

Double or nothing?

Assessing the economic impact of gambling

Scott Corfe
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SMF

Social Market
Foundation

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Jake joined the SMF research team in March 2020, having previously held research roles across the public and social sectors. He was last employed as a Research Analyst for the Office for National Statistics and before that he was a Research Assistant at public service reform think tank New Local Government Network. Jake holds an MA in Social Research from the University of Leeds and a BA in Sociology from Manchester Metropolitan University.

EXECUTIVE SUMMARY

This report explores the economic footprint of the entire gambling industry and its sub-sectors, and considers the extent to which the “economic defence” of business as usual stands up to scrutiny. We argue that, far from having a negative economic impact, a reduction in gambling expenditure, for example through reduced problem gambling, would be a net positive for the economy – bolstering gross value added (GVA), jobs and tax revenues as households would spend money on other goods and services with higher “economic multipliers”. As such, the case for bold, rather than timid, regulatory reform is compelling.

The 2005 Gambling Act was purported to be designed to deliver economic benefits. Remote gambling and fixed odds betting terminal (FOBT) gambling have approximately doubled the gross take from gamblers. Yet, as we argue here, no economic benefits may have been gained in return. This is because increased take from gambling results in reduced spending in other parts of the economy, such as retail and hospitality, leading to a net reduction in GVA, jobs and tax revenues.

The SMF’s position is not a prohibitionist or excessively paternalistic one. We do not seek to ban gambling – an activity which many individuals find enjoyable. Our concern lies principally with problem gambling and gambling addiction, and the key point that we want to highlight here – backed up with evidence – is that the case for tackling problem gambling is not just a moral one, but one that would be good for the economy.

Key findings

The direct economic impact of the gambling sector

- **In 2019, the gross value added (GVA)¹ of the gambling industry was estimated to stand at £8.1bn (in inflation-adjusted 2018 prices), up 45% on the £5.6bn seen in 2010.** In contrast, overall UK economy GVA grew by just 18% over the same period of time. This has seen gambling’s share of UK economic output increase from 0.3% to 0.4%.
- **The sector’s growth over the past decade has coincided with the rise of online gambling.** Remote gambling has gone from accounting for just 12% of industry yield² in 2009/10, to accounting for a majority (56%) of yield by 2019/20.
- **Gambling accounts for the greatest proportion of GVA in the East Midlands (0.7%) followed by the North East (0.6%).** It accounts for the smallest proportion of GVA in the South West of England (0.2%).
- **According to the Office for National Statistics’ Business Register and Employment Survey (BRES), 85,000 people in Great Britain were employed (either self-employed or employees) in the “gambling & betting activities” industry in 2019 – amounting to 0.3% of all employment in Great Britain.** Employment in the industry has declined from 93,000 in 2015, according to this data source. Declining employment in the sector reflects in part the shift from traditional gambling to online gambling, which is less labour intensive.

¹ Broadly speaking, GVA measures the value of goods and services produced by an industry, minus the value of intermediate consumption – the goods and services purchased by the industry as part of its operations.

² Amounts staked by customers minus winnings paid to them

- **As a percentage of total employment, the gambling industry is most important in Stoke-on-Trent, where it accounts for 2.5% of all jobs within the local authority.** The city contains the headquarters of Bet365, one of the largest gambling companies based in the UK. This is followed by Three Rivers (1.7% of all jobs) – where Camelot Group is headquartered. In all other local authorities, the gambling industry accounts for no more than 1% of all jobs in the area.
- **We estimate that the gambling industry directly contributes about £4.3bn to the Exchequer.** This includes Betting and Gaming Duties, corporation tax, employment-related taxes and taxes on products & production such as business rates and irrecoverable VAT. This amounts to about 0.6% of central government revenues.

The indirect and induced economic impact of the gambling sector

- **In addition to the direct economic impact of the gambling industry, we have considered its indirect and induced impacts:**
 - **Indirect economic impacts** relate to the additional GVA, jobs and tax revenues generated along the supply chains of an industry.
 - **Induced economic impacts** relate to the additional GVA, jobs and tax revenues generated from the spending power of employees in an industry.
- **Our analysis shows that, across the 129 goods & services categories in the ONS input-output tables on which we based our analysis, gambling had:**
 - **The 92nd highest GVA effect.** (The increase in UK GVA from each £ spent on gambling, taking into account direct, indirect and induced effects).
 - **The 110th highest wage effect.** (The increase in aggregate employee compensation from each £ spent on gambling, taking into account direct, indirect and induced effects).
 - **The 92nd highest jobs effect.** (The increase in aggregate jobs from each £ spent on gambling, taking into account direct, indirect and induced effects).
- **That is to say, gambling has low economic “multipliers” compared with most other parts of the economy** – for each pound spent on gambling, the uplift to GVA and jobs is lower compared with spending on most other goods and services.
- **A key driver of the limited economic multipliers for gambling is the fact that the industry has one of the “shortest” supply chains of the entire UK economy.** Consumer spending on gambling does little to create activity elsewhere in the economy, with a relatively high amount of gambling spend absorbed by the industry itself.
- **On our measure of supply chain “length”, gambling ranked 116th out of 129 goods & services.** This further highlights the limited positive impact that gambling has on other parts of the UK economy.
- **The economic multipliers for gambling are significantly lower than for other items that consumers might reasonably purchase in instead of gambling** – such as retail goods and food services. For example, we estimate that £1m spent on retail would create 34 additional jobs once all effects are considered – more than twice as many jobs as would be created from £1m spent on gambling.

- **We estimate that gambling has a lower tax multiplier than other consumer sectors such as retail and food services.** £1m net spend by consumers on gambling is estimated to equate to about £500,000 of additional tax revenue, once indirect and induced economic effects are considered. This compares to over £600,000 in the case of consumer spending on retail and food services.
- **There is good reason to think that the macroeconomic benefits of online gambling are even lower than for gambling as a whole.** Given the shift towards online gambling in recent years, this gives good reason to believe that the economic multipliers of gambling – already low – are shrinking. Financial reports show that online gambling is typically more profitable than retail gambling.

Economic impact of reduced rates of gambling

- If net gambling spend³ declined by 10% (about £1bn) and individuals spent money on retail instead – for example, as a result of regulatory reforms which curb problem gambling – we estimate that:
 - GVA would be £311 million higher.
 - The number of jobs in the economy would increase by 24,000.
 - The Exchequer would receive an additional £171mn in tax revenues.
- This economic dividend arises from the fact that retail has higher economic multipliers. As such GVA, tax revenues and jobs lost in gambling would be offset by employment gains elsewhere.

Conclusions

- **The economic analysis presented in this report is clear: while gambling supports tens of thousands of jobs across the UK and contributes about £8bn per annum to economic output directly, it seems very unlikely that this economic contribution is truly additional to what would have taken place if gambling did not exist.** Indeed, with most other parts of the economy having more extensive supply chains, and thus higher economic multipliers, reductions in gambling expenditure through reduced rates of problem gambling would almost certainly be a net economic benefit as households instead spend money elsewhere. The Exchequer would gain too, as higher GVA and jobs in turn drive up tax receipts.
- **This has strong implications as far as the case for regulatory reform is concerned. While some are calling for timid reforms – citing concerns about the negative economic impact of reduced gambling spend – our analysis suggests that this argument does not stand up to scrutiny once one considers the fact that problem gamblers would instead spend money elsewhere.** Far from being a case for timidity, the economics of gambling – presented in this report – are in fact a case for bold, robust and significant regulatory reform. Done right, there is scope to both reduce the societal costs of problem gambling and realise economic gains.

³ i.e. spending less prize money.

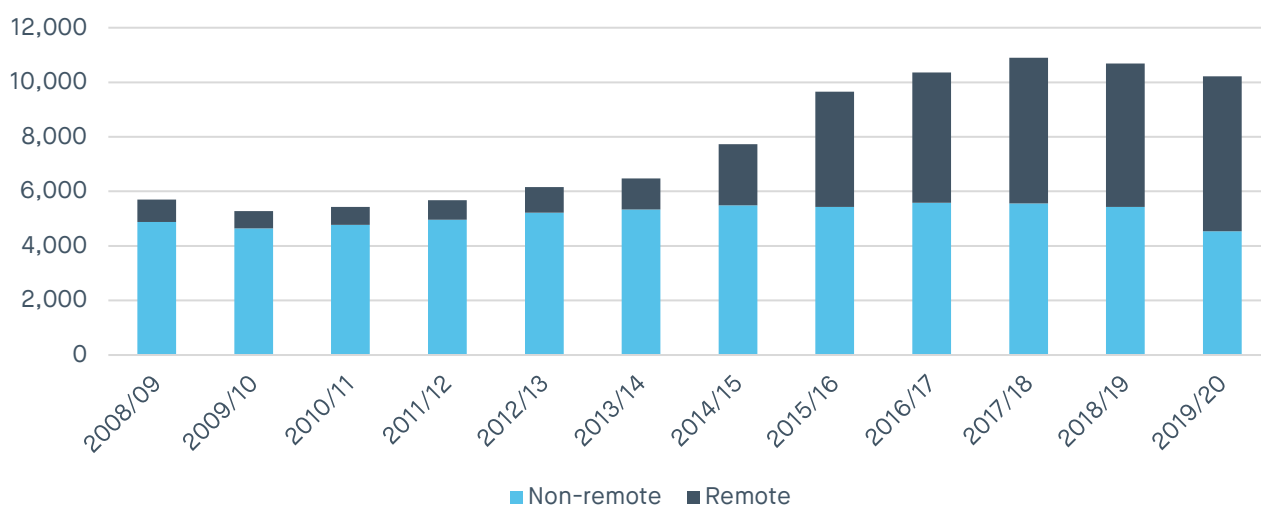
- In order to achieve those benefits, regulation needs to be based on the best available data. In various places throughout this report, we have had to rely on indicative or out of date figures or make ‘best guess’ inferences. **To ensure that future gambling regulation is based on accurate, timely and detailed evidence, the Government should commission an urgent review of the social and economic costs of gambling, commencing in 2021 and concluding in line with the timeframe of the Gambling Act Review. No final decisions on legislative review should be made until the Treasury has conducted an assessment of the economic and social costs of each policy change.**

CHAPTER ONE - INTRODUCTION

The UK’s gambling industry has gone through a period of significant change in recent years. In particular, remote gambling has gone from accounting for just 12% of industry yield⁴ in 2009/10, to accounting for a majority (56%) of yield by 2019/20.

