

GAMBLING COMMISSION

Fees discussion paper

September 2015

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Foreword

The Gambling Act 2005 provides for the Gambling Commission's (the Commission's) fees to be determined by the Secretary of State for Culture, Media and Sport, through secondary legislation.

The previous government indicated in its response to the [Culture, Media and Sport Select Committee's report "The Gambling Act 2005: A Bet Worth Taking?"](#), that it would consider reviewing the Commission's fees and costs once the changes to the regulation of remote gambling have been fully implemented. In any event, the Commission is planning to advise the government to amend the current fees regulations, to take account of the significant changes in the population of operators that we regulate and to address identified problems in the current fees structure.

The Commission is therefore developing its advice to the Department for Culture, Media and Sport (DCMS). While the timetable for any review is a decision for the Secretary of State, the Commission considers that the earliest any such a review could start would be towards the end of this year once we have the first full year's data post the Gambling (Licensing and Advertising) Act 2014.

Alongside the changes to the regulation of remote gambling which came into effect in November 2014, the government changed the basis of remote gambling taxation with effect from December 2014. While it will take a number of years for the full impact of the changes in both regulation and taxation from point of supply to point of consumption to work through, the immediate impacts in terms of the effect on the Commission's costs and income should be clearer by the end of 2015, as newly-licensed operators based overseas decide whether and at what level to maintain their Commission licences, and any immediate impact on the number and nature of Commission licensees manifests itself. The main modelling and development of our advice on specific fee proposals cannot therefore be completed before the end of this year.

The purpose of this discussion document is to explain our approach to recovering costs through licence fees, our current thinking on how the fees structure could be improved, and the implications of the 2014 Act on our costs, income and therefore on the fees needed to recover those costs; and to invite comments to help us prepare our advice on these issues to government.

We assume that, if the government agrees that our fees need revision, any proposals from DCMS would be subject to public consultation, be revised as necessary in the light of consultation responses, be subject to the established Government mechanisms for ensuring that regulatory impact is properly assessed, and then be incorporated in regulations subject to the negative resolution procedure in Parliament. Those regulations would need to give operators sufficient notice of the changes that may apply to them. It will of course be for Government to determine the timetable for any future fees review but, if the assumptions we set out are correct, it seems unlikely that any significant revision of fees could come into effect before the first common commencement date of 2017.

As part of our preparatory work and to inform our advice to DCMS, we are publishing the attached discussion paper which explains; how the Commission has set about recovering the costs of its operations via fees, how that approach has developed both with better information and with the maturing relationship between the Commission and its licensees, alongside our continuing drive to reduce the costs of regulation, and how the Commission envisages that approach underpinning its advice to DCMS on changes needed to the fees regulations.

We hope that, by providing greater transparency about the way in which the Commission and indeed previous governments set about determining the fees needed for full cost recovery, stakeholders will be able to feed in any suggestions or proposals for improvements at this formative stage. Conversely, by explaining why some apparently attractive options have not hitherto been adopted, stakeholders will be better placed to decide whether to continue to argue for such options, or to accept the rationale for not pursuing them. And we will take into account any new or further-developed arguments when considering whether to revisit our position and in developing our advice to Government.

We would welcome any comments or suggestions on the approach set out, and views on the particular discussion points raised in this paper, to inform the advice we put to DCMS in any subsequent fees review exercise with a full appreciation of stakeholders' views. Please provide your views on the discussion points, or any other comments or suggestions, to discussion@gamblingcommission.gov.uk by 27 October 2015.

1 Introduction

- 1.1** The Gambling Commission (the Commission) was set up by the Gambling Act 2005 (the Act). We license and regulate virtually all commercial gambling in Great Britain, including casinos, bingo, betting, arcades, larger lotteries (including the National Lottery, under separate legislation) and the manufacture, supply and use of gaming machines and gambling software. We license operators in both the non-remote and remote sectors. We do not, however, license or regulate spread betting, which remains the responsibility of the Financial Conduct Authority.
- 1.2** Our functions include:
- licensing operators, individuals and suppliers
 - monitoring compliance with licence conditions and the law
 - investigation and enforcement, both in relation to licensed operators and illegal (unlicensed) gambling
 - providing advice to central and local government on the incidence, manner, effects and regulation of gambling.
- 1.3** In carrying out our functions, we work closely with licensing authorities, which have overlapping responsibilities for regulating gambling in their authority area in accordance with the licensing objectives set out in the Act. They also have specific responsibilities for issuing premises licences to operators licensed by us and various gaming permits, for example, club gaming permits, prize gaming permits and gaming machine permits sought by premises that serve alcohol. Our role includes the statutory duty to provide advice to local authorities and the power to collect information from licensing authorities on their activities.
- 1.4** Apart from the regulation of the National Lottery, which is funded under separate arrangements¹, all of these functions are funded by licence fees. The Act gives the Secretary of State for Culture, Media and Sport (Secretary of State) the power to make regulations setting the fees to be paid to the Gambling Commission by holders of operating and personal licences. Regulations under the Act first came into force in 2006. They embodied the principle of full cost recovery². Since then the fee structures have been augmented and modified by a series of further measures. The last changes to fees came into effect through regulations made in April 2012, following a consultation process launched in 2011.
- 1.5** The Commission has previously³ flagged up its preference to replace ‘number of premises’ with gross gambling yield⁴ (GGY) as the main proxy for the potential impact of an operator on the licensing objectives and our associated licensing, compliance and enforcement costs, once we had sufficiently reliable data. We have also provided more information to stakeholders on the relationship between our costs and fees, both in successive consultations and in information sent out with the annual fee invoices and published on our website. We agree however, as recommended by the Select Committee and agreed by the then-government, that we need to do more to explain our approach and the relationship between fees and costs and of course continue to see if we can reduce the overall burden of fees particularly on smaller operators.

¹ As such, funding for National Lottery-related work is outside of the scope of this discussion.

² The Gaming Board for Great Britain charged fees to the sectors and individuals it regulated under the 1968 Gaming Act and 1976 Lotteries and Amusements Act. These included lotteries, casino and bingo operators and gaming machine suppliers. It also licensed personnel including functional staff in casinos such as croupiers and pit bosses, and gaming managers in casino and bingo premises. The fees were set by Secretary of State Orders, but only covered approximately 50% of the Gaming Board’s running costs (for example in 2003/2004, 55% of the Gaming Board’s funding came from government).

³ In the 2009 and 2011 fees consultations

⁴ GGY is defined [in regulation 3 of The Gambling \(Operating Licence and Single-Machine Permit Fees\) Regulations 2006](#). Essentially, the calculation for assigning fee categories is A+B-C, where A is the total stakes accrued, B is any other accruals in relation to the gambling activity (eg participation fees, or commission received by a betting intermediary) and C is the deduction of amounts paid in prizes and winnings.

- 1.6** To inform any review of fees and their levels following implementation of the changes to regulation of overseas remote operators, we have been reviewing our basic approach to fee setting to see if any changes in approach are needed before we provide our advice to DCMS.

Our advice will take account of the step change in the make-up of our licensee population following the Gambling (Licensing and Advertising) Act 2014, and in the associated costs and potential income. This discussion paper sets out the way in which we have approached fee setting over the past decade and how we see this continuing as we take account of the impact of the 2014 Act, alongside our continuing drive to reduce the costs of regulation. In considering our approach we have also undertaken research to look at the fees structures used by gambling regulators in several other European jurisdictions, along with those used by UK regulators of non-gambling industries such as Ofgem, Ofcom and the FCA.

- 1.7** The remainder of this paper is structured as follows:

- **Section 2:** An overview of the present fee structure, together with a summary description of how it has evolved over the past eight years.
- **Section 3:** A short summary of our role and our strategic objectives, providing some context to the consideration of the appropriate fees for the different gambling sectors.
- **Section 4:** How we forecast our costs and our cost structure
- **Section 5:** How we apportion these costs for fee-setting purposes in order to meet our overall cost recovery obligation
- **Section 6:** Broad brush implications of continuing with the current approach for looking at fee structures and levels
- **Section 7:** Issues that will arise in implementing any changes to current fees

2 Overview of current fee structure

In this section we outline:

- **how the current fee structure has evolved throughout the Commission's lifetime**
- **the types of fees (application, annual, personal licence and miscellaneous fees) that are currently payable to the Commission**
- **the concerns previously expressed by some stakeholders in relation to the structure of fee setting, including:**
 - **use of number of premises as a determinant of fee bands for most premises-based operators**
 - **the jump in fees between bands**
 - **the view that the methodology underlying fee setting is unclear and could be better understood by stakeholders**

- 2.1** Our present fee schedule is the result of a process of evolution over almost a decade. This period has seen developments in regulatory strategy and priorities in response to both changes in the law on the one hand, and significant changes in the industry that we regulate on the other.
- 2.2** In the early years of our existence, comparatively little was known about the number of operators and their scale of operation. This was particularly true of the sectors not previously regulated by the Gaming Board for Great Britain (remote, betting and arcades). The knowledge and understanding of the risks that we would be required to address was somewhat limited and has only grown and become more refined with the experience of subsequent years' regulatory activity.
- 2.3** For example, our efforts in relation to countering sports betting corruption grew substantially after the report of the Sports Betting Integrity Panel, chaired by Rick Parry in 2010. Conversely the volume of compliance work in relation to remote gambling fell as operators moved offshore. However, the core effort needed to understand and regulate the developing remote gambling industry was not reduced by the move offshore, and the effort required in terms of advisory work grew significantly as the main basis of remote regulation changed from point of supply to point of consumption.
- 2.4** More recently, social gaming (gaming often via social media where players may pay for additional play time but no money or money's worth can be won – the 'freemium' business model) emerged as a potential risk that needed investigation. And as our relations with our co-regulators in local authorities developed and our common understanding of the shared regulation agenda grew, so we were able to focus more of our efforts on issues of regional or national importance, with local authorities concentrating on regulating the high street.
- 2.5** A particular feature of the early years was the significant effort that was devoted to visiting a large number of the 9,000 premises operated by 3,000 licensees, sampling those of the larger operators, and building up our detailed understanding of the issues faced by operators and the risks to the licensing objectives. With no reliable or up-to-date information available on GGY or any other potential proxy for risk, the number of premises operated by a licensee was therefore selected as the best available basis for most non-remote licence fees. As, typically, we needed to visit a larger proportion of a smaller operator's estate of premises (ie a much smaller proportion of a large operator's premises could be sampled for compliance purposes), the cost-recovery fee structure reflected the economies of scale involved in regulating large, as opposed to smaller, operators.

2.6 Over time, however, information has improved and the range and balance of our work has evolved. In particular, there was a planned shift away from premises visits once the initial scoping work had been done, and more emphasis on thematic work such as anti-money laundering, combating underage gambling and sports betting integrity. At the same time there has been a continued volume of advisory work as gambling has remained controversial and the right approach to its regulation has continued to be the subject of much debate. In particular, over the last six years both the provision of advice on the issue of point-of-supply versus point-of-consumption regulation of remote gambling, together with the subsequent work on the preparation of the consultation process, the resulting legislation and its implementation, and the continuing concerns in relation to higher stake machine gambling⁵ on the high street, all required a significant and sustained level of resource commitment, especially at senior levels in the organisation. An important feature of thematic and advisory work is that the costs we incur are driven more by the nature of the risks which we are addressing, than by the number of operators we license.

2.7 Accordingly, the Secretary of State has made modifications to fee structures on a number of occasions to reflect such developments. For example, in 2012 the fees for many smaller scale non-remote operators were reduced by 7%, reflecting the lower level of resources devoted to premises visits. At the same time, the fees for larger operators increased by about 10% overall (and by up to 29% in the case of some very large operators, as a result of the re-banding of fee categories) to reflect the greater proportion of costs focused on tackling high priority thematic issues such as betting integrity, anti-money laundering and player protection measures, all of which exhibit limited or no scale economies in relation to the regulation of larger scale operators.

2.8 In summary, our current fee schedules comprise the following principal elements.

- Operator application fees are payable by everybody who wishes to obtain a licence under the Act. We typically⁶ process some 220 applications each year. Depending on the type of licence required, application fees are based on either projected GGY, number of premises, projected gross value of sales, projected proceeds, casino premises licence types, or projected number of working days, each grouped into bands. Discounts are available where an applicant wishes to hold more than one type of licence. Application fees accounted for 16% of our fee income in 2014/15 although this was unusually high following licensing of overseas operators under the Gambling (Licensing and Advertising) Act 2014 (the equivalent figure was 3% of our fee income for 2013/14).
- Similarly, annual fees are payable by all operators licensed under the Act, of which there are currently⁷ around 3,000. Again, the fee structure is based on bands, defined with reference to a number of different measures depending on the licence type involved. For some fee types, specified discounts are applied to the annual fee payable in the first year of operation⁸. Further discounts, as with application fees, are available where an operator holds more than one licence type, again to avoid the double-recovery of costs. Annual fees provided 78% of our total fee income in 2014/15.
- Fees for personal licences accounted for 5% of our fee income in 2014/15. Other than where an operator qualifies for a small-scale exemption, it is a condition of all operating licences that at least one person holds a personal management licence, and it may also be a condition that persons carrying out specified operational functions hold a personal functional licence. The maintenance fees applied in respect of these licences cover a five-year period.

⁵ Including category B2 machines in bookmakers, the splitting of premises to increase category B3 machine entitlements, and the provision of bingo terminals

⁶ 2014/15 was atypical. We received more applications – over 300 – because of the legislative changes that prompted a number of first time applications.

⁷ As of August 2015

⁸ Specifically, for non-remote licences many compliance issues will have been dealt with as part of the application process so the incremental cost to the Commission is lower than in the second and subsequent years. The position is different for remote licensees, where a number of important Commission activities such as website reviews and security audits are carried out in the first year.

- The remainder of our fee income relates to a range of miscellaneous fees and charges. These include fees in respect of licence variation, change of legal entity and change of corporate control.

2.9 The current application fees, annual fees and fee categories (that have been applicable since April 2012) are presented for reference in Appendix B.

2.10 From the outset, various stakeholders have highlighted particular concerns about both the level and structure of Commission fees. The complexity of the fee structure has also been criticised. Many of these concerns were expressed during the course of the work of the Parliamentary Committee on Culture Media and Sport in 2012. These include:

- the use of number of premises as one of the principal determinants of fee levels. Many have regarded a single operator having to pay up to 12 times more per premises than a large operator as unfair, whatever the arguments about economies of scale, and exacerbated in those cases where income per premises is out of line with industry averages.
- that the current licence fee banding system can lead to significant increases in fees when operators cross thresholds from one band to another. For example, a non-remote bingo operator with one premises must pay an annual fee of £1,531, which remains unchanged if it adds a second, third and fourth premises; but a fifth premises takes it into a higher band for which the annual fee is £5,363 higher, at £6,894, an increase in fee of 350%. There have been particular concerns expressed by operators seeking to move between fee categories B and C, and C and D. While, as we have pointed out, the impact can be reduced in many circumstances by an operator applying for a second licence at a lower band (albeit under a separate legal entity) rather than moving their existing licence up to the next one, this bureaucratic solution reinforces the sense that the fee bands are arbitrary and unfair.
- a perception that the methodology underlying fees is not transparent and could be better understood by stakeholders.
- general concerns about the fee levels for some categories, most notably in those sectors where, prior to the Act, operators only had to pay nominal fees for permits that did not reflect their scale of operation.

2.11 It should be pointed out, however, that for most licensees, the fees that are paid to the Gambling Commission represent a relatively small percentage of their revenues. In 2013/14, the aggregate GGY for the sectors that we regulated was £6.8 billion, of which the £13 million payable to us in the form of fees represented less than 0.2%. Whilst the percentage (an operator's licence fee as a percentage of their own GGY) will vary from operator to operator, ranging for example from around 0.5% to 2% (annual fee of £1,500 per annum or about £30 per week) for a small bookmaker, to 0.03% (£305,000 per annum or £5,865 per week) for the largest bookmakers, it is clear that Gambling Commission fees are not a major cost item for most. Although, as fees have to be paid up front in one go, often at the time that premises licence fees⁹ are due to be paid to local licensing authorities, this may present cash flow problems for some smaller operators.

2.12 It is perhaps also worth noting that some of the complexity involved in the current fee structure reflects a combination of the statutory requirements for two distinct types of licence (remote and non-remote) and for different remote and non-remote categories of gambling activity (for example, bingo, betting, lotteries) to be specifically licensed. We are therefore required to demand remote as well as non-remote licence fees in circumstances where there is sometimes (but not always)¹⁰ little additional licensing or compliance effort and have had to institute special lower fee categories (for example, ancillary or supplementary licences) to avoid over-recovery of costs.

