in connectivity**. The North West and Yorkshire and the Humber Government Offices confirm that Hull, Leeds and Blackpool have all identified the need to improve the local transport system as important components for regeneration.

5.31 Transport improvements alone will not necessarily generate demand and tackle the problems of deprived areas; however, they can help facilitate development and ensure that people living in deprived areas can access opportunities elsewhere and attract business to the area. Improving connectivity will require significant investment from the public sector.

Summary of alternative options

5.32 The discussion of alternative approaches to casino-led regeneration has highlighted a variety of options that could be considered but also has indicated some of the uncertainty surrounding the impacts of these options.

5.33 It is clear that the viability of alternative options will be dependent upon the local circumstances of the area. In general, given the unique nature of a regional casino, it would be challenging for alternative projects to deliver the same amount of direct benefit to the area, without additional public sector support.

5.34 However, these alternatives do not necessarily have the same degree of social costs. Depending upon the nature of the scheme, the net benefit from these alternatives could be comparable to a regional casino.

5.35 It is also worth noting that each of the options have been looked at in isolation. In practice, it may be preferable to consider a package of measures, building upon inward investment opportunities and supporting supply side policies and tailored to the specific circumstances of the local area.

[41] Connexions data taken from http://www.connexions.gov.uk/partnerships/index.cfm

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