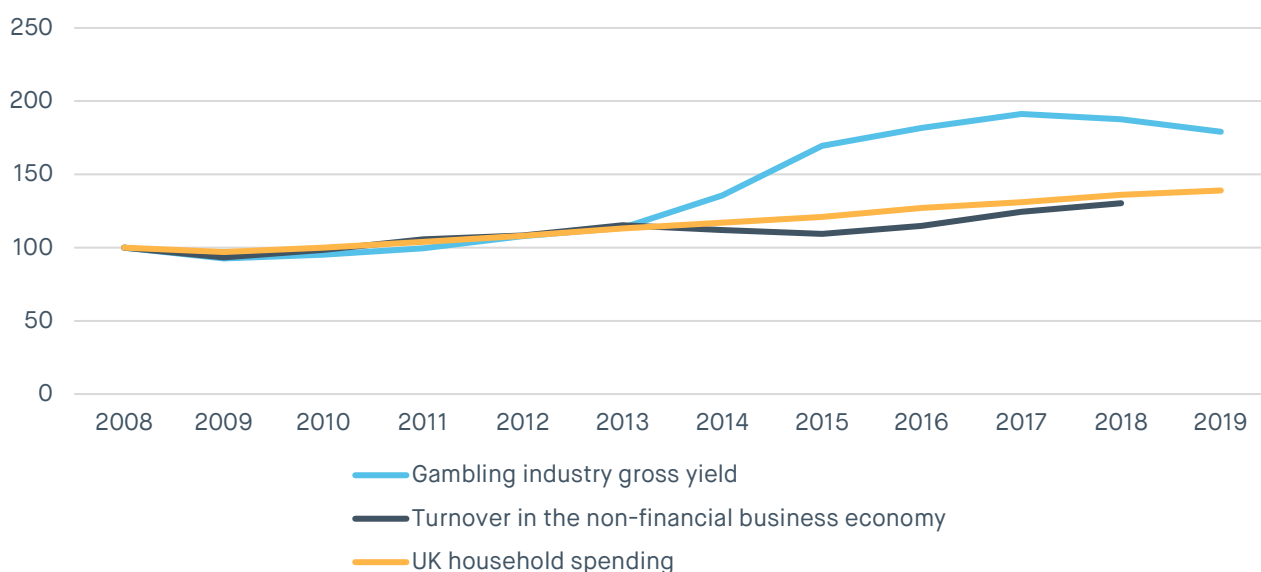
Over the past decade, gambling industry yields have approximately doubled, outpacing turnover growth in the wider business economy as well as growth in overall household spending. As Figure 2 shows, the divergence in growth in gambling yield versus these other metrics has taken place since 2013, in line with the rise of remote, online gambling.

Figure 1: Gambling industry gross yield, £ million (excluding lotteries)



Source: Gambling Commission industry statistics

Figure 2: Gambling industry gross yield (excluding lotteries) versus turnover in the non-financial business economy, indexed to 2008=100



Source: Gambling Commission industry statistics, Annual Business Survey, ONS Consumer Trends

⁴ Amounts staked by customers minus winnings paid to them

The growth of the gambling industry, as well as its shift to online gambling, raises a number of important regulatory questions. Problem gambling brings with it significant societal harms yet, as the Government has noted, current legislation is an “analogue law in a digital age”.¹ As we show in this paper, evidence suggests that problem gambling may be more pervasive in the online sector.

Given the regulatory questions posed by the evolution of the industry, the Social Market Foundation (SMF) recently set out proposals for reforming the gambling sector, with measures including a soft cap on net deposits and the introduction of a system of controls for remote gambling, based around limits on the stake and speed of play, to reduce problem gambling.² In December 2020, the Government announced a review of the Gambling Act 2005, and has put out a Call for Evidence, the deadline of which is Wednesday 31st March 2021.³

Within this SMF research paper, we home in on one particular aspect of the gambling industry – its economic impact – with a view to informing and broadening the debate surrounding the review of the Gambling Act. What is the gambling industry’s contribution to the economy? How has this changed over time? How many jobs does the industry support? And do these economic benefits outweigh the social costs associated with problem gambling? What does the industry’s economic contribution mean for regulatory reform? It is these questions which this paper seeks to answer.

We focus on the economic impact of gambling due to the prevalence of economic arguments in the policy debate that surrounds gambling. A common objection to efforts to regulate gambling defends business as usual on the basis of the industry’s contribution to economic output, jobs and tax revenue for the Exchequer. It is then argued that restrictions on gambling would, by curtailing spending on gambling, have a negative economic and fiscal impact.

The spectre of job losses has been used by the gambling industry as a reason to not reduce maximum bets on fixed odds betting terminals (FOBTs) – the so-called “crack cocaine of gambling machines”.⁴ Conversely, the betting industry has argued for laxer regulation to ensure UK gambling businesses can compete with those based in other markets by promising that this will create jobs.⁵ Recently, writing in the *New Statesman*, John Spellar MP said:

“I do fear there is a real danger that some of the potential changes flowing from the [Gambling Act] review could have a detrimental impact on the industry and damage its ability to contribute to the post-pandemic recovery. The numbers are pretty clear: the betting and gaming industry employs 100,000 people and in normal times contributes £8.7bn a year in gross value added to the economy and over £3.2bn in tax to the Treasury.”⁶

Economic arguments are important in deciding whether to go forward with a policy, such as regulatory reform, but these arguments must be methodologically robust and based on sound evidence. They also need to be *comprehensive*, considering the negative impacts of an industry alongside the positive impacts.

We argue in this report that, while at present the gambling industry makes a sizeable contribution to the UK economy, a reduction in gambling expenditure through reduced rates of problem gambling would nevertheless be a net positive for the economy – with jobs and tax revenues from elsewhere more than offsetting losses in the gambling industry. In part this reflects the fact

that the gambling industry has a relatively “short” supply chain, supporting limited activity elsewhere in the economy.

The SMF’s position is not a prohibitionist or excessively paternalistic one. We do not seek to ban gambling – an activity which many individuals find enjoyable. Our concern lies with problem gambling and gambling addiction, and the key point that we want to highlight here – backed up with evidence – is that the case for tackling problem gambling is not just a moral one, but one that would be good for the economy – good for GDP, jobs and the Exchequer.

As such, the case for timid rather than bold reforms is weak, given the potential economic gains. In their review of the Gambling Act, economic arguments should not cause politicians to err too far on the side of caution. Now is the time to double down on meaningful, significant change. As we argue in this report, it is also the time for government to do more to measure the economic footprint of the gambling industry, and quantify the societal harms associated with problem gambling.

The structure of this report is as follows:

- **Chapter 2** - examines the social costs of gambling, as well as the industry’s reliance on problem gamblers.
- **Chapter 3** - details the direct economic impact of the gambling sector, both at a UK and regional level.
- **Chapter 4** - explores the indirect and induced economic impacts of the gambling sector – the economic activity, jobs and tax revenues supported by the industry’s supply chains (indirect economic effects), and by the spending power associated with jobs supported by gambling (induced economic effects).
- **Chapter 5** - considers the economic implications of a reduction in gambling in the UK and the implications for the debate around regulatory reform.

CHAPTER TWO - SOCIAL COSTS OF GAMBLING

Industry reliance on problem gamblers

Millions of people in the UK gamble – around 60% of the adult of the total adult population.⁷ But not all gamblers are of equal value to the industry – those that gamble more frequently and stake more money are more lucrative. They are also more likely to be “problem gamblers”.

What do we mean by “problem gamblers” and “low/moderate risk” gamblers?

To identify problem gamblers, the Diagnostic and Statistical Manual of Mental Disorder (DSM-IV) approach involves asking which of the following behaviours they engage in. If they meet three of the following criteria, they are classified as problem gamblers:

- Chasing losses
- A preoccupation with gambling
- A need to gamble with increasing amounts of money
- Being restless or irritable when trying to stop gambling
- Gambling as escapism
- Lying to people to conceal the extent of gambling
- Having tried but failed to cut back on gambling
- Having committed a crime to finance gambling
- Having risked or lost a relationship/job/educational opportunity because of gambling
- Reliance on others to help in a financial crisis caused by gambling.

Another approach to defining problem and “risky” gamblers is the Problem Gambling Severity Index (PGSI). The PGSI asks people how often they:

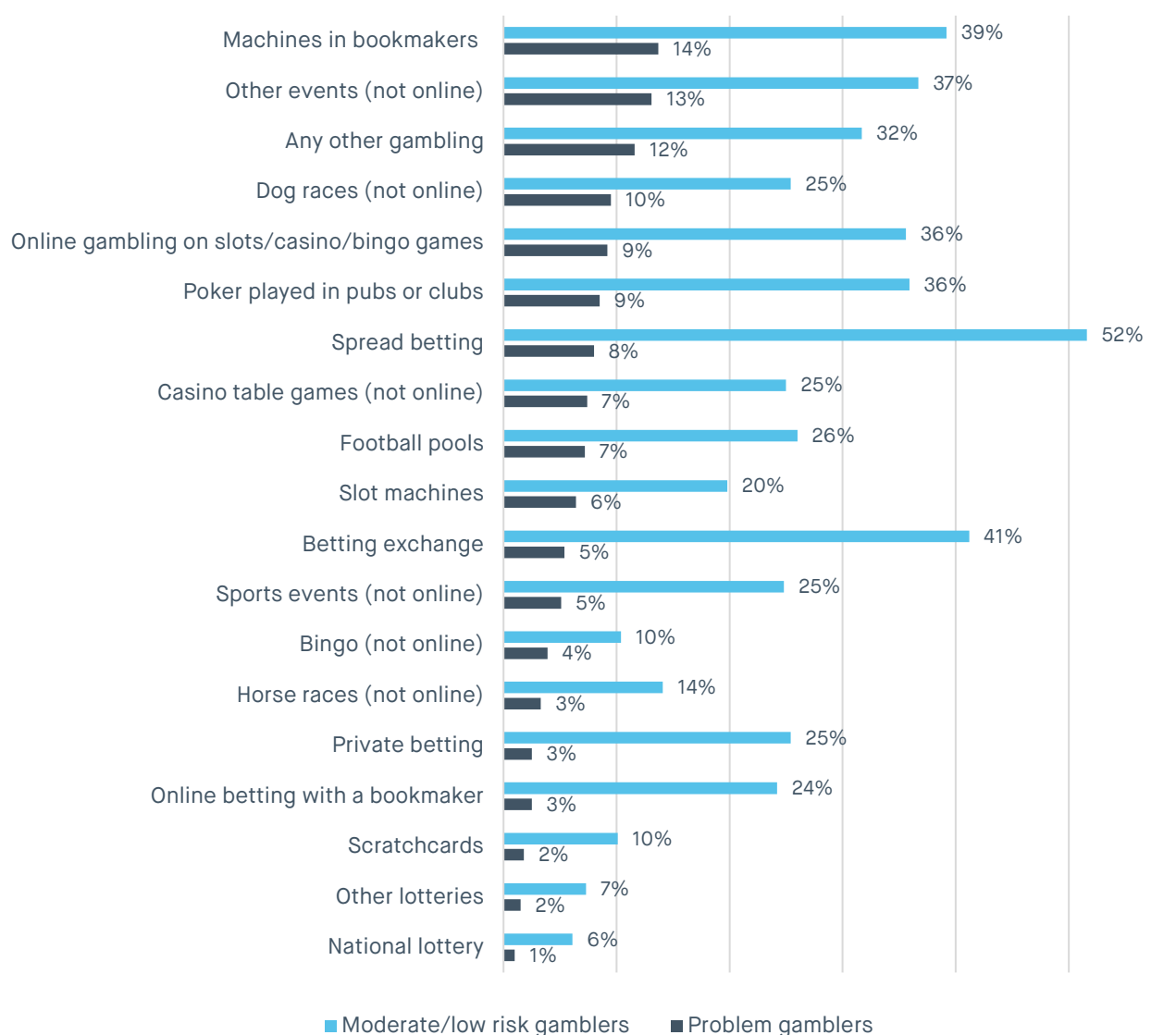
- Bet more than they can afford to lose
- Need to gamble with increasing amounts of money
- Are chasing losses
- Are borrowing money or selling items to get money to gamble
- Feel they have a problem with gambling
- Think that their gambling is causing health problems including stress and anxiety
- Have other people criticising their gambling behaviour
- Find their gambling is causing financial problems for their household
- Feel guilty about the way that they gamble and what happens when they gamble