⁹ Premises licence fees are also made by the Secretary of State through [regulations](#). The maximum premises licence annual fees for bingo and adult gaming centre premises are £1,000, and £600 for betting premises. The regulations provide, however, that the exact amount of the annual fee for a premises licence shall be determined by the individual licensing authorities.

¹⁰ The normal discount was reduced in 2009 from 10% to 5% as the additional compliance work required for licensees that operate in both spheres was greater than anticipated.

It is not clear that, even with primary legislation, all or even most such complexity could be removed given the different combinations of activities and the varying degrees to which operators subcontract to, or buy in services from, others who may or may not be licensed by the Commission.

- 2.13** In addition to the fees payable by licensees under the regulations, charges can be set for specific miscellaneous services, such as providing a hard copy of our register of operating or personal licences (the registers are available online for free), provided such fees do not exceed the reasonable cost of providing the service. Such fees are typically well below £100 and are set in broad terms to recover the average administrative costs incurred. As they do not raise issues of principle, and are comparatively minor in scale, they are not discussed further in this paper.

Summary and points for discussion

This section has provided a thumbnail sketch of the fees currently payable to the Commission, and has set out in summary the principal concerns with the current arrangements that have been identified.

- **Have we correctly summarised the principal concerns with the present fee arrangements?**
- **If not, what additional issues would you like us to consider?**

3 Our role and strategic objectives

In this section we:

- **outline what we do and why we do it (our statutory duties and strategic objectives)**
- **explain the components of the Commission's strategic objectives, including:**
 - **empowerment and protection of consumers**
 - **raising standards across gambling sectors**
 - **building of partnerships and understanding**

- 3.1** This section provides a high level summary of what we do and why we do it, as context for the subsequent discussion of our approach to fee setting. More detail on our strategic objectives is set out in Appendix A.

- 3.2** We are the statutory regulator for almost all commercial gambling in Great Britain, including casinos, bingo, betting, arcades, larger lotteries and the manufacture, supply, and use of gaming machines and gambling software. Our statutory duties are to:

- permit gambling, subject to reasonable consistency with the licensing objectives, namely:
 - to keep crime out of gambling
 - to ensure that gambling is conducted fairly and openly
 - to protect children and other vulnerable people from being harmed or exploited by gambling
- advise national and local government on the impact of gambling and its regulation
- secure the maximum return to good causes from the National Lottery subject to probity and protection of player interests.

3.3 Our job is to decide how best to discharge our statutory duties. The Act provides us with a range of tools and powers, such as licensing and enforcement, but it is our responsibility to develop and implement the strategy that we consider will best deliver our goals. Our strategy has four principal components underpinned by our *Licence conditions and codes of practice* (LCCP). LCCP is deliberately principles-based and we usually look to the operator to work out how best and most cost-effectively in its particular circumstances it can secure the required outcomes (for example, how to prevent underage gambling and money laundering, how it should develop its 'know your customer' standards), rather than prescribing how those outcomes should be achieved. We only prescribe where necessary to prevent unfair competition from the less responsible, or where experience suggests commercial or other pressures tend to militate too strongly against best practice. The ordinary codes of practice in LCCP and our advice notes help smaller or less experienced operators see how to comply with good practice.

3.4 As the first component in our strategy, we place a very high priority on the empowerment and protection of consumers, because consumers that are informed, equipped, and supported drive sector outcomes that are consistent with our objectives. We do this in a number of ways:

- we promote improved consumer education and awareness, for example, by requiring operators to improve the information provided to players on issues such as offers of free bets
- we require measures that improve player protection, such as the availability of effective tools to assist players in managing the risks of gambling, such as enhanced 'time and money' control options
- we require strengthened measures to identify and assist those at risk of gambling-related harm, for example through participation in the development of improved self-exclusion schemes.

3.5 Second, we focus resources on the raising of standards across gambling sectors. We do this by:

- promoting best practice across operators and sectors. We work closely with the organisations and individuals that we license and seek to ensure that examples of best practice are available and adopted as widely as possible.
- licensing rigorously and holding licensees to account. Increasingly, and especially with larger operators, we do this by requiring them to undertake and share with us their own assessment of compliance and, where performance falls short, to put in place investigatory, remedial or improvement measures at their expense and to share any learning from dealing with such shortcomings with other licensees. We have also just introduced an annual assurance statement for the 40 or so largest operators, in which they will set out how they are ensuring that their policies and procedures are effective in keeping gambling fair and safe.
- combating illegality. We do this primarily through deterrence, notably by requiring licensees to deal only with businesses that also support the licensing objectives, but also by disruption, for example working with third party suppliers such as payment processors or advertisers who have no wish to find themselves involved in illegality and money laundering to make it difficult for illegal suppliers to do business, and by being ready to use our investigation and enforcement powers (including our prosecution powers) where necessary.

3.6 The third component of our strategy is the building of partnerships and understanding. This has two principal sub-components:

- the development and sharing of the evidence-base, in particular by identifying ways to increase the amount of reliable data on consumers' habits, especially problem gambling; and by strengthening our ability to analyse evidence so that our understanding is enhanced and we are able to act on our findings and share them with others.

- advising and working with government, regulators and law enforcement bodies both in the UK and overseas. The nature of the gambling sector is such that our effectiveness is dependent to a significant degree on how well we work with other agencies and how joined-up our activities are. These partnerships range from our work with local authorities, who play an important role co-regulating operators at the local level; our work with Ofcom, the Committee of Advertising Practice and the Advertising Standards Authority in relation to marketing and advertising; to our involvement with international initiatives such as those motivated by the importance of developing a co-ordinated international approach to match-fixing or money laundering.

3.7 Finally, the fourth component of our strategy concerns our role in relation to the National Lottery. However, as noted in section 1, the National Lottery is not funded in the same way as other Commission licensees and is therefore not considered further in this paper.

Summary

We have set out above, and in Appendix A, a description of our role and our strategic objectives, because these generate the requirements for regulatory expenditure for which our approach to the setting of fees has been developed in order to secure full cost recovery.

4 Our forecast cost structure

This section:

- **outlines the costs of the Commission's programmes of thematic regulatory work, compliance and enforcement work, advisory work, other direct activity, and corporate enabler costs which all need to be recovered**
- **explains how the Commission's costs are forecast**
- **explains the processes for allocating costs to sectors, licence types and fee categories**

4.1 The cornerstone of the approach to the setting of fees is the principle that what individuals and organisations pay should reflect the costs that we incur in carrying out our functions in respect of the activities in which they are engaged. This is in accordance with the general requirements of HM Treasury as set out in *Managing Public Money* (July 2013). The first step in advising Government on the approach to setting fees, therefore, is the consideration of the costs to be recovered, and the way in which they are generated.

Business planning and cost structure

4.2 Like many organisations, we face the challenge of setting fees that seek to recover costs in the future, equipped only with information that relates to the past. We endeavour to forecast costs with a reasonable degree of accuracy, and to this end we operate a detailed integrated business planning process overseen by the Board and reported to DCMS as part of our management agreement with DCMS. This planning framework covers a rolling three-year period and enables us to evaluate the following important considerations and trade-offs:

- how the sectors that we regulate are changing, and what this means for our strategy for meeting the objectives set out in section 3
- how our outcomes should be defined and how we will monitor ourselves
- how we have performed against our objectives and what our priorities are for the coming period to improve that performance
- ways in which we can target efficiency improvements so as to reduce the overall level of our costs.

4.3 On the basis of the strategic direction set out in the plan, we are able to prepare a forecast of the efficient level of costs that we estimate will be necessary in order for us to carry out our functions in line with our legal obligations, and to the reasonable expectations of our stakeholders. In doing so, we distinguish between four different types of cost. First, a large proportion of our expenditure relates to the various thematic regulatory programmes. Currently these can be categorised into principal groups, namely:

- betting integrity
- protecting consumers
- empowering consumers
- anti-money laundering
- regulation of machines and machines innovation
- development of remote regulation
- lottery standards
- shared regulation and liaison with other regulators
- other innovation.

4.4 Several of these can be sub-divided into further individual thematic areas. For example, protecting consumers includes the following sub-categories:

- underage gambling
- self-exclusion
- customer interaction
- complaints and disputes
- protection of player funds
- marketing and advertising.

These sub-divisions provide an important level of granularity to assist with the task of allocating costs to different sectors (see section 5).

4.5 The second type of cost relates to our compliance activities, of which there are two principal components, namely:

- routine, proactive compliance and corporate evaluations
- reactive compliance¹¹.

These components relate directly to individual gambling sectors and fee categories, and therefore sub-divisions of each can be made.

4.6 The third group can be loosely termed other direct activity costs, and currently comprises the following items:

- licensing (ongoing annual fees)
- licensing (application fees)
- intelligence
- general advice to government
- financial support to the Responsible Gambling Strategy Board (RGSB)
- evidence and analysis
- fees review and consultation.

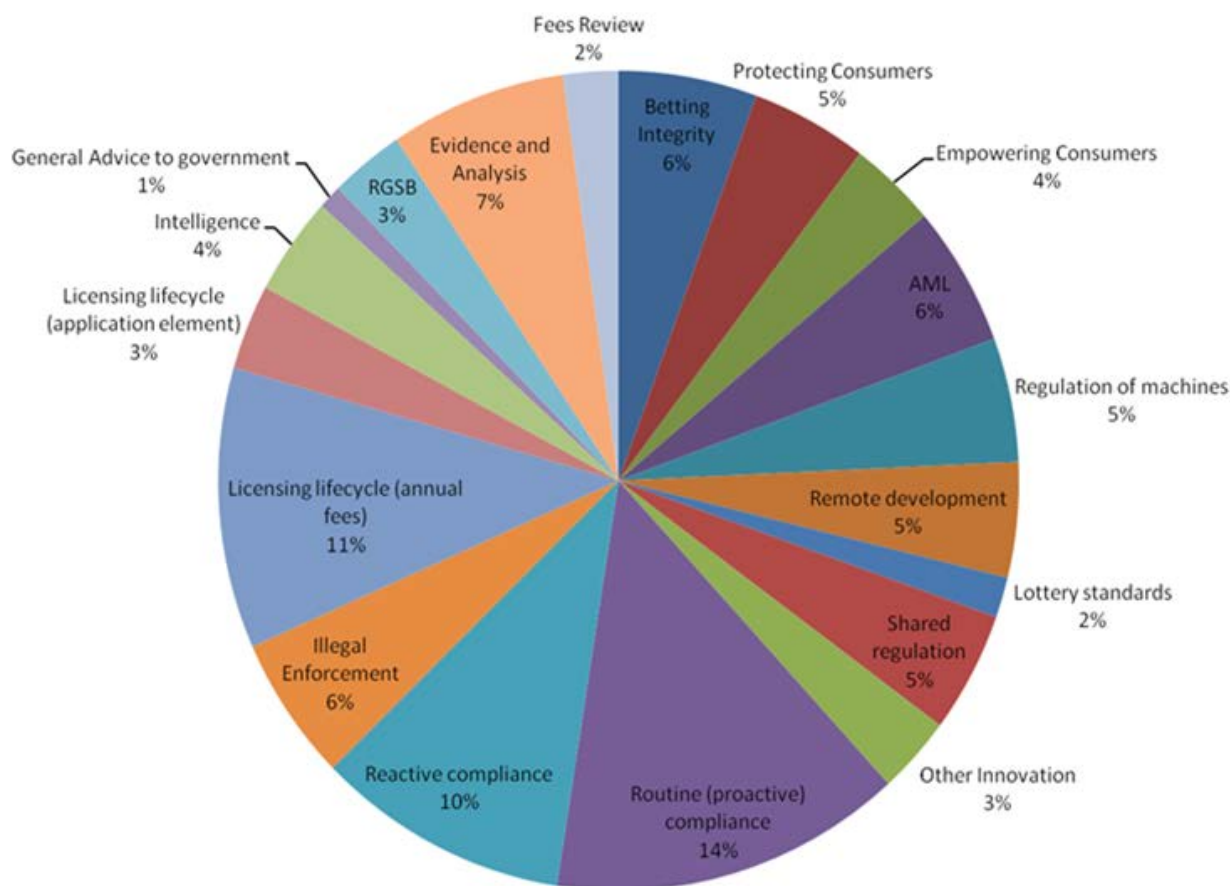
Once again, sub-divisions may be made to assist with the cost allocation process. Evidence and analysis costs, for example, may be sub-divided by sector.

4.7 Finally, the fourth category of cost contains a single item: corporate enablers. These are items which are not regulatory activities in their own right, but they are the costs of essential enabling activities that have to be undertaken in order for the organisation to function effectively and continue to achieve improvements in effectiveness and efficiency, and include Human Resources (HR), Finance, Communications, general IT, and Board support.

¹¹ Our proactive or planned compliance primarily comprises routine activities such as compliance assessments, checking returns for anomalies or contradictions, following up issues previously identified, and supporting licensing authorities in test purchase exercises, eg for age verification purposes. Reactive compliance activities are prompted by some third party event, such as a complaint or information of alleged non-compliance, or an indicator (eg concern from poor or late regulatory returns) that alerts us to the need to carry out more detailed investigative work to evaluate whether or not compliance is being achieved.

4.8 Fig 1 provides an overview of our forecast cost structure in 2015/16. Our approach to the allocation of each of these costs to individual fee categories is described in section 5.

Fig 1: 2015/16 budgeted costs by activity



Forecasting the future level and structure of costs

4.9 As set out above, through the business planning process we aim to balance our income with our costs in any given year. This means that fees should be set so that, when applied to sector forecasts (numbers of licences, GGY generated etc) they generate income that covers the expected efficient costs, but no more. However, we recognise that this is subject to unforeseen factors over which we have little or no control, so in practice there may be fluctuations in either income or our costs or both, which can lead to an unexpected increase or a reduction in our financial reserves. For example, the recent extension of licensing to overseas operators has created a dividend for our finances from remote operators which was difficult to predict with any accuracy. In other words, there is expected to be a considerable increase in income without a directly proportionate or corresponding increase in costs, as many of our costs have a large fixed-cost element (for example, the costs of investment in e-services or in various sorts of expertise or thematic enquiries, for example into match-fixing).

4.10 However, the scale of that dividend may yet turn out to be significantly diminished by mergers, by the impact of the gambling tax changes¹² and by operators being less cautious about what fee category to apply for. On the cost side, we may incur significant costs associated with the proposed self-exclusion database which were not originally factored into our medium-term plan, though highlighted as a risk; and the actual costs associated with regulating remote operators may increase beyond the levels of fees currently set for recovering costs from these operators.

¹² For example, if such changes result in some less commercially viable operators withdrawing from the market.

- 4.11** In general, any short-term shocks to our finances can be absorbed by our financial reserves, which act as a buffer. We aim to hold approximately two months' worth of costs in our reserves, and to restore any major shortfall within a three-year period. At present the level of reserves is increasing. Therefore, all else being equal and in particular taking no account of the potential costs of the remote self-exclusion database, we consider that there should be scope to reduce average fees in order to avoid the reserves accumulating further, potentially by up to 5% (again taking no account of the potential costs of the proposed self-exclusion database or other currently unforeseen upward cost pressures).
- 4.12** We are required to advise government whether we consider that revisions to the prevailing fee levels are appropriate (based on any changes to our costs), and in doing so we face a strategic choice. If it appears that the prevailing level of fees remains about right, we may recommend to the Secretary of State that they remain unchanged for a further period. Alternatively, we would advise that new fees regulations¹³ may be warranted. However, the benefits of revising fees have to be weighed against the costs of the revision process and those costs would themselves need to be recovered. The work involved in preparing for, and implementing, fees regulations is around £250,000¹⁴ in Commission time, notwithstanding the opportunity cost of DCMS time. In addition, operators have greater uncertainty as regards future fees.
- 4.13** In our view the current arrangements for setting fees have worked well. Once fees regulations are in place they provide a degree of certainty for both the Commission and operators as to what the level of fees will be over the medium-term. Further, there is always scope to put forward proposals for fees regulations that address any emerging issues or anomalies by modifying a small subset of fees, without going through a full-blown fees review and disturbing the general fee structure that is in place. However, significant unforeseen shifts in industry activity and/or regulatory priorities can mean that fees become out of line with underlying costs and need addressing earlier than the assumed three-year cycle.
- 4.14** In theory, it would be possible to introduce a formula for fees which allowed for certain predicted changes in costs to be reflected in annual adjustments to fees, without any need for a fresh statutory instrument; for example, fees could be subject to automatic adjustment to take account of inflation, less assumed efficiency gains (assumptions for the latter are already built into fees). However, experience suggests that over time, it is the effort and associated costs devoted to particular sectors or subsectors that change differentially to a greater extent than the overall level, and in ways that could not be captured by an ex-ante formula. A built-in formula for annual adjustment would still involve a significant transactional cost burden for both the Commission and operators, as new fees would need to be calculated and communicated each year.
- 4.15** In short, the Commission considers it unlikely that introducing such a formula for fees would prevent the need for new fees regulations if differential costs changed significantly, nor materially reduce the overall costs of keeping fees at appropriate levels. And primary legislation would be needed to give DCMS or the Commission the discretion to alter relative fees in response to circumstances without specific Parliamentary endorsement. The Commission's view is that accepting the risk of more frequent recourse to fees regulations is the most appropriate option, and we have not explored any further what could be done by primary legislation or by the greater use of formulae.

¹³ The fees charged by the Commission can **only** be amended through a statutory instrument laid with Parliament. Neither we nor DCMS have the discretion to adjust any aspect of the fees structure until a statutory instrument has been laid and has come into effect.

¹⁴ While a 'routine' fees consultation and consequent fees statutory instrument probably costs the Commission around £250,000, a major review which involves taking account of a step change in costs and or income, costs considerably more, in the order of £1million over two years for the Commission alone; taking into account the review process, involvement of auditors and other external experts and any necessary software changes to the fees calculator and billing systems.

Summary and points for discussion

In this section we have explained our approach to medium-term business planning and the preparation of cost forecasts. We have re-examined the formal processes for the setting of fees against the backdrop of continuing uncertainty about the future developments of the gambling sectors and the implications these may have for our costs, and explained why we do not see any compelling case to alter the current approach.

- Do you have any comments on our approach to the forecasting of costs?
- Do you have any comments on our recommended approach to holding fees, normally revising them every 2-3 years?

5 Our approach to the allocation of costs between sectors and among licence types/fee categories

In this section we:

- explain why:
 - different licence types have different fee levels as a result of our allocation of costs to be recovered from licensees
 - some classes of licence are subdivided to reflect distinct sets of risks and costs
 - GGY is considered to be the best proxy for the risks to the licensing objectives from regulated activity (the greater an operator's revenue, the greater the potential impact)
 - B2B companies that provide platforms for remote B2C operators may need their own fee category
 - the existing reduced remote ancillary licence may need to be extended to cover some software suppliers
- provide illustrations of how our costs are recovered, on a granular basis wherever possible, from sectors, licence types and fee categories.

5.1 This section sets out the way in which we allocate our costs between gambling sectors and to individual licence types and fee categories. We are keen to present the methodologies that we use and the choices that we make in some detail, because we want our thinking to be widely understood and open to challenge. The outcome of the processes described in this section is a target level of cost recovery for each fee group. Section 6 deals with the specifics of how individual fees are structured and the implications of this approach for handling the changes in cost-base and income we face post the 2014 Act.

Why we have different fees for different sectors and licence types: underlying principles

5.2 Although the principle of cost recovery is conceptually fairly simple, its application to the practical task of designing a fee structure for the gambling industry poses a number of challenges.

5.3 The first issue that arises is the question of the classification of licensees into groups for the purposes of fees. The treatment of operators in this way inevitably involves a degree of averaging or rough justice, which can be perceived as unfair when operators feel that the principle of cost recovery is not being applied to them as an individual operator; so we consider carefully how to group operators and, over time, whether changes are needed.

- 5.4** The need for grouping arises because the acquisition and processing of information is not costless. Information plays a central role in regulatory processes and includes information about individual operators, their activities, the effect their businesses have on consumers, the risks to the licensing objectives and so on.
- 5.5** Similarly, the task of implementing a fee structure unavoidably gives rise to transactions costs¹⁵ for both operators and ourselves that are over and above the regulatory costs we are seeking to recover.
- 5.6** As a result of the fact that we cannot have ‘perfect knowledge’, it is not feasible to know precisely what cost each individual licensee imposes on us (for example, which operators are the target of underage gamblers’ attempts to access services), or therefore to levy bespoke fees accordingly. It may be reasonable, however, to group licensees with similar attributes together, if there is an informed view that the risks and associated costs they impose are likely to be similar. Strictly, therefore, the principle of cost recovery may be seen in terms of devising a fee structure that minimises the rough justice of applying the same treatment to two or more licensees that actually cost different amounts to regulate; amounts that are effectively averaged out between the operators in question for the practical purposes of fee-setting.
- 5.7** If licensees are to be grouped for the purposes of fees, this raises the question: what are the right groups in terms of definition and size? As noted above, transactions and information costs can be seen as a major limiting factor upon our ability to achieve a cost recovery ideal. The greater those costs, the fewer individual fee groups one would expect there to be, all else being equal. As more and more groups are considered, each successive sub-division (of a licence type or fee category) enables the residual rough justice to be incrementally reduced; but adding to the costs of acquiring marginally more information and perhaps incurring slightly higher transaction costs. For example, a greater number of fee categories for any given type of licence will make operators more likely to cross fee boundaries, and therefore give rise to more transactional costs, all of which would need to be recovered from operators via fees. Conceptually, therefore, the optimal set is represented by the point at which further aggregation/disaggregation would increase/reduce rough justice to a degree that is exactly offset by the reduction/increase in transactions and information costs that need to be recovered.

Fig 2: Existing fee bands/categories for remote general betting (standard) (real events) licences

Fee category	F	G	H	I
GGY band limits for fee category	Less than £5.5m	£5.5m up to but excluding £55m	£55m up to but excluding £110m	£110m up to but excluding £220m
Full application fee for licence with relevant category	£3,259	£7,169	£9,474	£16,274
Variation fee for increasing the fee category of an existing Real Events Betting licence to the relevant new fee category (20% of application fee above)	N/A	£1,434	£1,895	£3,255
Annual fee	£13,529	£38,128	£48,893	£74,012

¹⁵ These include the costs of identifying and verifying the facts that give rise to the liability for a fee; communicating that liability, paying the fee, and carrying out the processing and recording of the payment. Additional transactions costs may arise if there are follow-up queries, eg in relation to amounts and applicable deadlines.

- 5.8** Fig 2 shows some of the existing fee categories for the remote general betting (standard) (real events) licence. When the GGY of any such licensee in fee category F reaches £5.5m, they will need to vary their operating licence to fee category G at a cost of £1,434 (the variation application fee). The category F fee band could, purely by way of example, be smoothed further to minimise the rough justice of differently-sized operators within that band paying the same annual fees (for example, by sub-dividing the category F band into intermediate steps, such as introducing sub-categories F1, F2, F3 for £0-£1m GGY, £1m-2.5m GGY and £2.5m to £5.5m GGY respectively).
- 5.9** The cost of varying a licence to increase the fee category is 20% of the application fee payable for the activity in the higher fee category¹⁶, and the consequence of a greater number of bands (fee categories) would be a greater likelihood that licence variations need to be applied for when an operator's GGY increases.
- 5.10** While if there were more bands we could seek to reduce the variation fee for some of the intermediate steps, as there would be little for us to do other than administer the change in the annual fee due and chase up those who failed to make the necessary application (probably still costing us around £25 for the transaction costs), for moves across a number of bands we would still need to charge something like the present 20% of application fee, as there will be additional costs for us in checking the suitability of the operator and the need for the licensee to employ any additional expertise or other capability to manage the larger business.

Consideration of changes to the current licence classifications of operators

- 5.11** Using the framework set out above we have given thought to whether there are any fee groups (licence types) that contain two or more sub-groups of licensee that impose materially different costs on the Commission, and which could be separated out into new licence/fee types at an incremental cost that would be more than justified by the reduction in the rough justice by no longer treating them the same. Similarly, we have considered whether the reduction in complexity and associated costs would justify the re-amalgamation of some fee sub-categories¹⁷.
- 5.12** The present structure reflects a process of evolution that has taken place since the first fees legislation came into effect in 2006. Over that period, in line with the conceptual approach set out above, Government has modified the fee groupings from time to time where a strong case for doing so has arisen, notably in order to reflect differential risks. For example, in 2009 the smaller General Betting (Standard) fee categories were sub-divided into two, in order to distinguish between those with and without gaming machines, because it had been identified that there were additional costs that we were incurring exclusively in regulating the former to which contributions were previously being made by the latter.
- 5.13** Conversely, in that year the fees for remote betting on real events were separated from those for remote betting on virtual events, and combined the GGY on certain remote licences (virtual event betting, bingo and casino games) for fee purposes, thereby keeping the fees for betting on real events separate. This was motivated by the fact that there are regulatory costs (principally those associated with anti-sports betting corruption) that are generated by betting on real events that do not apply to betting on virtual events. In addition, it was identified that the regulatory costs associated with different forms of online gaming/virtual betting do not vary significantly from one type to another, so a single combined fee for these licences was justified.

¹⁶ Variation fees for moving from the lowest fee category to the next fee category range from £48.80 (increasing a society lottery licence from category A to B or from F to G) to £2603.60 (increasing a remote betting intermediary or remote gambling software licence from category F to G), depending on the type of licence.

¹⁷ Note that the amalgamation or sub-division of licence types is different to the fee banding (fee categories) within a type of licence. For example, from the outset we distinguished between two types of betting licence, general betting (standard) for those who trade from premises and general betting (limited) for those who trade on-course. This distinction in the class of betting licences was made as the two business models impose materially different costs. Each licence type is then of course sub-divided into bands or categories, to distinguish between the relative scale and the potential increasing impact of otherwise similar operators/business types.

5.14 We have given careful consideration to various issues relating to the current fee groupings. Our preliminary view is that the present structure remains broadly appropriate, and we are not currently considering advising the Secretary of State that any further sub-divisions or amalgamations of existing licence types are appropriate, with two potential exceptions:

- Since 1 November 2014, those overseas B2B companies that host games platforms or networks require their own operating licence to provide such facilities. There is currently no difference between the fees payable for example by a B2B and B2C operator providing remote casino facilities, albeit that in most instances the fee category to which the B2B operator may fall into tends to be lower than that for the B2C operator, depending on the commission or revenue share arrangements between the two operators. Whilst many of the cost allocations described in this section will be common to both the B2B and the B2C operator, we need to see whether there is a case for a different fee category or licence type for B2B operators in certain circumstances. This would be consistent with the approach taken in 2009, when the fee for non-remote betting operators who did not make gaming machines available for use in their betting premises was reduced to reflect that some elements of expenditure attributable to betting premises would not be applicable to those who did not make machines available.
- Since 31 March 2015 it has been a licence requirement that licensees only use Commission-licensed software suppliers. This has led to a large number of additional gambling software licensees whose involvement in the gambling process varies considerably, thus imposing rather different risks to the licensing objectives and demands on the Commission. We need to consider the potential costs and income in some detail to see if some further sub-division is merited to provide a lower fee for some software providers (such as those who only supply gambling software on a very infrequent or limited basis by file transfer protocol) which require relatively little Commission attention. One of the possibilities under consideration is to expand the scope of the ancillary remote gambling software licence, which currently only permits the delivery of software by email, to permit the limited use of file transfer protocol for supplying software.

5.15 Other than the above, and of course subject to any insights emerging as a result of this discussion paper or further thinking in consultation with DCMS, we consider that any advice on fees proposals that we put to the Secretary of State will retain the current categorisation of sectors and types, as presented in Appendix B.

Allocation of costs to sectors and fee types

5.16 The core principle that governs our approach to the allocation of our costs can be expressed as follows: what is driving those costs, and from which sectors/licence types should they therefore be recovered? For much of our expenditure the application of this principle is quite straightforward. For example, we are able to identify the costs we incur in dealing with different types of licence applications, because the process we go through is broadly the same for each. Further, we can distinguish between those costs that are broadly fixed, irrespective of the size/category of licence for which the application is being made, and the costs that vary with scale.

5.17 Further, and in general, the issue of identifying the right basis for allocating the costs of a particular function or activity is reasonably straightforward. For example, we are satisfied that GGY¹⁸ is, broadly, the best proxy measure for the risk to the licensing objectives and associated Commission costs, and for many items of expenditure we consider that the best way of allocating them between sectors is pro-rata to GGY (for some sectors GGY may be less appropriate as the proxy measure for risk. For example for ELMs and society lotteries, annual proceeds may remain the best proxy for risk to the licensing objectives). In some instances, however, it is important to distinguish between differential levels of risk and to drill down to a more granular analysis of costs.

¹⁸ The calculation of GGY is essentially stakes less prizes or winnings for most operators, but the term GGY also includes the commission received by a betting intermediary and other accruals to a licensee such as those from revenue share arrangements.

As previously noted, betting on virtual events does not lead to any requirement for anti-match-fixing measures, and the related fees do not therefore need to recover any share of such costs, although conversely there are costs related for example to technical standards and testing that apply to betting on virtual events but not to betting on real events.

5.18 Pool betting exemplifies a different aspect of fee-setting and that is the allocation of costs in relation to benefit received rather than costs directly generated. The nature of pool betting (pari-mutuel betting rather than fixed-odds) means that there is less scope for corruption of the process, because prices and target prizes cannot be manipulated in the same way as in fixed-odds betting. However, as noted in the 2012 fees consultation responses¹⁹, the pool betting sector nonetheless benefits from protection against the fixing of matches on which their customers bet. Therefore, whilst the bulk of the regulatory costs associated with match-fixing and sports betting integrity will be allocated towards those providing fixed-odds betting, a proportion (albeit smaller proportion) of such costs should also be recovered from pool betting operators.

5.19 In effect then, for some elements of expenditure, costs can be quite easily mapped directly onto fee groups. However, for many regulatory functions the relationship between what licensees do and the Commission's costs is indirect and characterised by non-linearities (for example, economies of scale and scope) and some activities (for example, the provision of advice to government) have the characteristics of a public good²⁰. For example:

- the costs of enforcement in relation to unlicensed operators cannot generally be recovered from the individuals or firms concerned, although it is they that could be said to have caused the costs to be incurred. However, it can be argued that these regulatory functions provide a direct benefit to either the generality of licensed operators or to sub-sets. They preserve a level playing field for licensed operators by preventing unfair competition, they enhance the accreditation value that the possession of a licence brings and thereby strengthen the confidence that customers can have in the services offered by those operators. However, choices have to be made as to how those costs are shared between them, because there is no single correct way of doing so.
- similarly, the Commission's work on issues such as betting integrity can be said to benefit both the industry and its customers, but the addition or withdrawal of an incremental licensed operator would not affect the costs of carrying out this function.

5.20 On top of these issues, like most organisations we incur overhead and common costs which have to be recovered. These corporate enablers include items such as the finance function, corporate affairs and communications, and common IT infrastructure. Again, there may appear to be more than one way of allocating these costs between sectors and between operators and therefore there are choices to be made. In summary, however, the approach that we adopt is as follows:

- for those overhead costs that can be readily attributed to sectors and fee types, we make direct allocations. For example, project-specific IT can be allocated directly to the sector(s) to which it relates. Similarly, the costs of the HR function can be allocated across the remainder of the organisation by head count, and thereby to the sectors on which teams and individuals are engaged; and the part of the finance function that deals with income can be allocated exclusively to the licensing functions.
- for those that cannot be so readily attributed, however, a degree of judgement is required. In these circumstances we aim to use an approach that can be justified as being objectively reasonable.

¹⁹ '...around 30% of cases concerning integrity in betting are football related and another 25% are horseracing related, with around 6% of cases involving greyhound betting [pool betting] licensees whose operations are centred around betting on such markets should share some of the costs that the Commission generates in playing its role in helping maintain and build public confidence in sports betting.'

²⁰ A public good is a product or service that can be consumed by one individual without affecting its availability to others. Classic examples include radio broadcasts, national defence, and public parks. Since the provision of the public good involves incurring costs, but the incremental cost to each individual beneficiary is zero, there is no single correct way of recovering those costs.

For example, for other costs of our finance function, we give careful thought to what percentage split between sectors might be appropriate, having regard to the estimated relative levels of attention and work devoted to them.

- 5.21** In summary, therefore, our approach can be described as follows:
- wherever possible, we analyse costs down to the level of detail at which they can be mapped directly to the sectors/licence types to which they relate
 - for other costs that fall within categories of common costs and overheads, we exercise a degree of judgment in order to arrive at a reasonable allocation between sectors and fee types.
- 5.22** The result of the application of this approach is a complete allocation of our expected costs between sectors and licence types. Fig 3 provides a summary overview of where we are minded principally²¹ to allocate each of the high level cost categories described in section 4.