Across the nine behaviours, the Index scores 0 for ‘never’, 1 for ‘sometimes’, 2 for ‘most of the time’ and 3 for ‘almost always’. An aggregate score of 1-2 is classified as low risk. An aggregate score of 3-7 is classified as moderate risk. An aggregate score of 8 or more is classified as problem gambling.

The greater the proportion of industry revenue that comes from problem gamblers, the stronger the industry's incentive to engage in exploitative practices. For example, the House of Lords Select Committee on Gambling has raised concerns over 'VIP schemes', whereby gambling companies reward customers that regularly lose large sums of money with incentives such as free bets, cashback and sporting tickets.⁸ Data collected by the Gambling Commission from nine firms showed that such 'VIPs' make up less than 5% of customers but can account for a substantial share of deposits – as much 83% for one firm.⁹ Moreover, the more reliant gambling firms are on problem gambling, the greater the potential risk they face from measures to reduce harm.

Combining data from the 2016 Health Survey for England, Scottish Health Survey and Wales Omnibus survey, NatCen estimates that 0.5-0.6% of British adults are problem gamblers, 1.1% are moderate risk gamblers and a further 2.4% are low risk gamblers.¹⁰ However, these groups are disproportionately likely to report engaging in certain forms of gambling over others.

Figure 3: Prevalence of problem/risky gambling by activity, 2016



Source: NatCen, *Gambling behaviour in Great Britain in 2016*

The chart above shows that the proportion of people engaging in different forms of gambling to be classified as problem or risky gamblers varies widely. Those who use gambling machines in bookmakers are particularly likely to be gambling at concerning levels: 14% of them are problem gamblers and 39% at risk. Certain forms of betting, especially online, are also particularly likely to attract heavy gamblers: 60% of spread betters are problem or risky gamblers, as are 46% of those using betting exchanges. At the other end of the spectrum, the vast majority of those who play the National Lottery – 93% – are not classified as risky.

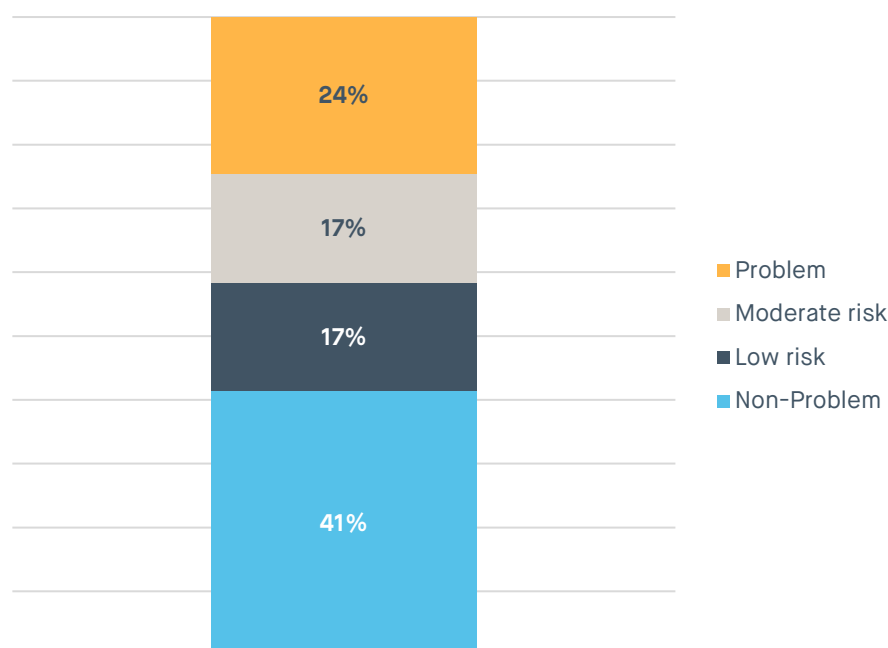
Overall, rates of problem and risky gambling are higher in online gambling. Those playing online are three times as likely to be problem gamblers (3.5% compared to 1.2% across all forms of gambling), and four times as likely to be at-risk (24.4% vs 6.4%).

Figure 4: Prevalence of problem/risky gambling - all gambling vs online gambling



Source: NatCen, *Gambling behaviour in Great Britain in 2016*

Yet the prevalence of risky or problem gamblers in different activities does not fully reflect their economic significance to the industry. To do that, we need to account for the fact that they spend more than the average gambler. Unfortunately, we have limited data on the spending habits of different types of gamblers. However, a 2016 PwC survey asked online gamblers to report how frequently they bet and how much they typically stake.¹¹ Drawing on those estimates and research from the think-tank ResPublica, the House of Lords Gambling Committee has estimated that 24% of online gambling revenue comes from problem gamblers, and that non-problem or at-risk gamblers account for the minority of all spend (41%).¹²

Figure 5: Proportion of online gambling revenue from each category of gambler, 2016

Source: House of Lords Select Committee on the Social and Economic Impact of the Gambling Industry (2020), “Gambling Harm – Time for Action”; ResPublica, “Online Gambling: Addicted to Addiction”

Since the PwC survey only covered online gambling expenditure, we cannot use the same data to produce a directly comparable estimate for non-online gambling. However, the fact (as we have seen) that land-based gamblers are less likely to be problem gamblers suggests that the online sector is more reliant on problem gambling. Moreover, an academic study using data from the 2010 British Gambling Prevalence Survey estimated the proportion of revenue attributable to problem gamblers in different activities.¹³ The straight average (i.e. unweighted across the different activities) was 10%. Only dog racing (27% - including online betting) and fixed odds betting terminals (23%) took as much of their income from problem gamblers as the average for online gambling. The figure was far lower for activities like slot machines (12%), sports betting (10% - including online) and scratch cards (7%).

What are the ‘costs’ of problem gambling?

As in any policy area, discussions of gambling regulation involve trading off costs and benefits. Proponents of tighter restrictions argue that they have the potential to reduce the harm caused by gambling. Their opponents argue that by limiting or discouraging gambling, we lose some of the benefits of the activity.

Depending on the context, we may be interested in certain types of cost and benefits and not others. The table below describes some of these differences and when they each might be relevant. Of particular significance is the distinction between ‘private’ costs that accrue to the individual gambler, and ‘external’ costs that are borne by other people and wider society. These private costs can be devastating – financially crippling and causing immense damage to people’s lives. One study has estimated that the negative impact of problem gambling on personal wellbeing in the UK is equivalent to be around £31 billion (i.e. problem gamblers would need £31 billion to compensate them for the negative psychological impact of gambling).¹⁴ However, these

private costs are a consequence of choices that the individual themselves made, and as such some would view it as illegitimate paternalism for the government to step in and try and avert them.¹⁵ By contrast, it is generally accepted that the state has a legitimate interest in regulating activities that cause harm to others, and so some would say that policymakers should only take account of the external costs of gambling. An intermediate (though difficult to operationalise) position is to account for private costs that occur as a result of ‘market failures’ – for example, because gamblers are addicted or not adequately informed – though in practice, this position can easily collapse back into paternalism.

It is also worth highlighting the difference between tangible costs – those that involve a loss of resources – and intangible costs, such as emotional distress. Intangible costs are no less real or important, but we cannot generate any financial savings from averting them.

Table 1: Summary of cost types

Cost	What it includes	What questions it answers	What to compare it against
Total social costs	All costs, private and external, attributable to gambling	What is the scale of the problem? Should we prioritise it?	Total social benefits
External costs	Costs borne by anybody other than the gambler themselves	What are the externalities associated with gambling? What is the optimal tax level on gambling?	Total tax revenue (although that may just be an input, depending on assumptions)
Market failure costs	Costs associated with any market failure (not just externalities) – including addicted/uninformed consumption	What are the costs associated with failures of the gambling market? What is the optimal tax level on gambling?	Total tax revenue (although that may just be an input, depending on assumptions)
Specific costs	Social costs within a specific domain e.g. government budget, economy, health	How does gambling affect specific domains? e.g. How does gambling affect the public purse?	Specific benefits within each domain e.g. gambling tax revenue
Tangible costs	Costs that involve a loss of resources	What are the costs of gambling that can be estimated without controversial judgements of value? What costs are actually paid out, rather than remaining notional?	Tangible benefits

Source: adapted from Bhattacharya (2016), “Which cost of alcohol? What should we compare it against?”