²¹ Note that where a cell is left blank, this does not necessarily mean that the allocation of costs from the relevant 'cost category' is zero, merely that it is not one of the main sectors/licence types that drives those costs. It is possible, for example, that the sector/licence type in question may attract a portion of one of the sub-categories of cost that are considered as part of the process of 'drilling down' to a more granular level.

Fig 3: Costs associated with different licence categories

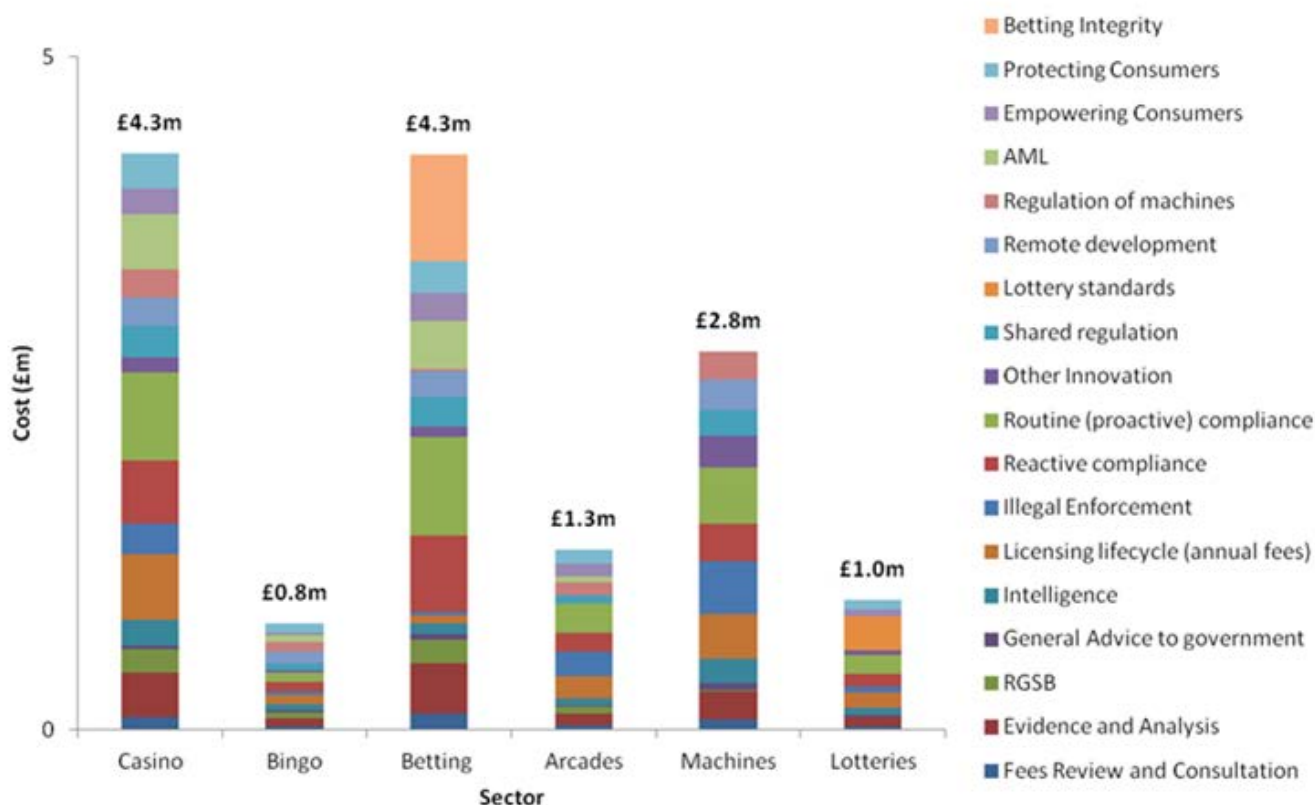
	Thematic costs								
	Betting integrity	Protecting consumers	Empowering consumers	AML	Regulation of machines	Remote development	Lottery standards	Shared regulation	Other innovation
Casino		x	x	X	x	x		x	x
Bingo		x	x	X	x	x		x	x
Betting (shops)	x	x	x	X	x			x	x
Betting (on-course)	x	x	x	X				x	x
Betting intermediary	x	x	x	X					x
Pool betting	x	x	x	X					
AGC		x	x	X	x			x	x
FEC		x	x	X	x			x	
Machine manufacturers					x			x	
Machine suppliers					x			x	
Gambling software						x			x
ELM		x	x	X		x	x	x	x
Society lotteries		x	x	X		x	x	x	
Remote casino/bingo/virtual betting (RNG licences)		x	x	X		x			x
Real events remote betting	x	x	x	X		x			x
Telephone/email betting	x	x	x	X					

The following costs include those that, as described in paragraph 5.18 above, are indirect and characterised by non-linearities such as economies of scale, or which have the characteristics of a 'public good' such as advice to government. These costs will broadly apply to all licence types but, as explained below, we will allocate costs on a granular level where possible ie recovering costs from the sectors and licence types that have generated those costs.

Compliance			Others						
Routine (proactive) compliance	Reactive compliance	Illegal enforcement	Licensing lifecycle (annual fees)	Licensing lifecycle (application element)	Intelligence	General advice to government	RGSB	Evidence and analysis	Fees review
Premises visits, desktop compliance, corporate evaluations. Thematic compliance eg AML, social responsibility	Ensuring compliance in respect of complex and routine breaches of the Act or LCCP.	Non-licensed gambling operations.	Maintenance of accurate data in relation to operators' businesses.	Handling new applications and variations.	Gathering intelligence, information sharing with other regulators including police, HMRC, overseas regulators.	Costs for specific advice eg gaming machines recovered from relevant machine sectors. General advice recovered pro rata to GGY.	Provision of expert advice on research, education and treatment programmes needed to support the national responsible gambling strategy	Gathering and publishing industry statistics, analysis of external research and commissioning of research.	Analysis of cost base, delivery of consultation and impact assessment, work with DCMS, legal costs for amending regulations.

The chart below shows how the Commission's forecast costs described above are allocated across each licensed sector of the gambling industry. *Note that the breakdown of forecast costs included in this chart is indicative.*

Fig 4: Breakdown of costs (2017/18)



5.23 A number of features of the process of arriving at these allocations are worth noting, because they help to explain the way in which we approach cost recovery and the setting of fees.

5.24 First, behind the summary categories presented in Fig 3 we carry out a much more granular allocation. By way of illustration: within the 'protecting consumers' cost-category there are several sub-categories which would not necessarily be allocated in the same way. The costs of our initiatives relating to self-exclusion, for example, would be allocated distinguishing between work on the remote and non-remote self-exclusion schemes (using GGY or lottery proceeds as appropriate). GGY or proceeds are considered to be the best proxies for distributing costs as part of this granular allocation, as in some areas there is otherwise insufficient reliable evidence on which to base our allocations. Similarly, for each of the two compliance cost-categories (proactive compliance and reactive compliance), we aim to sub-divide costs into the actual sectors that we regulate because some are more compliance-heavy than others.

5.25 Second, as noted above, we consider that GGY broadly represents the best proxy measure for the risk of gambling-related harm and for failure to meet the licensing objectives, and therefore for recovery of our associated costs, and we now have much more detailed information on GGY both by sector and for individual operators. Accordingly, and in general, where costs fall to be allocated between more than one sector or licence type, we use GGY to determine percentage shares. The exceptions relate to costs that are clearly driven by some other measure, for example, the costs of some administrative licensing and compliance functions (such as the reissue of licences or annual fee collection) which are related more to the number of licensees than their GGY.

Further, it is worth noting that when allocations are made by GGY, we do not 'weight' the GGY in any one sector higher than another to reflect the greater risks that that sector may impose. Rather, we aim to identify those specific sub-categories of cost that are caused by that higher risk and allocate them separately, for example the specific costs associated with regulating betting shops that have gaming machines as distinct from those that do not. This obviates the need for weighting.

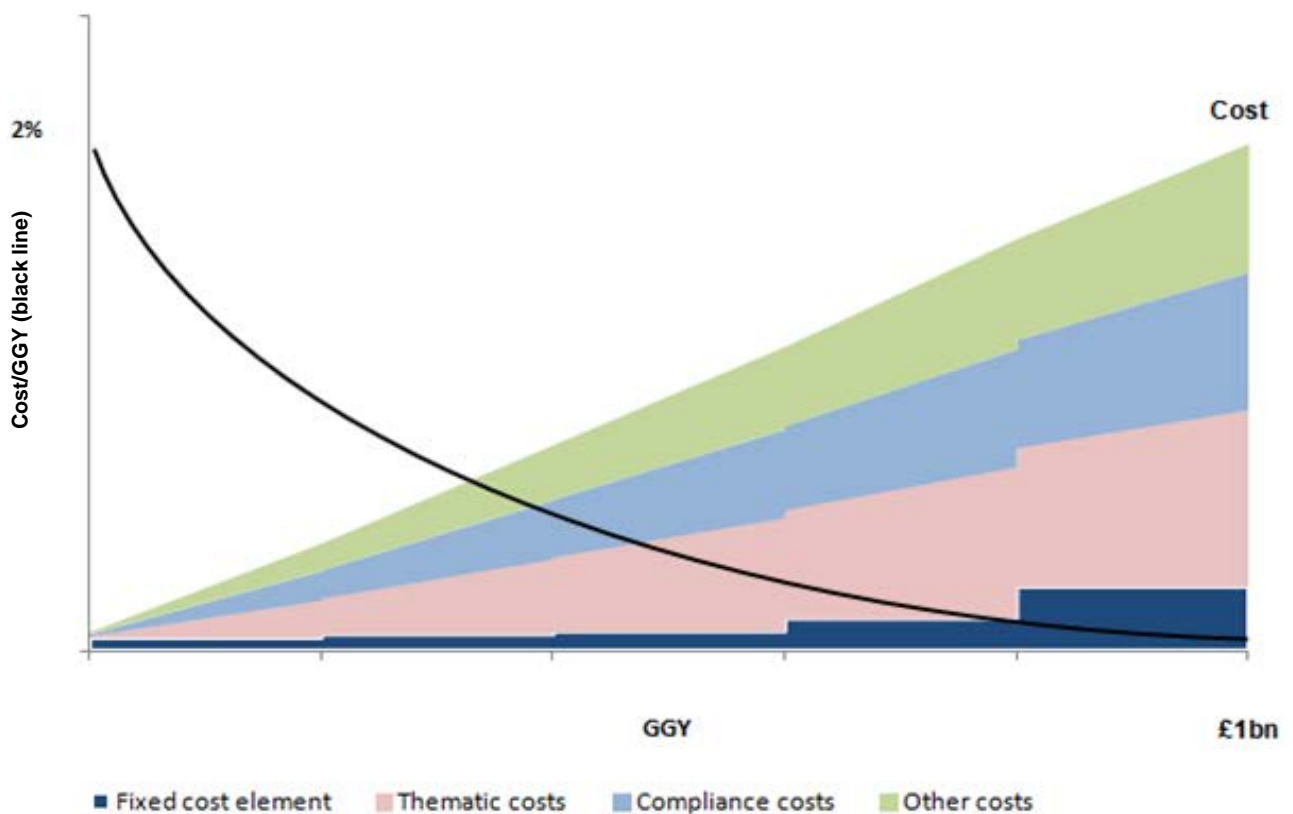
- 5.26** Third, for categories such as general advice to government we take a two-stage approach to cost allocation. First, we examine the range of advice that we provide and strip out costs relating to particular issues or themes, for example the impact of category B gaming machines, and allocate those directly to the sectors to which they relate. For the residual costs, which relate to general matters rather than issue-specific advice, we apportion costs across all sectors pro-rata to GGY or the most appropriate proxy measure for risk.
- 5.27** Once costs have been allocated to individual sectors and licence types (as set out at Fig 3), they are then assigned across the fee bands of the relevant licence types, usually spread proportionately to GGY (or in the case of lotteries, proceeds).
- 5.28** As noted above, many elements of our expenditure can be mapped directly onto groups of licensees ie by type of licence; in particular, our costs in relation to thematic work, such as betting integrity. These thematic costs are not directly related to regulating any particular licensed entity, rather they are costs that need to be recovered equitably from relevant operators because there are very few economies of scale available to the Commission with regard to such work.
- 5.29** The Commission's work on betting integrity is necessary to sustain public confidence in sport and betting on sport, and it essentially provides a benefit for those licensed operators that offer fixed-odds and pool betting. It is therefore appropriate that all such operators bear a *proportionate* share of these regulatory costs (using operators' GGY as the proxy for determining the proportion of costs to be recovered from each).
- 5.30** We also incur costs which do not vary directly with the size of the operator, and where there are considerable economies of scale that we must take account of. In particular, our costs in relation to proactive compliance work whereby, for example, larger operators have compliance departments that are able to undertake their own auditing and supply data to us. This has enabled huge economies of scale in regulating larger operators whose premises can be sampled for compliance purposes, and much of the data be provided by the operators without the need for an extensive number of visits.
- 5.31** Some of our thematic work also entails economies of scale, for example in relation to protecting consumers (see second column in Figure 3) which includes our work on the prevention of underage gambling, self-exclusion, the protection of player funds etc. In relation to underage gambling, many of the larger operators have for several years been providing third-party test purchase data to the Commission to demonstrate that they are monitoring their own controls and acting upon any weaknesses found, with only limited direct intervention needed from us.
- 5.32** Conversely, some of our costs in this area have been driven by smaller and medium-sized operators in some of the gambling sectors, for example our work with the on-course betting sector and sub-sectors of the adult gaming centre industry in seeking to improve underage gambling controls. We will also need to continue to focus some of our work, including our work with local licensing authorities, among the smaller and medium-sized operators that are now required to conduct test purchasing or demonstrate how their underage controls are being monitored as part of our updated LCCP, and from whom we have previously received very little evidence in this regard.

5.33 The effort from the trade associations in respect of their smaller members has of course enabled us to limit our direct costs in relation to such operators; but in terms of cost-recovery, those regulatory costs we have incurred in this area of work are *disproportionate* to the size of all operators' businesses (using GGY as a proxy), and the economies of scale must therefore be taken into account.

5.34 The chart below illustrates the different types of costs that need to be recovered from operators, using the non-remote betting sector in this example. The costs include: those that are broadly fixed and which will increase only marginally to take account of the increasing complexity of an operator's business structure as it grows in size (in dark blue, at the bottom); the other colours represent those costs that vary according to the size of the operator's GGY.

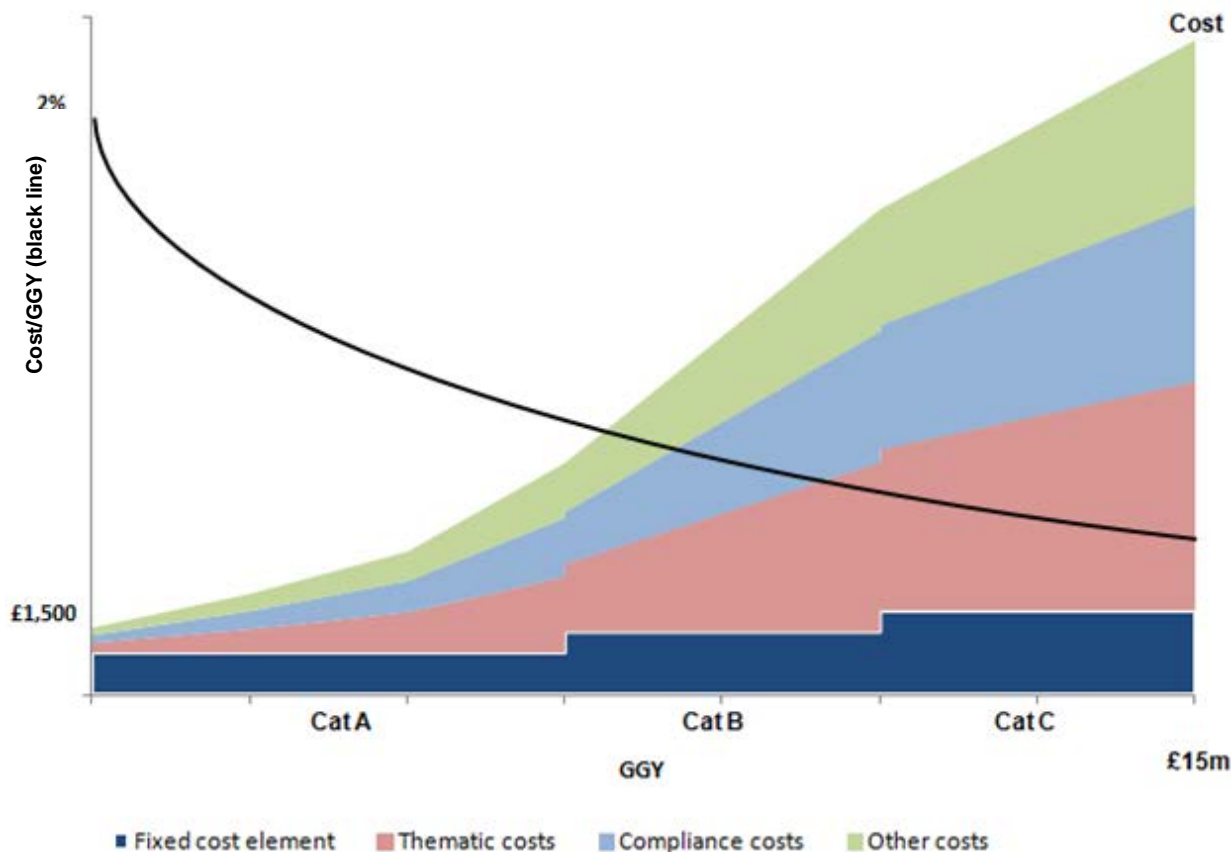
5.35 As the operator's GGY increases, the costs that need to be recovered from them as a *percentage of their GGY* decreases, as demonstrated by the black line (albeit, the *monetary value* of costs that need to be recovered from them will *increase* as the GGY increases).

Chart 1: Cost recovery (not to scale)



5.36 Chart 2 below provides a ‘zoom-in’ of the bottom-left hand side of the chart above, ie for operators with a smaller GGY. This enables a graphical representation of the likely *minimum* cost to be recovered from the smallest operators.

Chart 2: Cost recovery for smaller operators (not to scale)



Summary and points for discussion

In this section we have explained the fundamental principles underlying our approach to the setting of fees against the overriding objective of fair cost-recovery. We have set out the basis for the differences between gambling sectors, licence types, and fee categories, and the way in which they have evolved as circumstances have changed. We have presented our approach to cost allocation, and we have provided a high level matrix summary showing which licence types contribute to the different categories of cost that we incur.

We would welcome comments and views in particular on the following points:

- Our approach to the allocation of our costs, and whether you would propose any changes, and why.
- Our general approach to the differentiation between sectors and licence types, and whether you would propose any changes, and why.
- Whether we should consider differentiating certain B2B operators and some software providers for fees purposes. What other changes, if any, do you think should be considered, and why?

6 The implications of our cost-recovery approach for government decisions on fees

In this section:

- we explain the composition of licence fees which need to be recovered :
 - the minimum, broadly fixed, costs of regulating an operating entity, with some marginal increases to that cost base as the entity grows and becomes more complex
 - variable costs that are spread across operators based broadly on risk – using GGY as a proxy for risk, by means of fee bands to provide some certainty and reduce transactional costs.
- we argue that the design of the fee structure should be guided by twin objectives, to:
 - minimise complexity and opacity
 - minimise administration and transaction costs for Commission and operators
- we explain our views that GGY is the most appropriate basis for spreading costs for most types of licensee, and why we consider that the use of bands (fee categories) should be retained:
 - A discussion on how the re-banding of smaller fee categories could reduce the increase in fee (as a percentage of GGY) when smaller operators' businesses grow ie 'smoothing' the fee curve.
- we discuss how the fees for certain applications (changes of corporate control, variations within a fee category) could be reduced based on cost recovery principles.

6.1 The purpose of this section is to explain how we translate the results of the cost allocation process described in section 5 into proposed actual fees, and to draw out the implications of the 2014 Act on the make-up of our licensee-base on costs, potential income and associated fees.

Designing fee structures: the principles we apply

- 6.2** The structure of the fee applicable to operators within each licence type and fee category:
- determines how much of the cost for the group is recovered from each operator, thereby driving the relationship between cost and fee at the individual operator level, and therefore any rough justice that exists within the group. For example, a fee structured as a small number of fairly wide bands (fee categories) could be seen to impose a lower relative fee burden on operators towards the top end of each band than those at the lower end.
 - also potentially provides operators incentives – or indeed constraints - that influence their behaviour. For example, as noted in section 2, the present fee structure for non-remote bingo operators puts a fairly high price on the opening of a fifth premises, even if the operator opts for the cheaper option of obtaining a second licence (under a different legal entity). This may deter the operator from proceeding with the expansion. Conversely, once an operator has moved over the threshold into a higher band, it can expand with no marginal licensing costs until it encounters the next fee category threshold.
- 6.3** Our approach to designing the fee structure for each group is guided by the following objectives:
- to reduce the degree of rough justice among operators within each fee group (licence type) brought about by averaging. For example, it is important that the balance between the fees for larger and smaller operators reflects the differential costs of licensing and regulating them, provided that this is practicable and does not add disproportionate information requirements or transactional costs which would in turn need to be recovered from those operators.

- to minimise complexity and opacity which themselves impose regulatory burdens if the rationale is not properly understood and the calculation of the fees not easily accessible.
- to minimise administration and transactions costs for both operators and ourselves, because any additional costs incurred in managing the fee system have to be recovered through licence fees.

6.4 We have acknowledged that we should do more to explain the basis of the fees that we apply and the trade-offs involved, for example between complexity and rough justice, and indeed this is one of the objectives of this discussion paper. We already aim to make fees simple for individual operators by providing a comprehensive but easy-to-follow fee calculator on our website, but the more the underlying complexity and the more frequent the changes, the greater the costs of the underlying software and its maintenance and other transaction costs.

6.5 In some respects there is a tension between the above objectives. For example, the objective of reducing the roughness of the justice may imply the application of a detailed fee formula, with a number of different components to reflect the underlying cost functions. However, this could create undue complexity, uncertainty for both ourselves and operators, and lead to additional administration costs. It is therefore necessary for a balance to be struck.

6.6 The broad implications of applying our approach to cost-recovery through fees, and our working assumptions for how we should continue to address the four inter-related high level general questions regarding the design of fee structures, are set out at paragraph 6.22 onwards.

6.7 Firstly, what is the best basis or ‘currency’ for the bulk of the fees paid by operators (number of licensed premises, GGY, size of floor area, annual proceeds, number of working days)? To answer this question we have applied the principles and objectives set out above. We continue to think (as indicated in previous fees consultations), subject to new arguments, that GGY should be the default choice for all fees where possible, in particular replacing number of premises wherever applicable.

6.8 The main reason for this view is that the principal driver of the risk to the licensing objectives, and therefore our regulatory effort, is the volume of gambling activity, for which GGY is regarded as the best general proxy measures. GGY is already measured and reported by all operators, both as part of the regulatory return data that we require from licensees and in connection with operators’ returns to HMRC, and GGY is already used as the basis for many licence types.

6.9 It is worth reiterating, as set out in section 2, that the proposed shift from the use of premises numbers to GGY has been a long-term objective. In the early years of our existence the availability of GGY information was limited as compared with the position now, and there was greater emphasis upon the need to visit operators’ premises. Over time, as our understanding has improved, there has been a shift towards risk-based assessments and high level thematic challenges including, for example, innovations in technology, betting integrity, changes to the gambling environment and money laundering.

6.10 Our view is that the fee categories for the following licence types, both for application fees and annual fees, should be based on GGY, and we propose to advise the Secretary of State in this regard subject to comments received as part of this discussion:

- non-remote bingo (currently based on number of premises)
- non-remote General Betting Standard (currently based on number of premises)
- non-remote General Betting Standard – no gaming machines (currently based on number of premises)
- non-remote gaming machine Adult Gaming Centre (currently based on number of premises)

- non-remote gaming machine general Family Entertainment Centre (currently based on number of premises)
- casino 2005 Act (currently based on whether the licence permits the operation of small casinos, small and large casinos or small, large and regional casinos, such categories being determined by gambling floor area)²².

6.11 We consider that there should continue to be a number of exceptions to this general rule, however, namely:

- the fees for holders of General Betting Limited licences should continue to be based on the number of days of operation (working days on-course). For this group, the number of days of operation is a very user-friendly, low-cost way of distinguishing between the larger, more full-time on-course bookmakers and those that are more occasional and therefore tend to be smaller.
- the fee categories for society lotteries and external lottery managers (ELM), both non-remote and remote, should continue to be based on annual proceeds, because this is far simpler from an administrative point of view for these groups. In this context, it is worth noting that although the fees for society lotteries and ELMs are based on the same annual proceeds (the total annual proceeds generated by one society lottery will determine both the fee category for the lottery operator itself and the ELM that manages the lottery on its behalf), it should be clear that this does not mean that the Commission is somehow charging twice for the same cost of regulating the same volume of gambling activity. The fees for each type of licence are arrived at by considering the specific costs of regulating each group in its own right, and effectively dividing by annual proceeds to arrive at the costs to be recovered from those in each fee category. Whilst 'annual proceeds' is the currency that is common to both licence types, therefore, there is no double-charging: the total income raised from the two groups is designed to recover the total costs of regulating the two groups, but no more.

6.12 Although most fees or categories²³ would be based on GGY, under the working assumptions we are setting out in this paper, different rates would generally apply to different fee types, because of the approach to cost allocation set out in section 5. In effect, £1m of GGY in one sector can be associated with a higher level of risk and associated cost for the Commission than in another. In other words there is comparatively regulation-heavy GGY and regulation-light GGY. For example, £1m of GGY in the non-remote betting sector will be associated with different and greater risks, driving higher Commission costs associated with betting integrity and gaming machines, than £1m of GGY from a remote virtual betting platform, the operation of which relies on random number generator software and where the operator bears a portion of compliance costs in the form of test house fees. An operator in one sector with a GGY of £10m, therefore, may well pay a different fee to an operator that also has a GGY of £10m, but operates in a different sector.

6.13 The second question of general principle in relation to fee structures is the choice between continuous tariff-type fees (for example, £x fee per £1m of GGY) and fee bands (for example, £x fee for any quantum of GGY between £ym and £zm), the latter of course being the approach on which the current fee scheme is based.

6.14 We acknowledge that continuous fees may be seen to offer a 'purer' option, because the underlying cost functions are themselves for the most part continuous. Grouping operators into bands inevitably creates a degree of rough justice between the operators at either end of the band, and indeed there has been criticism over some of the big steps between one band and another.

²² The Casino 1968 Act operating licence is already covered by GGY.

²³ In effect the split of a type of licence activity and associated fees between different sizes of licensee.

- 6.15** We welcome views from stakeholders on the Commission's approach to the banding of fees, and indeed alternative approaches that may be suggested. However, we consider that there is a strong case for retaining and improving a banded structure, rather than moving to a tariff-type system of cost recovery, for a number of reasons:
- bands offer a degree of certainty for both ourselves and operators. Unless there is a real prospect that an operator is going to cross a threshold into another band, it knows what fee it is going to pay, and this is a benefit.
 - they also provide simplicity, again for both operators and the Commission. Fees must be paid in advance (see section 7 concerning instalments), but GGY cannot be known with certainty until after the event, and there is no statutory provision for post-hoc adjustments. A continuous fee structure would therefore require a set of rules for ex-post adjustments, which would add complexity and significant transactions costs (estimated to be around £150 per operator in increased transactional costs ie to monitor and administer adjustments between forecast and actual yields – including refunding operators who have overpaid and invoicing for underpayments – costs which would need to be recovered on top of existing fee levels).
 - Primary legislation would be required to introduce continuous tariff-type fees (the Act requires fees to be paid before the anniversary of each licence, and does not provide the Commission with the ability to refund or invoice as described above). While the decision to introduce such legislation would be for Government and then ultimately Parliament, setting up such a system would itself require a considerable cost commitment on the part of the Commission and others in terms of development and implementation, in addition to the costs of running it, and could not be done quickly.
 - in any event, we consider that improvements to the banding approach²⁴ can be made by refining the structure, for example by sub-dividing bands in order to achieve a more graduated progression from one fee point to another, especially at the smaller operator end of the scale, and thereby limiting the increases (in terms of actual fees, and the fee increase as a percentage of their GGY) potentially experienced by operators moving from one band to another (discussed later in this section).
- 6.16** The third general question is the approach to be taken to the number of bands or fee categories for each licence type. In approaching this issue we have tried to balance a number of considerations. In short, the fewer the number of bands for a given licence type, the greater will be the step changes between one band and another, and the larger will be the discrepancy between the fees as a proportion of GGY (or equivalent proxy) for those at the top and bottom of each band. On the other hand, the more bands there are, the higher will be the number of operators that have to apply for a variation of their licence because they are close to or have crossed a threshold into another band. This generates administration costs not just for the sector, but also for the regulator, which would have to be recovered through fees.
- 6.17** We set out our general approach to the question of the number of bands in relation to specific licence types from paragraph 6.25. In addressing this point, we have taken account of the fact that GGY is of course more volatile than the quantity of premises per operator, so the general shift to GGY-based fee structures may in any event lead to a modest increase in the frequency of applications for licence variations to move from one fee band to another.
- 6.18** The fourth issue of principle relates back to the way in which costs are allocated to sectors and licence types, as described in section 5. Although a large proportion of our costs are driven by GGY, a small element of costs are largely invariant to the scale of the operator, so they are more or less fixed.

²⁴ The Culture, Media and Sport Select Committee was of the view that our banding approach is too simplistic and can lead to large jumps in fees.

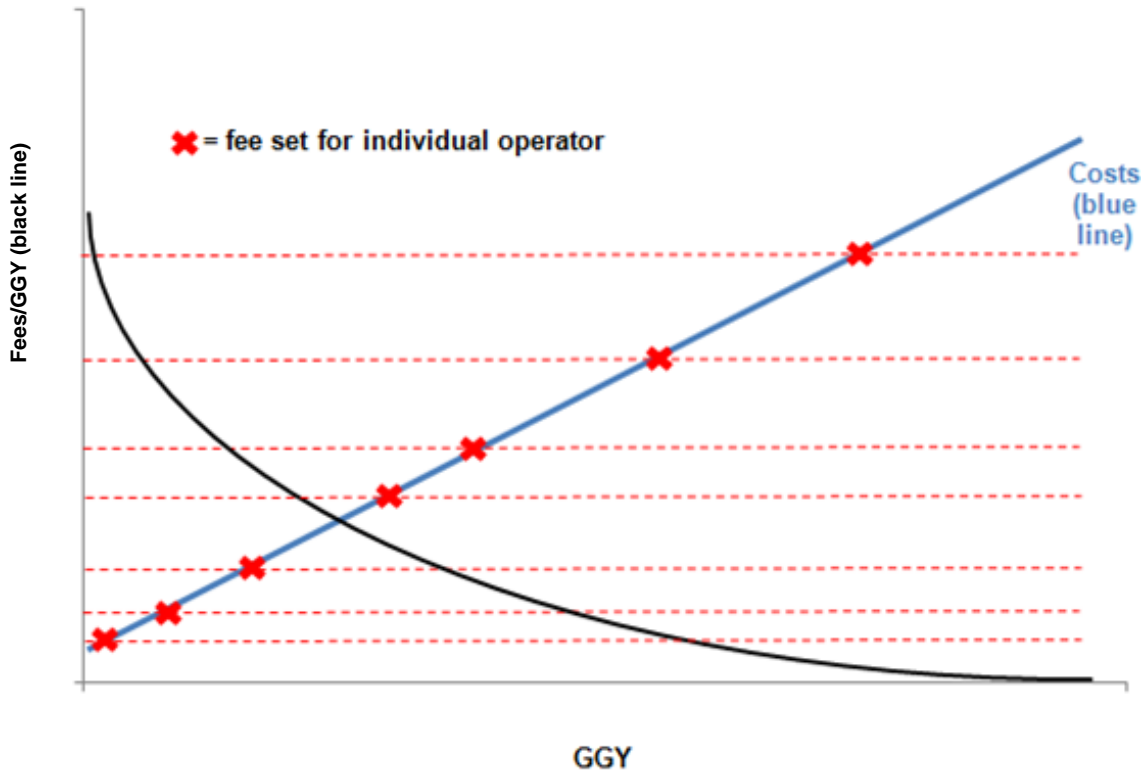
In effect, there are certain minimum costs of regulating an operator; the basic costs of keeping information up to date, monitoring performance and maintaining the capacity to deal with queries and complaints, collecting fees and so on, which sets a floor to any annual fee even if no active compliance work was undertaken or contribution expected to costs such as enforcement against illegal operators. We estimate those costs to be around, for example, £150pa for a society lottery and around £500pa for a general betting standard or adult gaming centre licensee at present, of which the pure transaction costs are probably around £50.