Most of this report focuses on the costs and benefits of gambling within two specific domains: its impact on the economy, and its impact on government finances. However, before that, in this chapter we review some of the broader societal costs of gambling to motivate the possible need for intervention.

Gambling-related harm and its associated costs

‘Problem gambling’ is defined by the Royal College of Psychiatrists as “gambling that disrupts or damages personal, family, or recreational pursuits”.¹⁶ However, gambling-related harm is not limited to problem gamblers: it can be suffered by *anyone* who gambles, and indeed by non-gamblers around them. In the words of Heather Wardle and colleagues, writing on behalf of the Gambling Commission, the Responsible Strategy Gambling Board and GambleAware, gambling-related harm is defined as:

“the adverse impacts from gambling on the health and wellbeing of individuals, families, communities and society. These harms are diverse, affecting resources, relationships and health, and may reflect an interplay between individual, family, and community processes. The harmful effects from gambling may be short-lived but can persist, having longer-term and enduring consequences that can exacerbate existing inequalities”.

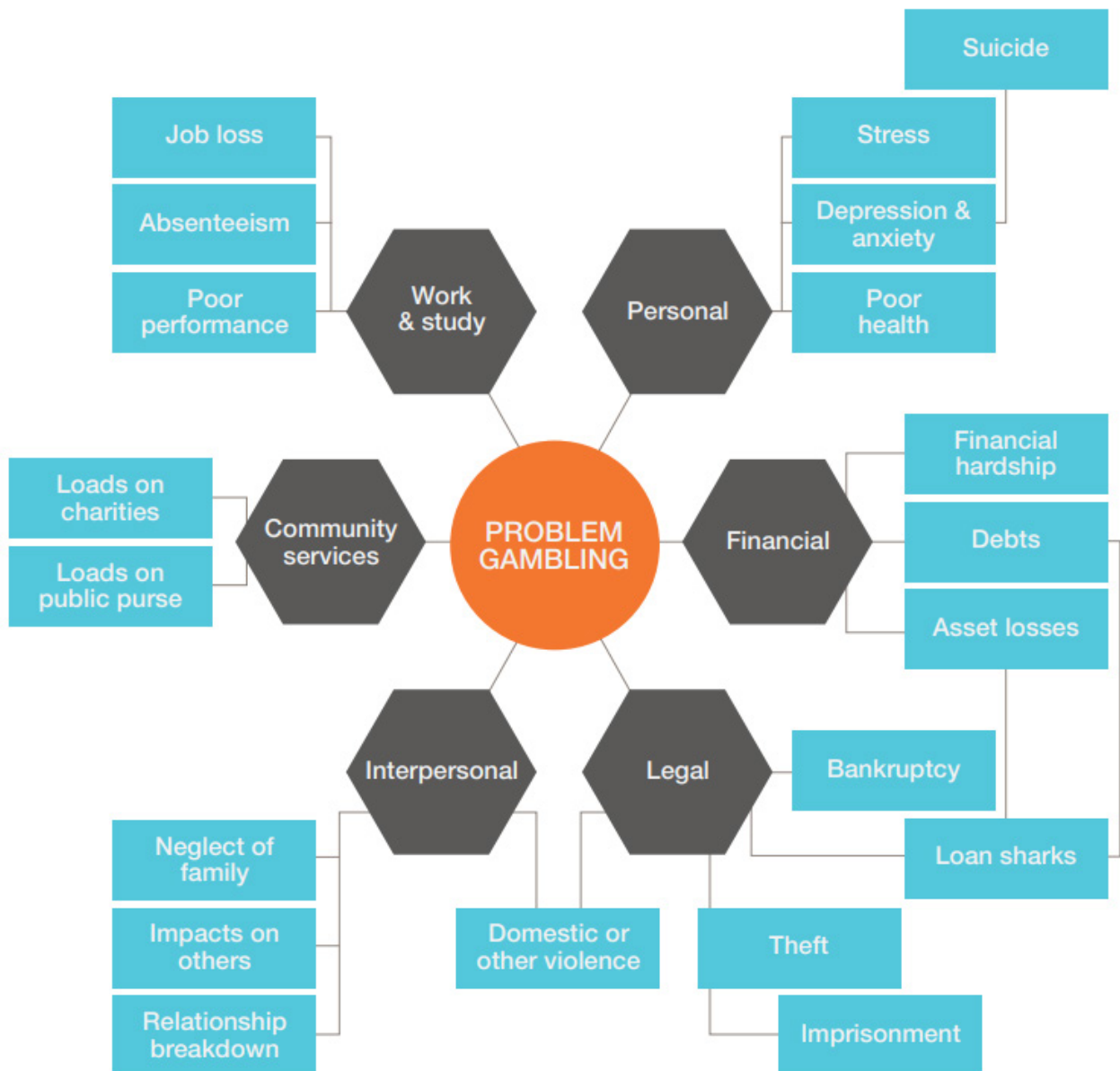
A number of frameworks have been proposed for conceptualising and categorising gambling-related harms – in academic research by Grinols (2011),¹⁷ Langham et al (2015),¹⁸ Winkler et al (2019),¹⁹ and Latvala and colleagues (2019),²⁰ as well as in reports by regulatory bodies such as the Gambling Commission (2018)²¹ and the Australian Productivity Commission (1999).²² They have substantial overlap, all highlighting the five broad themes:

- Financial costs
- Health costs
- Work or study costs
- Relationship or family costs
- Criminal costs

In addition to these, some frameworks also include housing costs (the loss of one’s home and homelessness), cultural costs (such as religious transgression) and suicide. Grinols also discusses negative consequences of gambling like bankruptcy, which imposes a cost to society in the form of legal resources, and direct regulatory costs, which relate to government oversight of the gambling industry.²³ Figure 6 provides a simplified overview of some of the categories of potential harm associated with gambling.²⁴

A more detailed list of gambling harms is provided by Langham et al, containing hundreds of different costs at the personal, interpersonal, and societal levels, and which range from the gambler seeing a loss to their discretionary income or experiencing feelings of reduced self-worth to the costs experienced by others such as familial neglect or the perpetuation of poverty and welfare reliance within communities.²⁵

Figure 6: The potential impact of gambling on individuals and their networks



Source: IPPR adaptation (2016) of data from the Australian Productivity Commission (1999)

Estimating the costs of gambling

Quantifying these costs is not simple, both because of conceptual difficulties and data limitations. First, as we have seen there is some debate as to what even comprises a cost and whether it should be counted as relevant; second, the extent to which a cost is ‘caused’ by gambling can be difficult to demonstrate; third, placing monetary values on the impacts of gambling, particularly more intangible outcomes such as psychological distress or even suicide, may involve subjective judgements.²⁶ Despite these methodological challenges, some estimates do exist.

Cards on the Table: The UK's first costing exercise of gambling

In 2016, the Institute for Public Policy Research (IPPR), funded by GambleAware, estimated the cost to government across four key areas of interaction between problem gamblers and state spending: health, welfare and employment, housing, and criminal justice.²⁷ The report remains the principal estimate of the costs of problem gambling in the UK.²⁸

The IPPR report recognises the distinct lack of data on gambling harm and acknowledges that its four areas of focus were selected on the pragmatic basis that they were covered by the evidence. Yet within them, there remain significant gaps, and as such IPPR only estimate six specific fiscal costs from problem gambling:

- Mental health primary care (£10–£40 million)
- Secondary mental health services (£30 million–£110 million)
- Hospital inpatient services (£140 million–£610 million)
- Jobseeker's Allowance claimant costs and lost labour tax receipts (£40 million–£160 million)
- Statutory homelessness applications (£10 million–£60 million)
- Incarcerations (£40 million–£190 million)

Overall, IPPR estimate that the direct cost of problem gamblers to the Treasury was between £260 million and £1.2 billion. This is less than the £3.0 billion generated from betting and gaming duties in 2019/20.²⁹

However, it is important to recognise that the IPPR number is likely to be an underestimate, as the report only sizes impacts for which data exists – a point made by, among others, the House of Lords Select Committee on the Social and Economic Impact of the Gambling Industry, the Campaign for Fairer Gambling, and gambling studies expert Heather Wardle.³⁰ The IPPR figure does not include the cost to the state of bankruptcies, debt services or divorces.³¹ It could also be argued that the government does not spend adequately in all these areas. For example, Caroline Downs of Lancaster University has estimated that it would cost £2.6 billion to treat every problem gambler in the country.³²

Moreover, it is worth emphasising that the IPPR report only looks at costs to the taxpayer, excluding the wider societal costs that comprise part of the full external cost. Of the five commonly identified impact categories of problem gambling identified in the section above, relationship and financial difficulties are not included because they do not impose a direct cost to the state.

IPPR provide the caveat that results should only represent a “first step” to understanding the costs of gambling to society. A key conclusion in its report is that central and local government, as well as the gambling industry itself, should do more to provide evidence on these questions.³³ In December 2020, acknowledging the limitations of the existing evidence base, the Government responded to proposals put forward by the Lords Gambling Industry Committee. It announced its commitment to: delivering a data model that delivers “a fuller understanding of gambling”; developing a framework of harms on the impact areas of health, finances, and relationships; and commissioning the procurement of the 2021 Adult Psychiatric Morbidity Survey.³⁴

Given the data issues encountered by IPPR, these pledges represent significant progress on what is currently a patchwork of evidence. However, given the messy nature of the costing problem, despite the Government's recent announcements, it seems unlikely that the 'full picture' of the economic impact of gambling will be realised.

Societal costs not covered by Cards on the Table

The IPPR's estimate only covers the cost of problem gambling to taxpayers, and thus a full estimate of the societal cost will include additional costs and is likely to be higher still. In Australia, a country where the population are said to be the biggest gambling losers in the world,³⁵ more "comprehensive approaches" have been taken. This includes examining aspects of problem gambling which are harder to value, such as emotional distress.³⁶ Although the methods by which it reaches the estimate are not described in full, in 2010 the Australian Government's Productivity Commission calculated the cost of problem gambling to be at least \$AUS 4.7 billion (£2.5 billion) a year.³⁷ In Sweden, the estimated cost of problem gambling to society was €1.42 billion – about €139 per inhabitant – including some of the more intangible harms such as emotional distress, physical violence, and crime to victims.³⁸ In both cases, these figures include both private and external costs.

The following section discusses some of the costs that an estimate of the full external cost of gambling in the UK ought to take into account in addition to IPPR's £1.2 billion, if the relevant data were available.

Financial costs

Typically, financial harms are the first harm to be identified by gamblers.³⁹ These financial costs of problem and risky gambling include loss of income and savings⁴⁰, getting into debt⁴¹ (including borrowing from friends and family⁴²), and losing a home. While it is the gambler themselves who will bear the financial cost in the first instance, these outcomes are bound to have an impact on their families and those around them.⁴³

Health and wellbeing costs

Associations have been found between problem gambling and physical health problems, such as higher blood pressure, digestive problems, and liver problems. However, these conditions may also arise from comorbid illnesses such as alcohol or drug addiction.⁴⁴ Problem gambling is significantly linked to lower wellbeing.⁴⁵ Family members may also experience costs to their health: sleep deprivation⁴⁶, depression, anxiety, panic attacks⁴⁷, as well as a range of negative emotions, such as anger, distress, shame and reduced self-worth.⁴⁸

Work or study costs

Gamblers are at a higher risk of losing their job, whether it be down to absences, poor work rates, or theft.⁴⁹ The same harms, as well as tiredness and distraction, can also manifest in a person's educational environment.⁵⁰ In the workplace, gambling disorder can often serve as a precipitant of criminal activity, usually in the form of fraud or embezzlement, carried out so a person can meet the financial demands of gambling.⁵¹ Indeed, some firms have filed for bankruptcy as a result of being defrauded by a problem gambler.⁵² These all have negative personal and economic consequences for the gambler, but also adversely affect firms, employers and the wider economy. Family members of problem gamblers may also be compromised in their ability to contribute to the economy.⁵³

Relationship or family costs

Evidence has showed that between eight and ten people in a gambler's social network are negatively affected by their activities,⁵⁴ be it spouses, family members, children, or a wider network of friends and colleagues.⁵⁵ This may mean:

- Higher tension and more frequent instances of conflict.
- Family members spending less time with families or at social events and neglecting their own relationship responsibilities.⁵⁶
- The neglect of children, sometimes leaving them unsupervised.⁵⁷
- By growing up in households straddled with debt (gambling-induced or otherwise), children also have an increased risk of developing mental health problems and being stigmatised at school.⁵⁸
- The victimisation and perpetration of partner violence,⁵⁹ including domestic violence.⁶⁰

These costs are intangible – they do not come with a financial price tag – but they ought to be included among the external costs of gambling all the same.

Criminal costs

Typically, this refers to acquisitive crime, such as credit card fraud, mortgage fraud, or theft (whether from friends, family, employers, or charities), but it may also mean violence to close ones – as is above – or to staff at betting shops.⁶¹ A 2012 study of problem gamblers found 39% had received a custodial sentence, 50% had been convicted of assault, and 16% had been convicted of domestic violence. 61% were found to have no criminal record, yet 83% of that group admitted committing illegal activity at least once in order to fund gambling activity.⁶² Most research on the relationship between crime and gambling takes place in prison communities⁶³ and those who are undergoing treatment, and it is therefore likely that there is a considerable amount of undetected crime by gamblers.⁶⁴ While the IPPR analysis accounts for the cost to the state of incarcerating those convicted of gambling-related crimes, it does not include the cost to victims of detected and undetected crime.

Cultural costs

Gambling can be particularly harmful when it goes against cultural beliefs, limiting a family's ability to connect with and participate in their community.⁶⁵ Again, such “cultural transgressions”⁶⁶ do not only affect the gambler, but often their families too, who may experience shame, stigma or lack of connection to their community.⁶⁷ It has also been suggested that the geographic clustering of betting shops can undermine the vitality and vibrancy of local communities.⁶⁸ Once more, these costs are intangible, but can be significant to those who experience them.

The distribution of costs

The costs we have described so far are not distributed evenly: there is a clear socio-economic gradient to gambling.

The socio-economic distribution

According to the most recent estimates, the prevalence of low (6.6%) or moderate risk (1.5%) gambling is highest among the unemployed, with 8.0% of unemployed gamblers falling into one or other risk category. The unemployed also have the highest rate of problem gambling at 1.9%.⁶⁹

Economically inactive gamblers (‘other inactive’, which excludes students, the retired and the unemployed) also exhibit riskier gambling behaviours. 1.3% of them belong to the low-risk category, 1.4% to the moderate risk category and 1.4% are classified as problem gamblers.⁷⁰ Other than those, there are few significant socio-economic differences in the prevalence of gambling risk and harm.

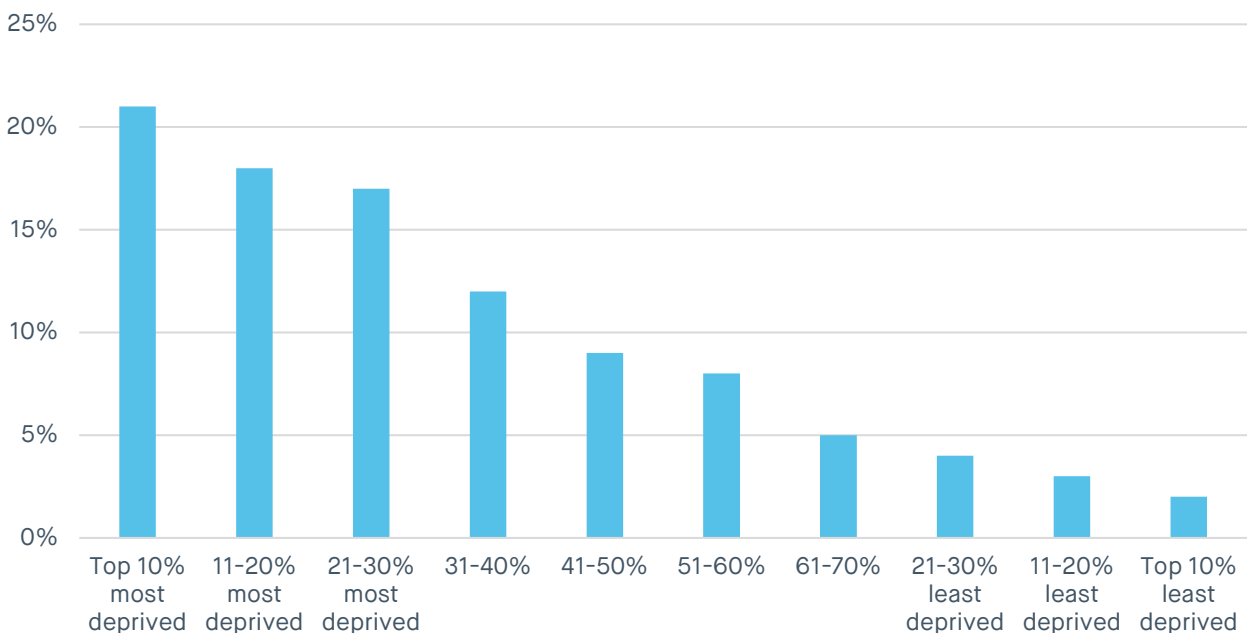
The geographical distribution

A disproportionate number of gamblers live in areas of low employment and high poverty, with analysis showing that there are areas of Great Britain where people may be at a greater risk of gambling harm. This is caused by a number of factors, but includes the targeted profiling of vulnerable local residents by some gambling companies.⁷¹

Betting shops and other gambling venues have been found to cluster in areas that are more deprived, something which was highlighted during the Fixed Odd Betting Terminal debate, both in research⁷² and in national news.⁷³ Because operators are allowed to choose where to place new betting shops based “on commercial grounds alone”,⁷⁴ they become disproportionately located – both responding to and driving demand. The House of Lords Select Committee has referred to various findings which highlight this:⁷⁵

- According to the commercial property magazine, *Estates Gazette*, over half of the UK’s 6,000 bookies are in its most deprived areas.
- 56% of the gambling industry’s ‘big four’ betting shops are positioned in the top 30% of the most deprived places in England.
- 78% of Paddy Power’s stores are placed in the top 40% of most deprived areas.⁷⁶
- 20% of betting shops are located in the 10% of most deprived areas, while only 2% are in the 10% least deprived areas.⁷⁷

Figure 7: Percentage of bookmakers located by geographical decile



Source: James Child, ‘All bets are off on the UK’s poorest high streets’, *Estates Gazette* (10 July 2019), cited in the House of Lords Select Committee on the Social and Economic Impact of the Gambling Industry (2020)

Some local authorities have explored the relationship between area-based vulnerability and gambling-related harms themselves. For example, in the London Borough of Newham, it was found that risk was driven by the amount of support services offered to people in the area, as well as by the profile of the people living there. In the areas examined, Newham had a greater number of people that are economically inactive, young, and ethnically diverse.⁷⁸

Spatial analysis of Manchester and Westminster has produced similar findings. Areas at greater risk of gambling harm had a higher number of economically inactive people, and risk was driven by their youth, and diverse ethnic make-up – markers of increased vulnerability – as well as the services offered.⁷⁹

In terms of broader regional differences, at the Government Office Region level of geography, NatGen analysis has showed that, perhaps contrary to conventional understandings about prosperity in the region, the South East had the highest prevalence rates (5.2%) of both ‘low risk’ and ‘moderate risk’ gambling combined. But in terms of ‘problem gambling’, gambling activity which is more representative of harm and vulnerability, the North East and West Midlands had the highest prevalence rates (1.1%), whereas the South West had the lowest (0.2%).⁸⁰ Released in 2016, more timely data is needed; but this appears to reflect more general patterns of regional inequality.

The cost of gambling to society

It is not feasible to estimate the absolute total cost of gambling to the UK, with many harms that are simply too elusive or indefinite to lay out in clear, quantifiable terms. The best estimate we have is from IPPR, who have estimated the *direct cost* to the Treasury to be between £260 million and £1.2 billion per year.

However, this is likely to significantly underestimate the scale of the problem. This figure is widely recognised to cover only a portion of the costs of gambling to the taxpayer, and even if that figure could be accurately calculated, it would be a subset of the total cost to society.

So much is clear from the fact that Sweden, a country with a far smaller population and similar addiction prevalence to the UK,⁸¹ reported a similar cost of €1.42 billion to society.⁸²

The Swedish example also shows that indirect and intangible costs account for the vast majority of total costs.⁸³ The external social costs of gambling we have examined, including those we are currently unable to convert into a financial value, inevitably represent a huge expense that undervalues current economic estimates and the vast scale of potential harms. And just because those costs are *currently* unquantifiable, is not to say that such costs are not incurred.