- 6.19** Inevitably, the minimum fees for the smallest operators are going to represent a far higher proportion of their income (or GGY) than will the minimum fees for a larger operator as a proportion of that larger operator's income or GGY. Those sort of fixed costs of dealing with an operator do not vary directly with increased size, although significantly larger operators tend to be more complex organisations generating a bit more work for us in terms of dealing with key events and changes in key posts or the people filling them.
- 6.20** We are currently looking at whether there is a better proxy for the *complexity* of an operator's business than GGY or its equivalent; for example, number of premises or number of key post holders. But the additional costs of dealing with the complexity of a larger operators' structure are very small in comparison to the other costs of dealing with such operators; so it may be more appropriate to simply add a 'complexity surcharge' to recover the somewhat greater fixed costs for the larger and usually more complex businesses.
- 6.21** Finally, there is one further issue of principle that we consider in this sub-section, namely the treatment of regulation and enforcement costs that arise in connection with non-compliance. We raise this because it is possible to design fee systems to incorporate an explicit element that reflects poor performance or conduct, in order to avoid a situation where the costs of dealing with operators that do not meet requirements are shared by those that do. For example, one regulatory body has added an enforcement cost budget overrun caused by one sector to its fees, for that sector for future years. Others offer the incentive of earned autonomy, under which reduced fees can be applied in recognition of the lower costs of regulation that result after a period of sustained good behaviour.
- 6.22** We have considered the merits of incorporating such features into the fee structure, but, subject to comments from stakeholders, our rationale for not incorporating such features is as follows:
- in the gambling sectors, individual operators are already significantly penalised for poor performance. As well as being potentially liable for financial penalties, they have to contribute to the costs of regulatory investigations and incur additional expenditure to meet additional licence conditions, for example in relation to requirements for extra training or third-party audits that we may impose following investigations, rather than undertake such work ourselves.
 - at the level of sectors or licence types, unexpectedly high regulatory costs in the past would tend to push up the expected level of costs that would then need to be recovered in future years, to the extent that they were expected to continue. Ultimately, and if it were necessary, a fees order could be sought to adjust fees to recover the higher expected costs. However, higher costs would not necessarily materialise, to the extent that our intervention and enforcement activities lead, as intended, to improved conduct going forwards, and all those in the sector would have benefited from the shared experience from the enforcement activity.

Implications of our approach for our advice to Government on fees

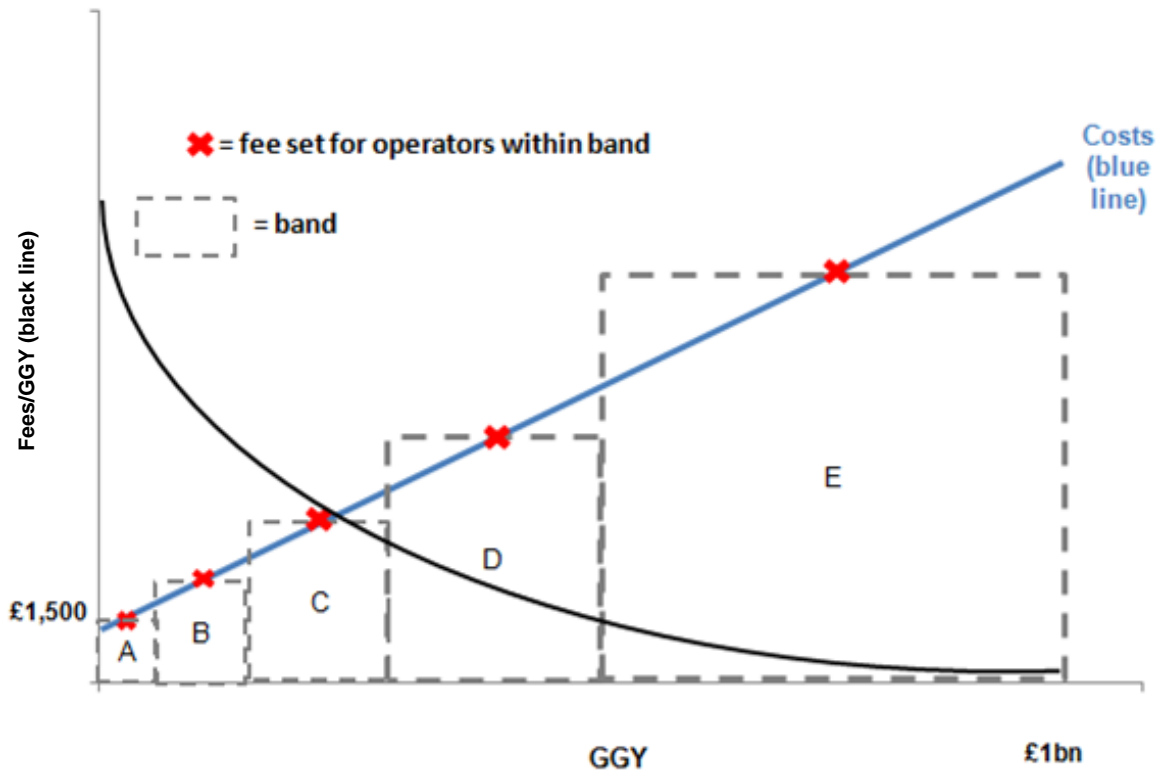
- 6.23** In addition to recommending the implementation of a move to GGY in place of ‘number of premises’ as the primary basis for setting fee categories and allocating costs, we propose to advise the Secretary of State of the need to take account of the step change in our licensee base (with the influx of a large number of overseas-based licensees which would raise the total British consumer-focused GGY among remote operators regulated by us to approximately £2.8billion for 2015/16) and the associated change in the profile of costs to be recovered. While the detail will need to be worked through once we have the figures for the first full year of operation, and can see what impact the change to regulation and to tax has had on the market size and number of operators, we will be recommending that the broad structure of fees and bands is retained, but with the exceptions set out below.
- 6.24** As explained at paragraph 6.18 above, some costs are largely invariant to the size of the operator and are therefore broadly fixed (the minimum and basic costs of regulating any operator, which set a minimum annual fee level). For the larger corporations there are of course added complexities, but those fixed regulatory costs do not vary directly with increased size.
- 6.25** In addition to those minimum costs of regulation that need to be recovered, there are further (variable) costs as discussed in Section 5; of course, where we recover costs that exhibit very few economies of scale, and which are recovered on a basis that is *directly proportionate* to an operator’s GGY, such cost recovery will have no impact on the *difference between* a smaller operator’s fee as a percentage of their GGY and a larger operator’s fee as a percentage of their GGY. Such is the function of spreading costs in direct proportion to size using GGY as a proxy. However, there are also direct costs which need to be recovered and which do reflect some economies of scale (and accordingly are recovered on a basis which is inverse to the size of an operator as indicated by GGY). Consequently, the *fixed* costs and the *direct* costs that must be recovered will represent a *much higher percentage of a smaller operator’s GGY* than will the fixed and direct costs that need to be recovered from a larger operator as a *percentage* of that larger operator’s GGY.
- 6.26** The charts at the end of section 5 explained further how costs are recovered from operators. Chart 3 below (again using the non-remote betting sector as an example) illustrates how fees might be set in order to recover these costs, based on a purely linear distribution of fees by GGY, in the absence of any banding (fee categories). Examples of where individual fees might be set are shown by the red dashed lines.

Chart 3: Fee setting as a direct function of cost recovery (not to scale)



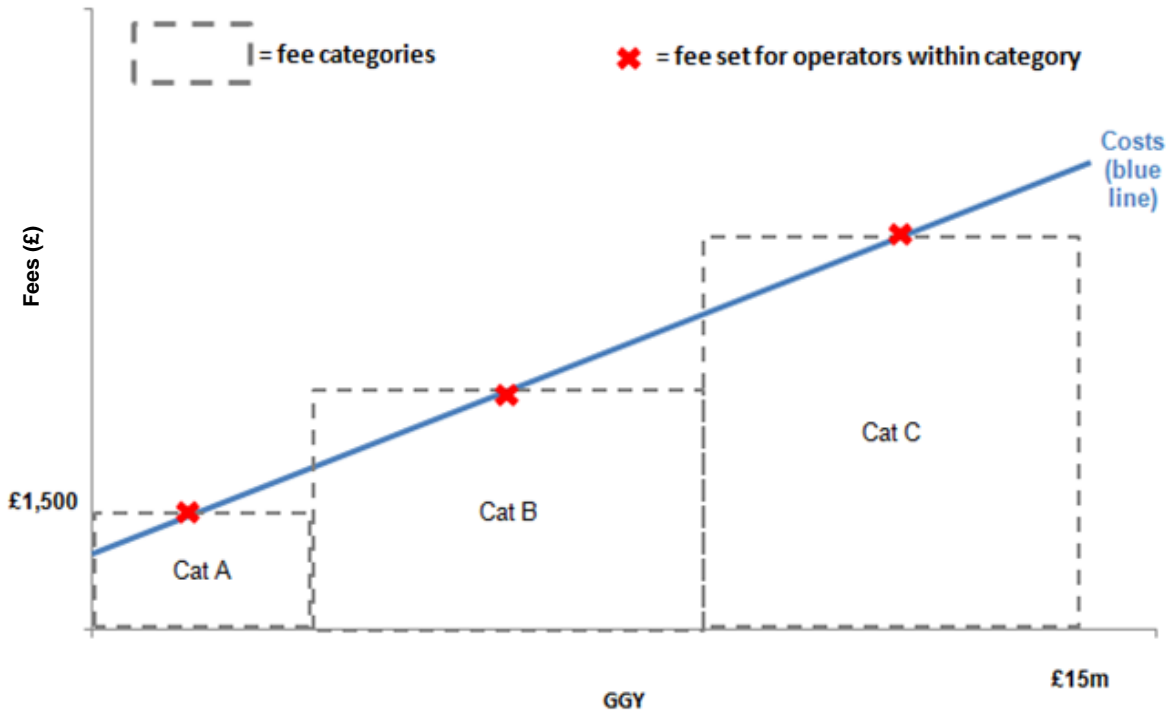
6.27 Paragraph 6.15 explained why using a purely linear GGY basis of cost recovery would be sub-optimal. To mitigate against this, a system of fee banding could be kept, based on operators' GGY. These broad fee categories (including category boundaries) are illustrated in Chart 4 below. The red crosses indicate where actual fee levels, for each fee category, could be set in order to recover costs from operators within those categories.

Chart 4: Banded fee setting as a direct function of cost recovery (not to scale)



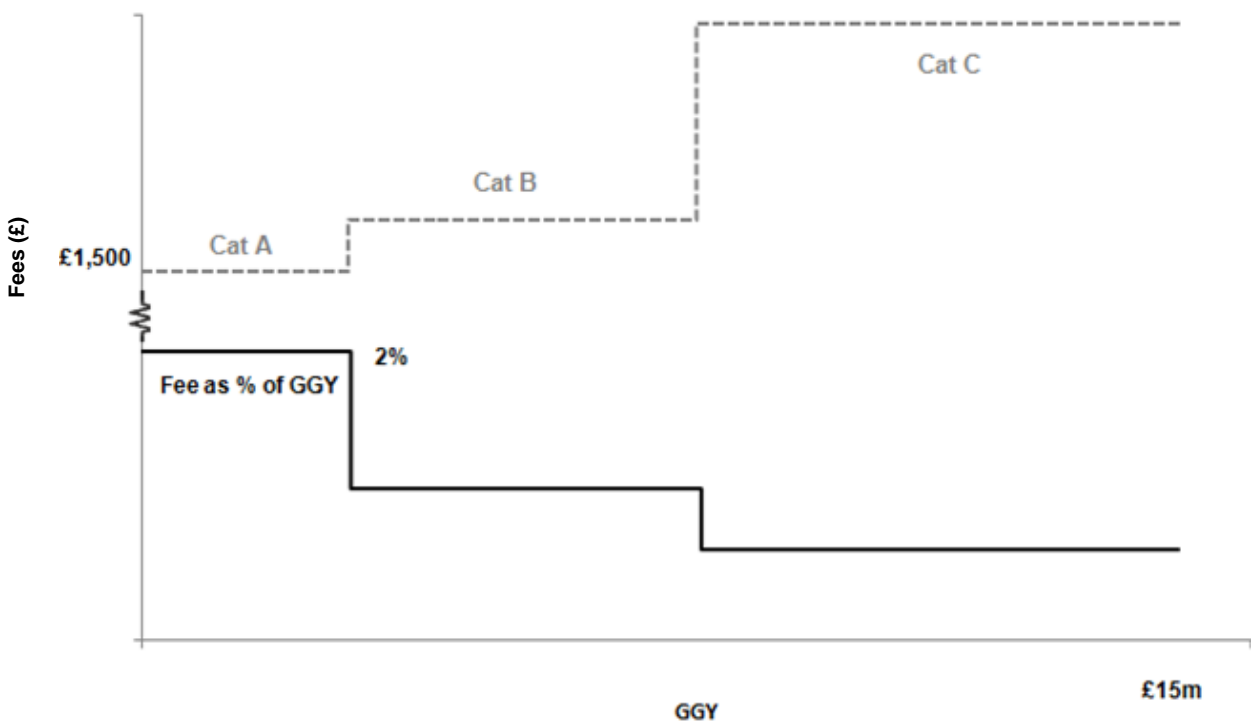
6.28 Chart 5 below provides a 'zoom-in' of the bottom-left hand side of chart 4 above, ie for operators with a smaller GGY. This enables a graphical representation of the potential method for setting fees for operators in the smallest fee categories.

Chart 5: Banded fee setting as a direct function of cost recovery - smaller operators (not to scale)



6.29 Chart 6 below demonstrates the relationship between the indicative fee (in £, as shown by the grey dashed line) and the percentage of an operator's GGY that that fee would represent (the average GGY among all operators within that band), as demonstrated by the black line.

Chart 6: Banded fee setting as a direct function of cost recovery - smaller operators (not to scale)



6.30 The table below further illustrates the potential consequences of the fee banding system. In general, an operator's fee as a % of their GGY reduces as the operator's GGY increases (and therefore as that operator moves upwards through the fee bands). For example, the annual fee for an operator with a GGY of £500,000 (and therefore that operator is in the middle of the category A band which covers all operators whose GGY is between £0 and £1m) would pay an annual fee of around £1,500, representing 0.3% of their GGY. The percentage is much smaller for an operator whose GGY places them in the middle of the category B fee band (a fee of around £7,000 representing 0.18% of their £4m GGY).

6.31 The *increase in fee as a percentage of GGY*, when an operator moves from one fee band to the next, is also illustrated. The nature of the banding system means that, when the GGY of an operator in fee category A increases just above £1m (and they therefore need to vary their licence to category B), their fee increase of around £5,500 would represent 0.55% of their £1m GGY. This fee increase as a percentage gets smaller, however, the higher up the bands. For example, for an operator moving from category B to C (ie their GGY exceeds £5m), the fee increase of £10,000 as a percentage of their £5m GGY is 0.2%.