IPPR’s estimates represent a valuable first step to understanding the costs of gambling to society. As it stands, the numbers that we have suggest that the government is receiving more money from the industry than it spends on gambling-related harms; as we discuss in more detail in the next chapter, betting & gaming duty receipts stand at about £3bn per annum on the latest data. But the IPPR numbers are incomplete – failing to cover the full range of costs of gambling – and produced five years ago, somewhat out of date. There is therefore a strong need for more data and analysis to produce a fuller picture of the social and economic cost of gambling. Until then, the question of whether the fiscal and economic benefits of gambling outweigh its costs – and therefore the question of tax duty reform – hangs in the balance.

That said, looking solely at the benefits side of the ledger, analysis presented later in this report suggests that from an Exchequer perspective it would be better to curb problem gambling rather than to continue the industry tax revenues associated with it. This is because such a move would translate into greater tax receipts elsewhere in the economy.

CHAPTER THREE - THE DIRECT ECONOMIC FOOTPRINT OF THE GAMBLING INDUSTRY

The previous chapter explored the societal harms associated with gambling – in particular problem gambling. But these costs need to be weighed against any benefits that derive from gambling – such as the industry’s role in providing employment and revenues for government.

With this in mind, this chapter of the report explores the *direct* economic contribution of the UK’s gambling industry – in particular its contribution to economic output, jobs and tax revenues. This draws on a range of datasets including Gambling Commission Statistics, Department for Digital, Culture, Media & Sport (DCMS) data and Office for National Statistics (ONS) datasets.

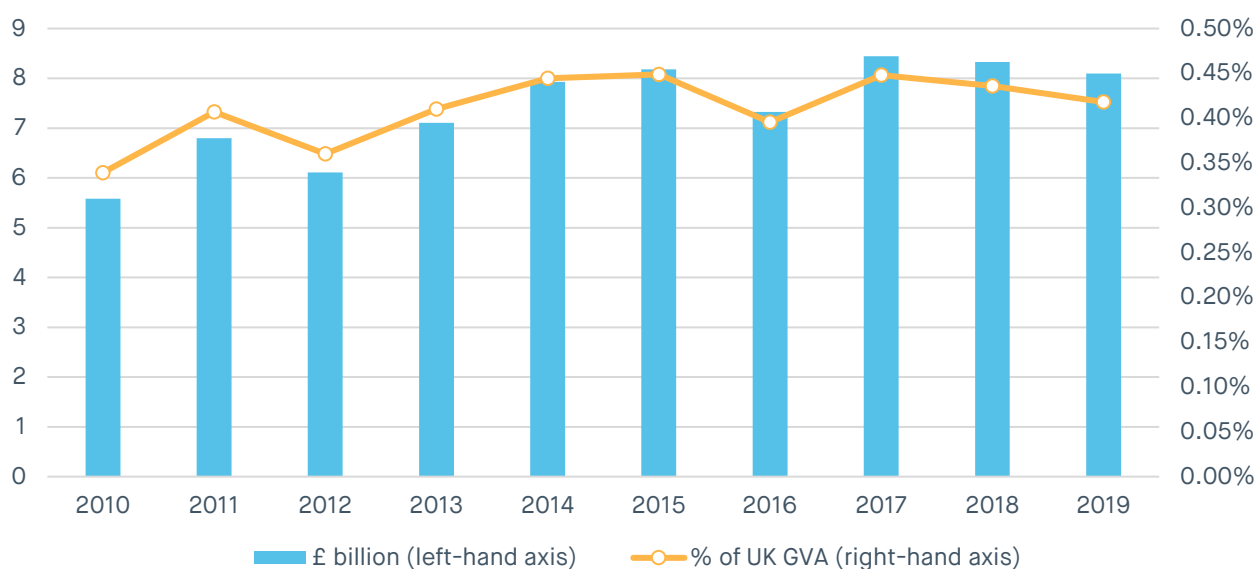
Economic output

The most widely-used measure of the economic contribution of different industries is gross value added (GVA). Broadly speaking, it measures the value of goods and services produced by an industry, minus the value of intermediate consumption – the goods and services purchased by the industry as part of its operations.

The DCMS produces estimates of the GVA of the gambling industry.⁸⁴ These measures account for inflation and are expressed in 2018 prices to reflect the “real” economic impact of the industry. In 2019, the GVA of the gambling industry was estimated to stand at £8.1bn, up 45% on the £5.6bn seen in 2010. In contrast, overall UK economy GVA grew by just 18% over the same period of time. This has seen gambling’s share of UK economic output increase from 0.3% to 0.4%.

As the chart below shows, growth in the economic output of the gambling industry over this time period is concentrated in the years 2010–2015. The direct economic contribution of the industry in 2019 was slightly lower than in 2015 (–1.0%), with industry GVA declining in both 2018 and 2019.

Figure 8: GVA of the UK gambling industry, £bn (2018 prices) and as a percentage of UK-wide GVA

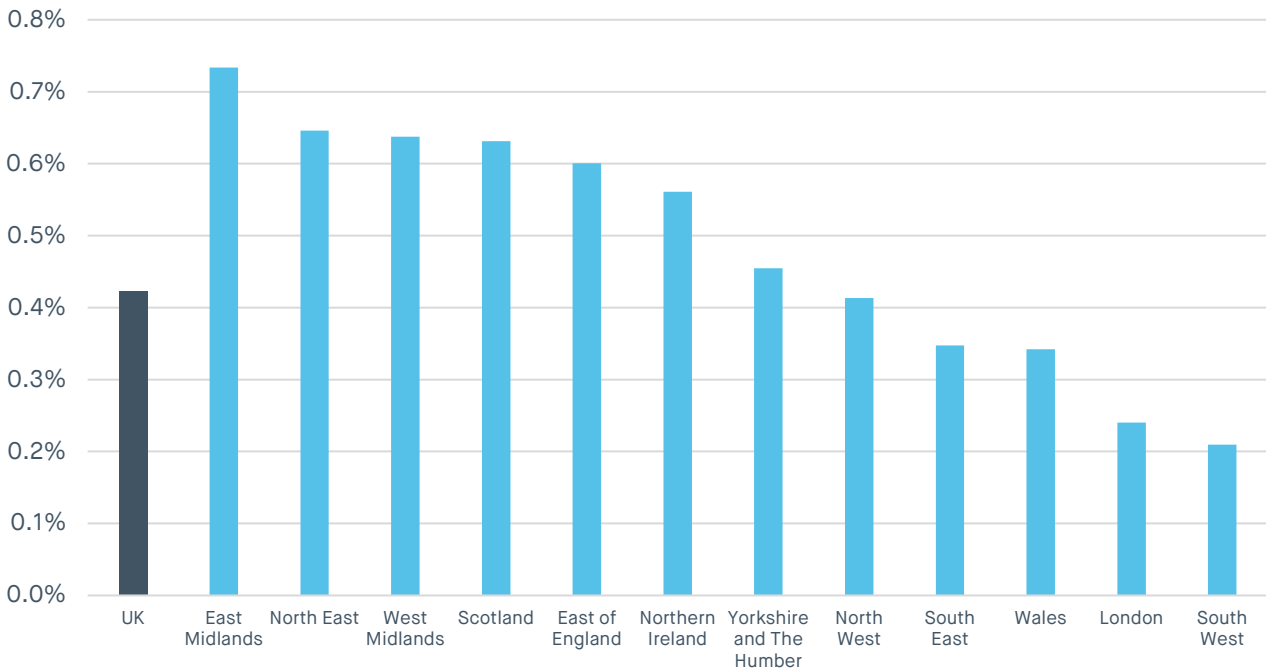


Source: DCMS statistics

Regional economic output

The Office for National Statistics (ONS) produces estimates of gambling industry GVA at a regional level, allowing us to understand the relative importance of the industry to local economies. These data are only available up to the year 2018. In that year, gambling accounted for the greatest proportion of GVA in the East Midlands (0.7%) followed by the North East (0.6%). It accounted for the smallest proportion of GVA in the South West of England (0.2%).

Figure 9: GVA of the gambling industry, as a percentage of total regional GVA, 2018



Source: ONS regional accounts

Jobs

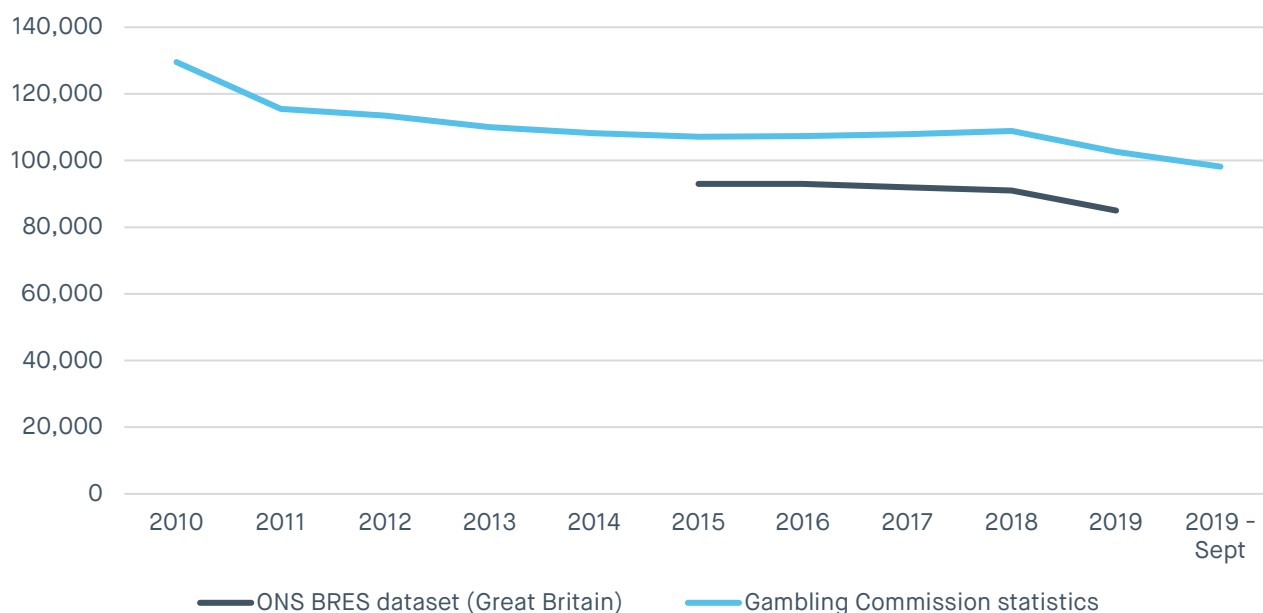
For most people, GVA is a somewhat abstract concept, with jobs a more tangible and relatable measure of an industry’s economic contribution.

According to the Office for National Statistics’ Business Register and Employment Survey (BRES), 85,000 people in Great Britain were employed in the “gambling & betting activities” industry in 2019 – amounting to 0.3% of all employment in Great Britain. Employment in the industry has declined from 93,000 in 2015, according to this data source.

Another source of employment statistics is those compiled by the Gambling Commission, using data derived from the regulatory returns submitted by industry. The Commission dataset shows that the industry employed about 98,000 people in late-2019, down from 107,000 people in 2015 and close to 130,000 people in 2010. In other words, employment in the industry has declined by close to a quarter since 2010 on this measure.

The differences between these datasets may to an extent reflect geography – BRES data relate to Great Britain rather than the UK. Conceivably some Gambling Commission returns may reflect employment outside of Great Britain, such as in Northern Ireland. Differences between these datasets may also reflect differences in data collection methodology. Notably, both datasets paint a picture of declining gambling industry employment in recent years.

Figure 10: Employment in the gambling industry

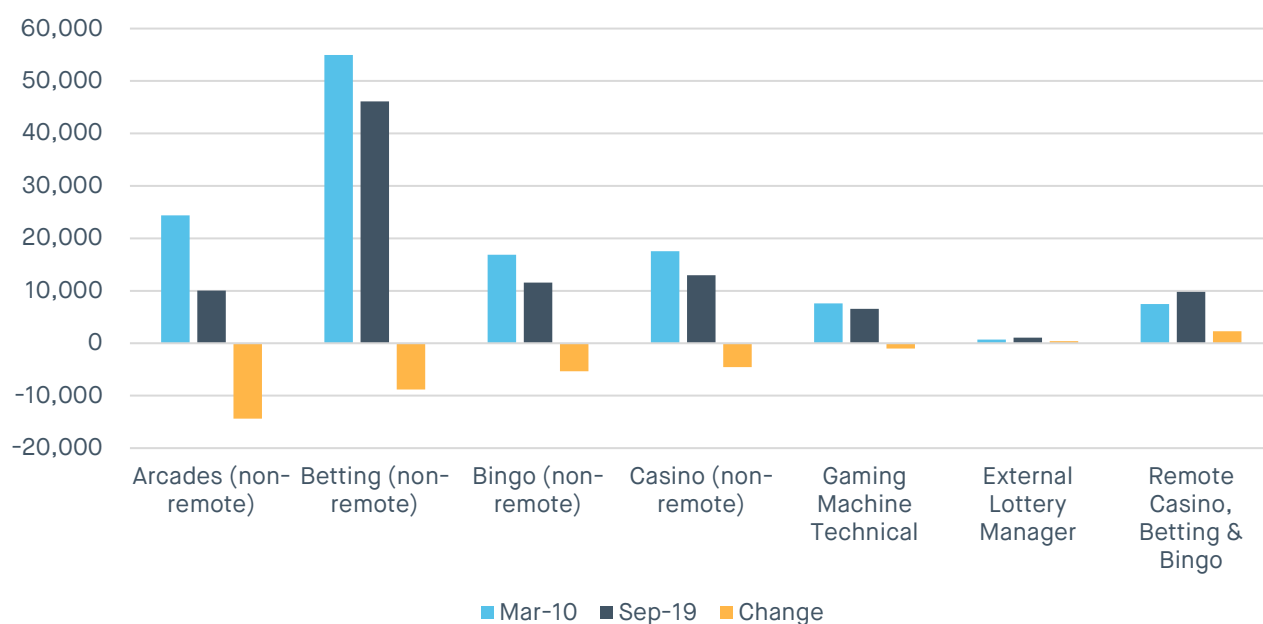


Source: ONS Business Register and Employment Survey, Gambling Commission statistics.

Drivers of declining gambling industry employment

The Gambling Commission statistics break down the gambling industry workforce by sub-sector. It is clear from these statistics that the decline in industry employment since the year 2010 reflects the shift away from “traditional” gambling towards online gambling. Between 2010 and September 2019, employment in non-remote arcades fell by over 14,000, and employment in non-remote betting fell by close to 9,000. Employment in remote gambling increased by about 2,300, failing to offset job losses elsewhere in the industry.

Figure 11: Employment by gambling sub-sector

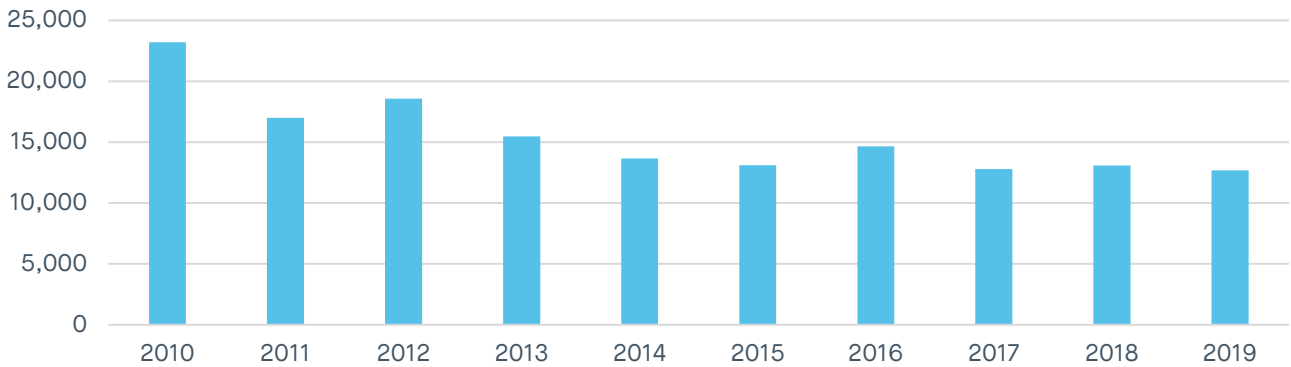


Source: Gambling Commission statistics

The gambling industry, with its shift to online, is becoming significantly less labour intensive. We estimate that while in 2010 each £1bn of gambling economic output (as measured by GVA, in inflation-adjusted 2018 prices) supported 23,200 jobs directly, by 2019, each £1bn of gambling GVA supported just 12,700 jobs – a decline of 45%.

A more positive expression of this statistic is that the gambling industry has become significantly more productive in recent years, with each worker in the industry now generating significantly more (83% more) value added compared with 2010. In the next chapter of the report, we discuss the implications of this for industry profit margins.

Figure 12: Gambling jobs per £bn of gambling sector GVA (2018 prices)

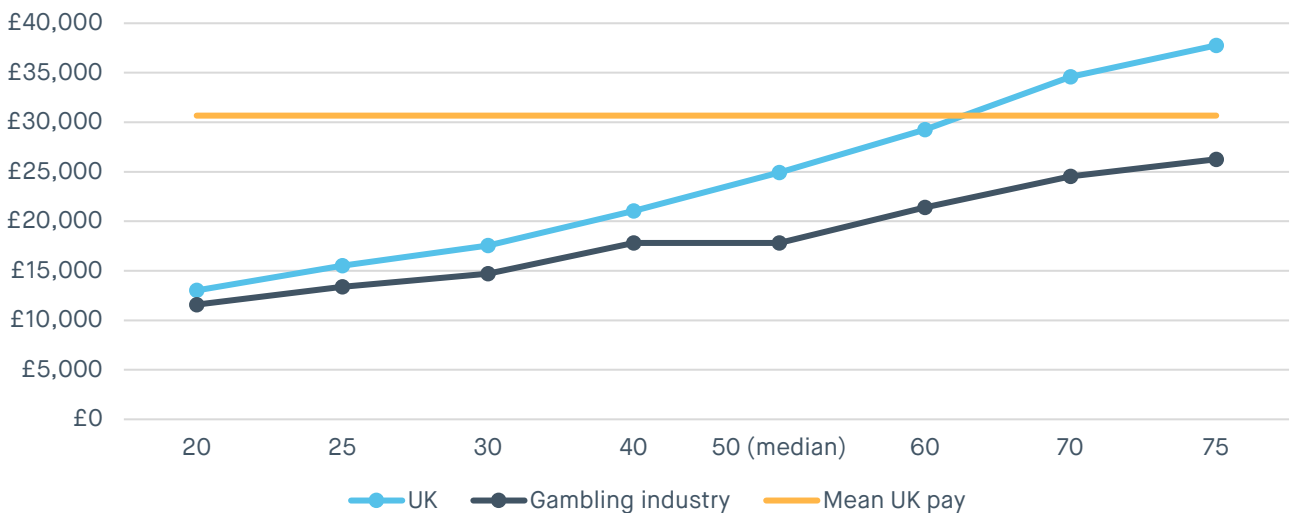


Source: SMF analysis, DCMS and Gambling Commission statistics

Wages in the gambling industry

As well as the number of jobs supported by the entire gambling industry, another relevant labour market variable is pay. Quality of work is important, alongside quantity. Wages in the gambling sector are relatively low; according to the Annual Survey of Hours and Earnings (ASHE) dataset, mean gross annual pay in the gambling sector stood at £22,724 in 2019, 26% lower than the £30,673 seen across the UK as a whole. The chart below shows the distribution of wages in the gambling industry, compared with the UK as a whole. Notably, there are relatively few well-paid jobs in the sector.