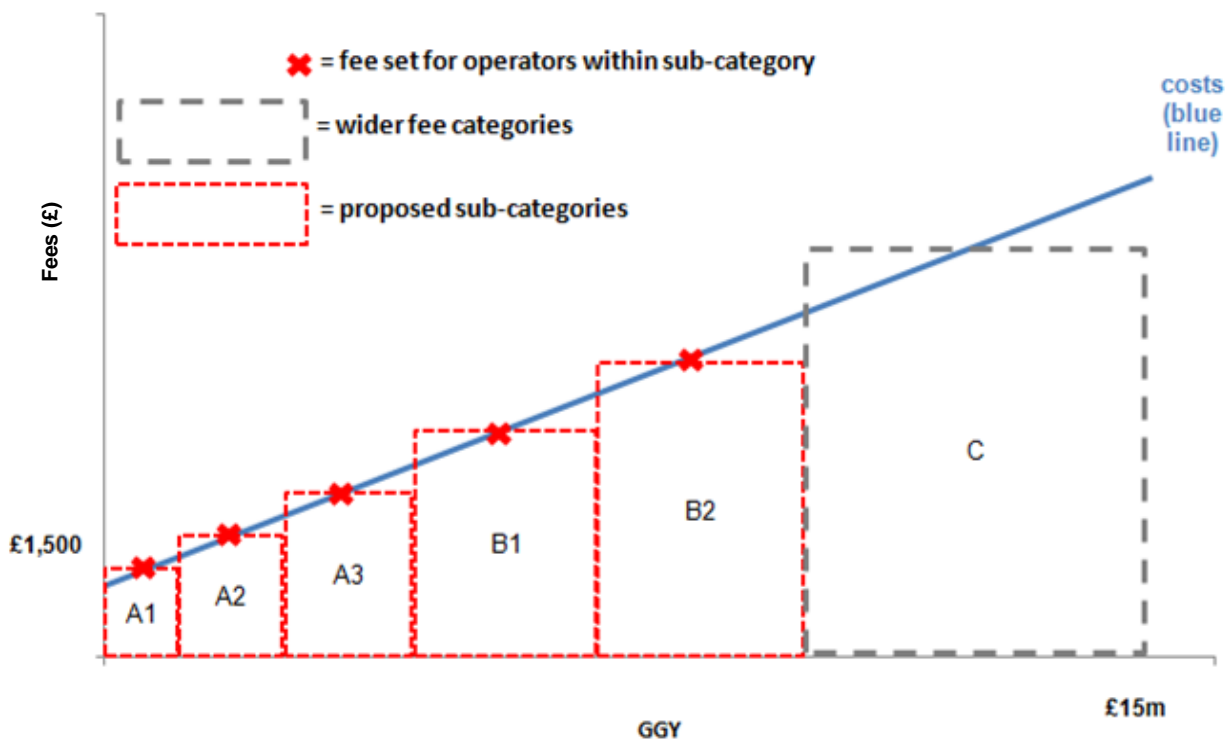
	A	B	C
Fee category GGY range (licence categories defined by GGY)	£0-£1m	£1m-£5m	£5m-£15m
Approximate number of operators	200	20	7
Average costs to be recovered/annual fee	£1,500	£7,000	£17,000
GGY of licensee at the mid-point of the category	£500,000	£4,000,000	£10,000,000
Fee as % of GGY for operator at the mid-point of the category	0.3%	0.18%	0.17%
Increase in fee as a result of moving up by one fee category (£)	-	£5,500	£10,000
Increase in fee as % of GGY for an operator going up one fee category, but being at the <i>bottom</i> of that next fee band in terms of their GGY	-	0.55%	0.20%
Increase in fee (£) fee per week	-	£106	£192

6.32 Charts 5 and 6 demonstrate that the steps between the fee categories can be relatively large. To address concerns that under this fee structure the step from one lower band to the next can be prohibitively large for smaller operators looking to expand, thus presenting a barrier to growth, we are looking at how the transition from one band to the next could be smoothed for those operators within the smallest licence categories. That is, where the increase in annual fee for a small operator, as a proportion of their GGY, can be relatively high.

6.33 As always there is a trade off between rough justice and complexity which brings its own costs, but consideration has been given to splitting the smaller fee category bands (as depicted by the first two boxes in the bottom-left of Chart 5) into further sub-categories, with a view to *limiting the increase in fees as a percentage of an operator's GGY* (the transition from 'number of premises' to 'GGY' as the basis for fee categories will enable the fee 'jump' to be smoothed as a percentage of GGY).

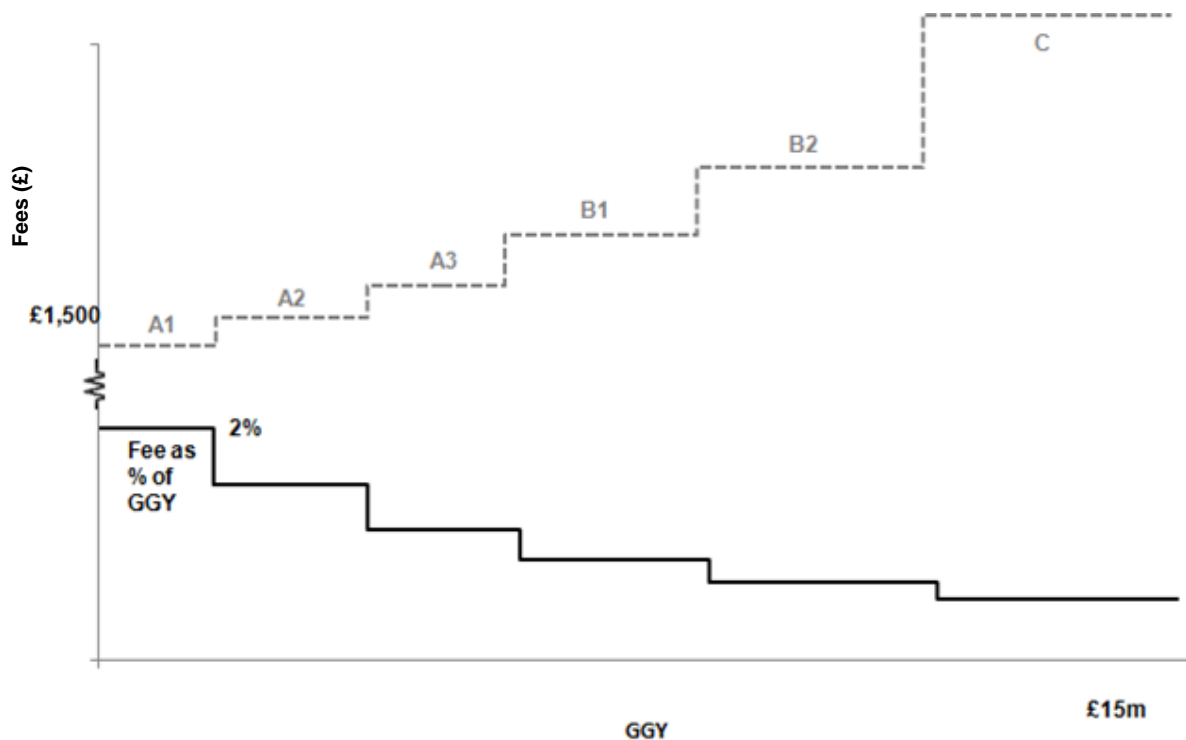
6.34 Chart 7 below demonstrates how this concept might work in practice, with Categories A and B potentially being split into five sub-categories (A1, A2, A3, and B1 and B2). Chart 7 therefore shows the sub-division of the first two boxes in Chart 5.

Chart 7: Banded fee setting as a direct function of cost recovery - smaller operators smoothed by sub-categories (not to scale)



6.35 Chart 8 below demonstrates the relationship between the indicative fee (in £s, as shown by the grey dashed line) and the percentage of an operator's GGY that that fee would represent, after the existing fee categories A and B have been sub-divided as described above. The fee as a percentage of GGY is demonstrated by the black line.

Chart 8: Banded fee setting as a direct function of cost recovery - smaller operators using sub-categories (not to scale)



- 6.36** The indicative sub-categories within categories A and B would have the effect of ‘smoothing’ any sizeable step change in fees when moving *between* fee categories, whilst at the same time will mitigate the ‘rough justice’ of differently-sized smaller operators (in terms of GGY) at opposite ends of a fee category paying the same fee. This is demonstrated by the red boxes in chart 7 above.
- 6.37** It should be noted that the Commission’s fees – in terms of the actual quantum that operators must pay – are relatively small in comparison to the other costs that gambling operators will incur. For example, the annual fee of £1,531 for an existing category A general betting (standard) operator or £1,523 for a Category A adult gaming centre operator represent an average of less than £30 per week in fees payable to the Commission.

Variations and reduced fees in certain circumstances

- 6.38** Unless it lapses (for example on death or insolvency of the licensee), is surrendered, suspended, or revoked, an operating licence continues in force and is of unlimited duration. The business model of the licensee may change during that lifetime and/or there may be events that impact on the licence itself. To accommodate those changes without the need to make a new licence application, the licensee may apply to vary their licence, or in the case of a company limited by shares where there has been a change in corporate control, must apply for the licence to continue. Such variations may be minor and attract a fixed administrative fee (currently £25). Others may be major changes which require further investigation/clarification by the Commission before they can be approved.
- 6.39** In its current fee structure, the Commission already recognises that there will be a number of constants that will exist from when the operator was originally licensed, and we will also have an understanding of the licensee via ongoing engagement and compliance activity. This previous knowledge is taken into account when processing a variation application or change of corporate control application, and we therefore do not need to expend the same amount of time and effort as when the licensee is unknown to us. The current fees for variations and change of corporate control applications are therefore based on a percentage of the normal application fee, and take into account the complexity of the variation and, for change of corporate control applications, whether the new controller is already known to the Commission.
- 6.40** Our approach to the allocation of costs in respect of variation applications follows the principles set out in 5.3 above, with a fixed transactional cost and a variable element; the latter dependent on the scale, nature and complexity of the variation application and the sector to which the variation relates. In previous fee reviews we have reduced the fees payable for variations to increase the fee category of a licence, and the fees payable on changes of corporate control.
- 6.41** As mentioned above, the current variation fee payable to increase fee category is 20% of the application fee that would normally be payable. Whilst the Commission does not have to spend the same time processing a variation application as it would a new application, due to it already holding some of the information it requires to determine the variation, there is still work to be done particularly if the increase is by more than one current fee category.

However, even if a licensee is only moving from one band to the next, we need to be satisfied that the licensee has suitable arrangements in place to ensure that the increase in business is not putting the licensing objectives at risk.

- For example, a non-remote general betting standard operator may seek to vary the licence to increase from a category B, authorising up to fifteen premises, to a category C, authorising up to 50 premises.
- In assessing such a variation:
 - We would need to look in particular at the finances available to fund the expansion, the source of such funding including the integrity of those funds, and any possible changes to ownership or influence on the business.
 - We would need to assess whether the current management structure was sufficient to effectively manage the potential increase in premises and look at arrangements that would be in place to train new staff at the premises.
- The current fee in this example to move from a category A to a category B is £195.40, with the pure transaction costs accounting for around £50 of that fee.

6.42 Other costs associated with the variation application will vary depending on the depth of any investigation required, and in some circumstances will exceed the fee payable. Having reduced the fee payable for a variation to increase a fee category from 25% to 20% of the application fee in 2012, and based on current costs to process and determine such an application, we do not intend to further reduce the percentage payable when increasing a licence from one fee category to another. However, where we may decide to split a current fee band and the movement of the operator remains within the overarching band, we will look to apply a fixed administrative fee in line with other such administrative charges. So for example, if the existing fee band A was split into sub-categories A1, A2, A3, then moving from category A1 to A2 or up to A3 would only incur an administrative fee (e.g. £25), but movement from the overarching fee category A to fee category B would attract the 20% fee.

6.43 The fee payable to add a new activity (for example, adding non-remote bingo to an existing non-remote AGC licence) is 25% of the fee payable for the new activity. We will, as mentioned already, hold some information on the general suitability of the licensee, but as with a variation to increase a fee category, we will need to assess the licensee's suitability to carry on the new activity. In addition to those areas of investigation noted above, we also look at the competence of the licensee to provide the new activity. This includes being satisfied as to the competence of individuals responsible for managing it and a review of both policies and procedures and terms and conditions to ensure compliance with LCCP requirements relevant to the new activity. Costs will vary due to the nature and complexity of any investigations we may need to make as part of the variation process, but we consider that the current fee of 25% of the application for an activity reflects the average amount of work undertaken and also ensures that any compliance costs related to the new activity are accounted for, particularly as any annual fees for the new activity do not become payable until the next anniversary date of the licence. Our current view is therefore that there should not be any reduction in the percentage payable to add a new activity to a licence, although we welcome views as part of this discussion.

6.44 For companies limited by shares it is a requirement of the Act (section 102) that where a change of corporate control occurs (that is, where someone acquires 10% or more of the shares in the company (the new controller), the licensee must apply for the licence to continue or surrender the licence. In considering the application for the licence to continue, we must be satisfied that we would have granted the licence had the new controller been a controller of the company at the time the original licence application was made. In determining whether we would have been satisfied, we undertake investigations akin to those undertaken for a new applicant and in particular will look at the ownership/identity, integrity, criminality, finances including source of funding, and the competence of the new controller.

6.45 The fees for a change of corporate control application are 75% of the application fee for the licence where we do not know the new controller, 25% of the application fee where the controller is known to us, and a flat fee of £100 where the new controller becomes a controller within the meaning of section 422 of the Financial Services and Markets Act 2000. The flat fee of £100 was introduced in 2008 to lessen the burden on those licensees whose shares were regularly acquired for investment purposes only, for example by pension providers. Changes were also made to the fees payable for a change of corporate control application in 2012, when the definition of 'known to the Commission' (and therefore eligible for 25% of the licence fee rather than 75%) was changed to include a new controller regulated by the Financial Services Authority or its equivalent in an EEA state. Previously, 'known' had been restricted to the holder of an operating licence. The change reflected that the investigations into integrity/criminality and finances of the new controller would have already been conducted by the other regulator. At the same time, there were reductions in the fees payable where a change of corporate control applied to two or more licence holders in a group company.

6.46 There is however one further change to the fees payable for a change in corporate control that we would like stakeholders to consider. We are aware that there are a number of family-owned small scale operators which will have been set up as limited companies for tax purposes. At present, where shares in such companies are gifted or otherwise transferred to immediate family members (spouse, civil partner or child) and the change of corporate control trigger (10% or more of shares) is reached, then where the recipient of the shares is unknown to the Commission, the fee for the change of corporate control application is 75% of the application fee for the activities authorised under the licence. We would like to explore whether that fee can be reduced in certain circumstances, for example where the transferee has no active involvement and is unlikely to have any such involvement in the future, a lower percentage payable or a fixed fee may be appropriate.

Summary and points for discussion

We have presented the changes that we think should now be considered in any future review of fees, consistent with our approach to fee-setting as set out in the earlier sections, and the developments that have taken place in the industry and the way in which regulation has evolved. We have set out our views on the extension of the use of GGY, the retention of the banded structure for fees (albeit with some modifications to reduce the impact of moving from one band to another for smaller operators), and the miscellaneous fees that apply in respect of licence variations and changes in corporate control.

We would welcome views and comments in particular on the following points:

- That number of premises should be replaced with GGY as the main proxy for the potential impact of an operator on the licensing objectives and our associated costs (and consequently, that GGY should be the definition for assigning fee categories to those non-remote operators whose fee categories are currently defined by numbers of premises)**
- Similarly, that GGY should be the main proxy for Casino 2005 Act operators (rather than the current proxy which distinguishes such licensees by whether they operate small or large casinos).**
- That the *existing* proxies for on-course bookmakers, lotteries and ELMs, and machine/software manufacturers and suppliers should be retained (ie the number of working days, annual proceeds, and value of annual gross sales, respectively).**

- **Your views on the retention of a banded structure with the modifications proposed, with any suggestions for alternative approaches.**
- **The trade-offs between band (fee category) sizes and the frequency of licence variations. Would you support further sub-division of bands into sub-bands, despite the higher transactional costs? Please give your reasons.**
- **The fees payable for applications to continue a licence when a change of corporate control has occurred (in relation to small-scale family-owned operators).**
- **The fees payable (to an administration-only fee) for applications to vary a licence where an operator moves only *within* a fee band (eg from sub-category A1 to sub-category A2).**

7 Implementation issues

In this section:

- **we outline how we would propose to advise Government on addressing potential incidental effects from the implementation of any changes to fees as outlined in this paper, including:**
 - **ensuring that all operators are given sufficient notice of fee changes**
 - **discussion on how the Commission could phase in fees for smaller operators**
- **we explain why we think the benefits of introducing a system of instalments for paying annual fees would be outweighed by the costs of doing so.**

7.1 As the purpose of this paper is to explain our current approach to cost recovery via fees, and to help formulate the advice we will provide to Government, we should also set out our views in relation to implementation issues, namely the management of incidental effects and the question of the payment of fees by instalments.

Addressing potential incidental effects

7.2 As described in section 4, there are several factors that are expected to influence the level of costs that will need to be recovered via fees. These include:

- the broadening of the fee base brought about by the licensing of remote operators, and the effect in particular on the recovery of our common costs and overheads.
- upward pressure on our costs caused by technological change, and the imperative for us to keep up with it.
- continuing our established track record in improving efficiency and driving down costs.
- the need to further invest in e-services to reduce the burden on operators of complying with Commission requirements.
- the potential need to increase regulatory effort to address emerging risks and developments such as the EU 4th Anti-Money Laundering Directive (4AMLD), and
- the creation and maintenance of the self-exclusion database, assuming it goes ahead following the forthcoming consultation and depending on exactly how it is paid for.

- 7.3** It is too early to be specific as to the magnitude of the potential impact of these changes, or any move to GGY outlined above on individual operator's fees; the incidental effects. However it is likely that, even if the overall average level of fees can be lowered (for example as a result of the efficiency gains we have achieved and the remote dividend²⁵), some groups and individual licensees will see fee increases. Further, it is possible that some of these may be significant in percentage terms.
- 7.4** Consistent with good regulatory practice, we will advise Government to give operators adequate notice of the new fees that will apply to them. But given the underlying rationale for cost recovery and fee setting, as described in sections 5 and 6, it will be the case that any operators facing steep fee increases as a result of any changes will have effectively been historically under-charged in relation to the costs of regulation. The converse is also true. There is therefore a good reason to implement any such increases or decreases as soon as any new fees legislation comes into effect.
- 7.5** However, we recognise that where a sharp fee increase might constitute a significant proportion of the cost base of an operator, and may therefore have a material impact on their finances, there may be a case for phasing in such increases over, say, three years, for example by capping year-on-year (like-for-like) increases to a specified percentage (in practice, for operators that may increase from fee category A to B or from category F to G ie the smallest fee bands). The actual caps and percentages proposed would be set out in any future consultation on fee proposals, but views on the principle of this approach in advance of that would be welcome.

Payment by instalments

- 7.6** Under the current arrangements and as a statutory requirement, applicants are required to pay the relevant fees in full before an application can be considered, and licensees are obliged to pay annual fees in full and in advance of the anniversary date of their licence.
- 7.7** The question of permitting fees to be paid in instalments continues to be raised from time to time, mainly by operators at the smaller end of the scale. We have given this issue careful consideration in the past, notably as part of the 2009 and 2012 fee reviews, including a careful examination of the instalments finance scheme that was set up by the financial services industry for firms licensed by the FSA. On both occasions we decided not to ask DCMS to consider amending the primary legislation to allow for payment by instalments. Our views have not changed, but we welcome comments from stakeholders as part of this discussion.
- 7.8** The argument in favour of such a move is that it would provide some assistance with cash flow management for operators. We think that any such benefit is substantially outweighed, however, by a range of other considerations, including the following:
- whatever instalments scheme was introduced, we would incur additional administrative and transactions costs, which would have to be recovered directly from the beneficiaries of such a scheme; offsetting, we estimate, most of any cash flow benefit.
 - any such scheme would involve us taking a credit risk in respect of operators that might become insolvent during the course of the year. To avoid the potential costs of dealing with the challenge of recovering sums due (which might ultimately then fall upon other operators), a further 'insurance' surcharge would have to be added to the fees for those paying by instalments, further negating any cash flow benefits that may arise.
 - the introduction of payment by instalments would require primary legislation, which we think would be hard to justify given the relatively small fees involved compared to the additional transactions and risk costs involved. The considerable commitment of resources and time involved in changing primary legislation would need to be weighed against any potential benefits.

²⁵ This is the term that is used to describe the fact that the first-time licensing of remote operators in 2014 has widened our fee base which, because of the existence of economies of scale and scope in many of our activities, should enable us to reduce fee levels, all else equal.

7.9 By way of example, the Financial Services Authority (now the Financial Conduct Authority) employed a credit provider to administer an instalments payments scheme. That provider charges 2.75% interest for FCA-recognised trade association members and 3.25% for non-recognised members. FCA receives the fee up front and the credit arrangements are managed solely between the provider and the member.

Summary and points for discussion

This section has considered two implementation issues and outlined the Commission's view that any significant fee increases that might have a material impact on the finances of a smaller operator (ie category A or F operator) should be phased in; and argued that the introduction of a scheme for the payment of fees by instalments would not be proportionate. We would welcome views in particular on the following:

- **Whether fee increases for operators in the smallest categories should be phased in over eg 2 years**
- **The arguments we have set out for not pursuing the question of payment by instalments.**

Gambling Commission September 2015

Keeping gambling fair and safe for all

For further information or to register your interest in the Commission please visit our website at:
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Appendices

Appendix A: The Commission's strategic objectives

Strategic objective: Empowering and protecting consumers

- We empower consumers to manage the risks of gambling, whilst recognising that gambling is a mainstream leisure activity. We aim to:
 - build wider consumer knowledge about gambling
 - ensure that players have access to information to manage their gambling behaviour safely
 - where required, ensure that protection is in place to stop players suffering harm and, if they do, mechanisms are in place to offer assistance.
- We protect consumers through:
 - developing our consumer communications strategy, fostering continuous improvement in the ways operators prevent underage gambling, developing plans for a multi-operator self-exclusion system and ensuring operators have in place appropriate arrangements for an independent body to resolve disputes.
 - ensuring that licensed operators provide protection for player funds and explain how they do so to their customers.

Strategic objective: Raising standards

- We ensure the gambling industry puts the licensing objectives at the heart of everything it does and helps raise industry standards. We do this by:
 - improving our approach to securing full compliance with legislation and LCCP by developing our approach to case management
 - developing and embedding our compliance model
 - implementing Annual Assurance Statements for high-performing organisations
 - developing our capability to assess and mitigate the risk of money laundering, including criminal spend, in the gambling sector
 - ensuring that the regulatory framework which governs the environment in which gaming machines are available remains appropriate.
- We aim to ensure that gambling operators put the licensing objectives at the heart of everything they do and help raise industry standards. We do this by:
 - licensing only those individuals and operators who are fit to operate
 - sharing best practice and advising the industry about our regulatory expectations
 - ensuring that action is taken against those acting unlawfully.

Strategic objective: Building partnership and understanding

- We advise and work with Government and other partners on gambling and its regulation by
 - Shared regulation:*
 - developing our approach to shared regulation and continuing to build effective regulatory relationships with local authorities, law enforcement bodies and others
 - Sports betting integrity:*
 - working with national and international stakeholders to identify threats and developing strategies to mitigate the risks of corruption to sports and sports betting
- We use robust evidence and research to:
 - inform and provide high quality advice
 - maintain effective relationships with stakeholders
 - build public confidence in gambling regulation in support of our ability to advise and work with Government and other partners on gambling and its regulation.

Strategic objective 4: Maximising returns to good causes from the National Lottery

- Overseeing performance of the National Lottery licensee
 - delivering the best possible outcome for the National Lottery by using our powers to secure the optimum performance from the licensee, while protecting the Nation's interests in the benefits that the National Lottery provides.
- We aim to secure a National Lottery that:
 - is run with due propriety
 - protects the interests of all participants
 - maximises returns to good causes.

Operating Licence Type	Licence Application Fees from 06 April 2012						
	Remote						
	F	G	H	I	J	K	L
Casino: 2005 Act	£2,933	£7,169	£11,274	£16,551	£26,641	£37,591	£63,671
Bingo	£2,933	£7,169	£11,274	£16,551	£26,641	£37,591	£63,671
General Betting: Standard (Virtual Events)	£2,933	£7,169	£11,274	£16,551	£26,641	£37,591	£63,671
General Betting: Standard (Real Events)	£3,259	£7,169	£9,474	£16,274	£19,551	£28,641	
General Betting: Standard (Remote Platform)	£198						
General Betting: Limited	£593						
Pool betting	£651	£982	£1,627	£2,027	£4,882	£4,882	£4,882
Betting Intermediary	£6,346	£13,018	£14,784	£16,274	£19,551	£28,641	
Betting Intermediary: Trading Room only	£593	£977	£1,627				
Gaming Machine Technical: Full	£977	£1,627	£16,274				
Gaming Machine Technical: Supplier	£977	£1,627	£4,882				
Gaming Machine Technical: Software	£977	£4,882	£16,274				
Gambling Software	£6,346	£13,018	£16,274				
External Lottery Manager	£977	£1,627	£1,879	£2,278	£2,463		
Society Lottery	£163	£244	£325				

Annual fees from 1 April 2012

Operating Licence Type	Licence Annual Fees from 06 April 2012											
	Non-remote											
	A	B	C	D	E	E1	E2	E3	E4	E5	E6	E7
Casino: 2005 Act	£51,877	£108,132										
Casino: 1968 Act	£17,378	£23,112	£74,112	£329,711	£443,526							
Bingo	£1,531	£6,894	£17,914	£43,921	£95,840							
General Betting: Standard	£1,531	£6,894	£17,914	£45,426	N/A	£51,555	£113,960	£169,960	£244,960	£264,960	£284,960	*
General Betting: Standard (no gaming machines)	£1,461	£6,582	£16,860									
General Betting: Limited	£200	£467	£1,346									
Pool betting	£2,222	£2,879	£4,277	£6,477	£12,137							
Betting Intermediary	£280	£4,277	£4,338									
Gaming Machine General: AGC	£1,523	£6,297	£13,736	£32,505	N/A	£45,236	£50,236	£55,236	**			
Gaming Machine General: FEC	£1,020	£4,562	£9,950	£26,124	£43,921							
Gaming Machine Technical: Full	£3,102	£6,625	£15,813									
Gaming Machine Technical: Supplier	£1,258	£3,397	£4,338									
Gaming Machine Technical: Software	£1,608	£4,044	£6,575									
Gambling Software	£1,608	£4,044	£6,575									
External Lottery Manager	£2,075	£2,368	£4,044	£6,675	£15,813							
Society Lottery	£348	£692	£1,458									

***For the general betting standard licence category E7:** where the number of licensed premises operated by the licence holder is between 2,000 and 2,499, the annual fee is £304,960. Where the number of licensed premises operated is 2,500 or more, the annual fee is £304,960 plus additional annual fees of £25,000 for each block of up to 500 premises over 2,499 premises.

***For the adult gaming centre licence category E4:** where the number of licensed premises operated by the licence holder is between 400 and 499, the annual fee is £60,236. Where the number of licensed premises operated is 500 or more, the annual fee is £60,236 plus additional annual fees of £5,000 for each block of up to 100 premises over 499 premises.

Operating Licence Type	Licence Annual Fees from 06 April 2012						
	Remote						
	F	G	H	I	J	K	L
Casino: 2005 Act	£3,188	£9,563	£13,529	£38,128	£74,012	£117,746	£155,425
Bingo	£3,188	£9,563	£13,529	£38,128	£74,012	£117,746	£155,425
General Betting: Standard (Virtual Events)	£3,188	£9,563	£13,529	£38,128	£74,012	£117,746	£155,425
General Betting: Standard (Real Events)	£13,529	£38,128	£48,893	£74,012	£117,746	£155,425	
General Betting: Standard (Remote Platform)	£280						
General Betting: Limited	£1,594						
Pool betting	£1,594	£13,529	£38,128	£48,893	£74,012	£117,746	£155,425
Betting Intermediary	£13,529	£38,128	£48,893	£74,012	£117,746	£155,425	
Betting Intermediary: Trading Room only	£1,594	£6,765	£19,063				
Gaming Machine Technical: Full	£6,765	£19,063	£37,006				
Gaming Machine Technical: Supplier	£6,765	£19,063	£37,006				
Gaming Machine Technical: Software	£6,765	£19,063	£37,006				
Gambling Software	£6,765	£19,063	£37,006				
External Lottery Manager	£6,765	£19,063	£24,372	£37,006	£48,893		
Society Lottery	£348	£692	£1,458				

Ancillary remote operating licences: application fees and annual fees from 6 April 2012		
Ancillary Licence Type	Application Fee	Annual Fee
Casino	£100	None
Bingo	£100	None
General betting: limited	£100	None
General betting: standard	£100	None
Pool Betting	£100	None
Gaming Machine Technical: Full	£100	None
Gaming Machine Technical: Supplier	£100	None
Gaming Machine Technical: Software	£100	None
Gambling Software	£100	None
Society Lottery	£100	£50

Categories of remote operating licences

Operating Licence Type	Unit of Division	F	G	H	I	J	K	L
Casino: 2005 Act	Annual Gross Gambling Yield	Less than £0.5 million	£0.5 million or greater, up to but excluding £5 million	£5 million or greater, up to but excluding £25 million	£25 million or greater, up to but excluding £100 million	£100 million or greater, up to but excluding £250m	£250million or greater, up to but excluding £500m	£500 million or greater
Bingo	Annual Gross Gambling Yield	Less than £0.5 million	£0.5 million or greater, up to but excluding £5 million	£5 million or greater, up to but excluding £25 million	£25 million or greater, up to but excluding £100 million	£100 million or greater, up to but excluding £250m	£250million or greater, up to but excluding £500m	£500 million or greater
General Betting: Standard (Virtual Events)	Annual Gross Gambling Yield	Less than £0.5 million	£0.5 million or greater, up to but excluding £5 million	£5 million or greater, up to but excluding £25 million	£25 million or greater, up to but excluding £100 million	£100 million or greater, up to but excluding £250m	£250million or greater, up to but excluding £500m	£500 million or greater
General Betting: Standard (Real Events)	Annual Gross Gambling Yield	Less than £5.5 million	£5.5 million or greater, up to but excluding £55m	£55 million or greater, up to but excluding £110m	£110 million or greater, up to but excluding £220m	£220 million or greater, up to but excluding £550m	£550 million or greater	
General Betting: Standard (Remote Platform)	Not applicable	Not applicable						

Categories of remote operating licences

General Betting: Limited	Annual Gross Gambling Yield	Less than £550,000						
Pool betting	Annual Gross Gambling Yield	Less than £1.5 million	£1.5 million or greater, up to but excluding £5.5m	£5.5 million or greater, up to but excluding £55m	£55 million or greater, up to but excluding £110m	£110 million or greater, up to but excluding £220m	£220 million or greater, up to but excluding £550m	£550 million or greater
Betting Intermediary	Annual Gross Gambling Yield	Less than £5.5 million	£5.5 million or greater, up to but excluding £55m	£55 million or greater, up to but excluding £110m	£110 million or greater, up to but excluding £220m	£220 million or greater, up to but excluding £550m	£550 million or greater	
Betting Intermediary: Trading Room only	Annual Gross Gambling Yield	Less than £550,000	£550,000 or greater, up to but excluding £6.6m	£6.6 million or greater				
Gaming Machine Technical: Full	Value of annual gross sales	Less than £550,000	£550,000 or greater, up to but excluding £6.6m	£6.6 million or greater				

Categories of remote operating licences

Gaming Machine Technical: Supplier	Value of annual gross sales	Less than £550,000	£550,000 or greater, up to but excluding £6.6m	£6.6 million or greater				
Gaming Machine Technical: Software	Value of annual gross sales	Less than £550,000	£550,000 or greater, up to but excluding £6.6m	£6.6 million or greater				
Gambling Software	Value of annual gross sales	Less than £550,000	£550,000 or greater, up to but excluding £6.6m	£6.6 million or greater				
External Lottery Manager	Value of annual gross sales	Less than £550,000	£550,000 or greater, up to but excluding £2.5m	£2.5 million or greater, up to but excluding £5.5m	£5.5 million or greater, up to but excluding £10m	£10 million or greater		
Society Lottery	Annual Proceeds	Less than £100,000	£100,000 or greater, up to but excluding £500,000	£500,000 or greater				

Appendix C: Glossary of terms

Ancillary remote licences	These licences permit the holder of a non-remote operating licence to conduct limited remote business without the need for a full remote operating licence (eg to send software via email, to take bets from betting premises via telephone).
B2B/B2C	Business to Business/Business to Consumer
Corporate enablers	Essential activities that enable the business to function effectively (HR, finance etc)
Cost categories	Costs incurred by the Commission that relate to a particular area of work or a particular duty eg costs associated with betting integrity, anti-money laundering, or the provision of advice to government.
DCMS	Department for Culture, Media and Sport
Economies of scale	the cost advantages that businesses inherently obtain due to their size or scale of operation, with costs decreasing with increasing scale
ELM	External Lottery Managers: section 257 of the Act defines an ELM as a person or body that makes arrangements for a lottery on behalf of a society or authority of which they are not a member, officer or employee
Ex-ante	Based on forecasts rather than actual results
Ex-post	Based on actual results rather than forecasts
Fee categories	The category to which the holder of particular type of operating licence is assigned, for the purposes of cost recovery. The larger the scale of the operator, the greater the fee category (and therefore fee quantum payable).
FCA	Financial Conduct Authority
GGY	Gross Gambling Yield: the amount retained by operators (in relation to the licensed activity, including stakes and any other accruals) after the payment of winnings and prizes (but before the deduction of the costs of the operation).
LCCP	The Licence Conditions and Codes of Practice that licensed gambling operators must adhere to. The Commission has a statutory duty to issue one or more codes of practice about the manner in which gambling is provided.
Non-remote	In essence, terrestrial gambling ie without the use of remote communication (betting premises)
Point of consumption	In relation to remote gambling, the geographical location from which the customer uses remote gambling facilities
Point of supply	In relation to remote gambling, the geographical location where the operator has situated their key equipment for delivering remote gambling facilities.
Remote	Gambling by use of remote communication (eg online, telephone)
Supplementary licences	Allows an operator to either maintain and repair their own gaming machines, or manufacture and install gambling software for use with their own platforms (up to a maximum annual cost).
Transactional costs	Costs incurred in making an economic exchange
Weighting	An adjustment made to account for special circumstances