Figure 13: Percentiles of annual employee pay, UK versus gambling industry (2019)



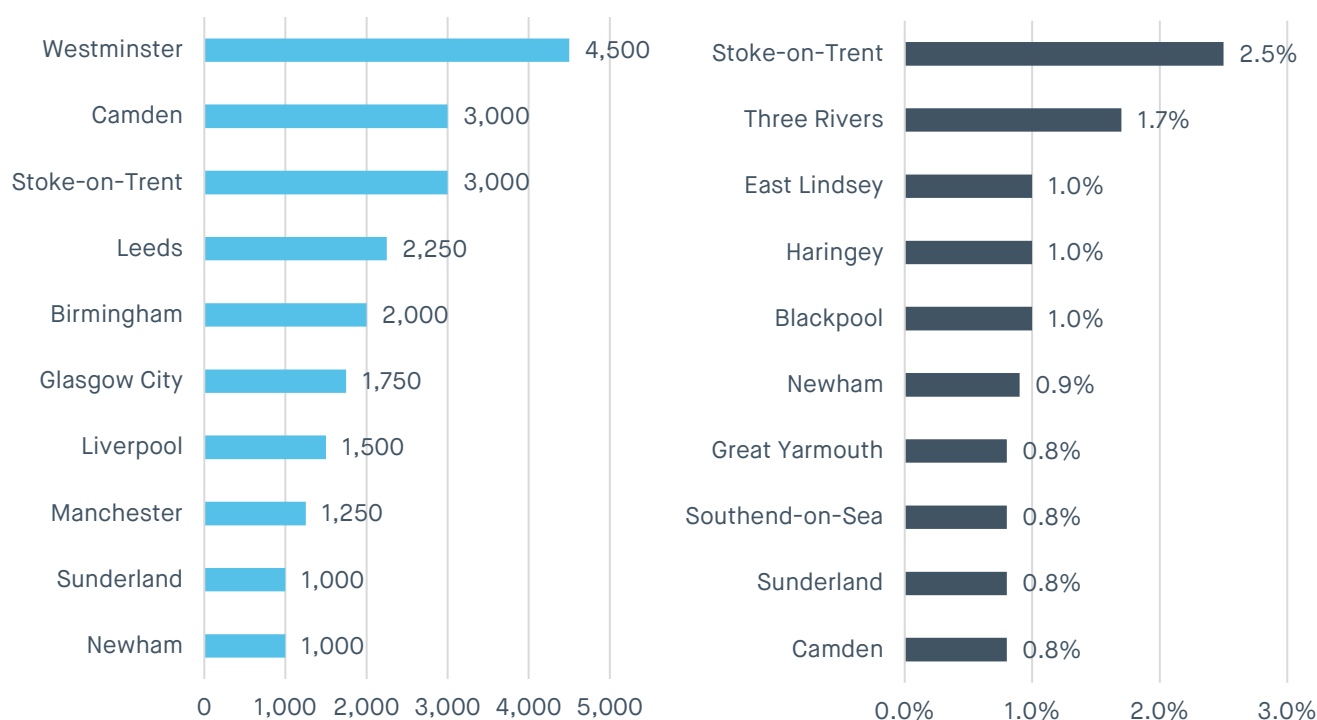
Source: Annual Survey of Hours and Earnings

Regional employment

Another consideration is the regional jobs footprint of the gambling industry – whether it is a particularly important employer in certain parts of the UK. The BRES dataset provides information on industry employment at a local authority level of geography, allowing us to make comparisons.

As a percentage of total employment, the gambling industry is most important in Stoke-on-Trent, where it accounts for 2.5% of all jobs within the local authority. The city contains the headquarters of Bet365, one of the largest gambling companies based in the UK. This is followed by Three Rivers (1.7% of all jobs) and Blackpool, East Lindsey and Haringey (all 1.0%), as shown in the chart below.

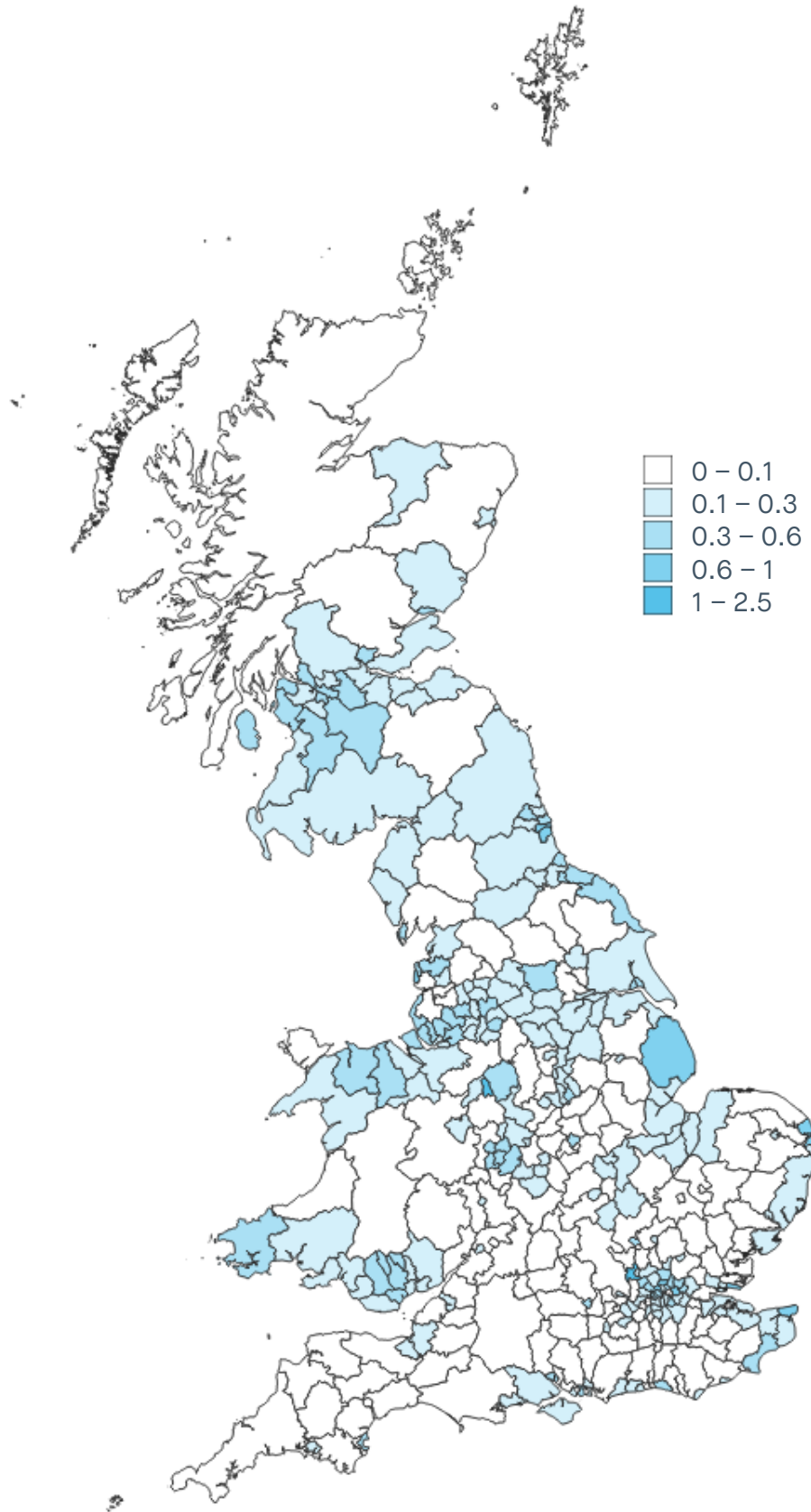
Figure 14: Gambling industry employment. 10 local authorities with highest number of gambling jobs (left-hand chart) and 10 local authorities where gambling accounts for the greatest percentage of total employment (right-hand chart)



Source: ONS Business Register and Employment Survey

The map overlaid shows gambling employment as a percentage of total employment in each local authority of the UK.

Figure 15: Gambling industry employment - % of total employment in local authority

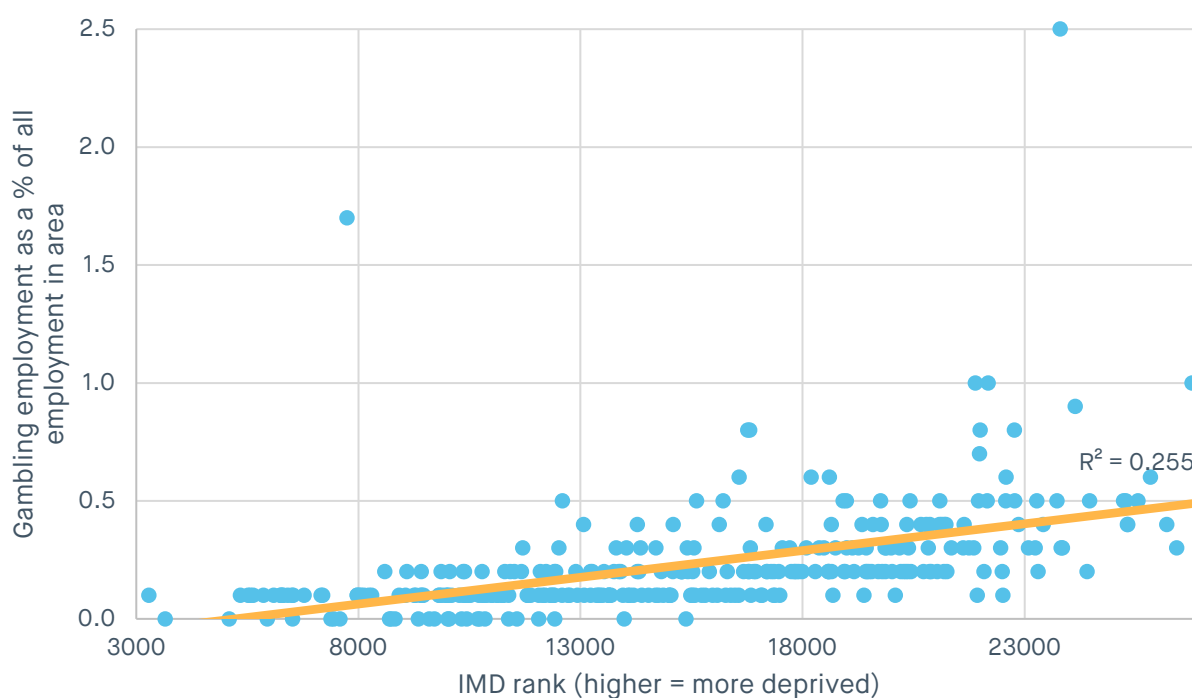


Source: ONS Business Register and Employment Survey

The regional picture of gambling industry employment, as displayed in the map above, suggests that gambling might be a particularly important source of employment in economically deprived parts of the UK – some coastal towns and parts of Wales, the North of England and Scotland, for example.

This is borne out to an extent when comparing gambling industry employment (as a % of total jobs) with the Index of Multiple Deprivation (IMD) produced by the Ministry of Housing, Communities & Local Government.⁸⁵ The correlation coefficient between these two variables, at a local authority level of geography for England⁵, is 0.50 – a moderate correlation. To put it another way, the IMD explains roughly a quarter of the regional variation in gambling industry employment.

Figure 16: Gambling employment (% of total employment) and Index of Multiple Deprivation, by local authority in England

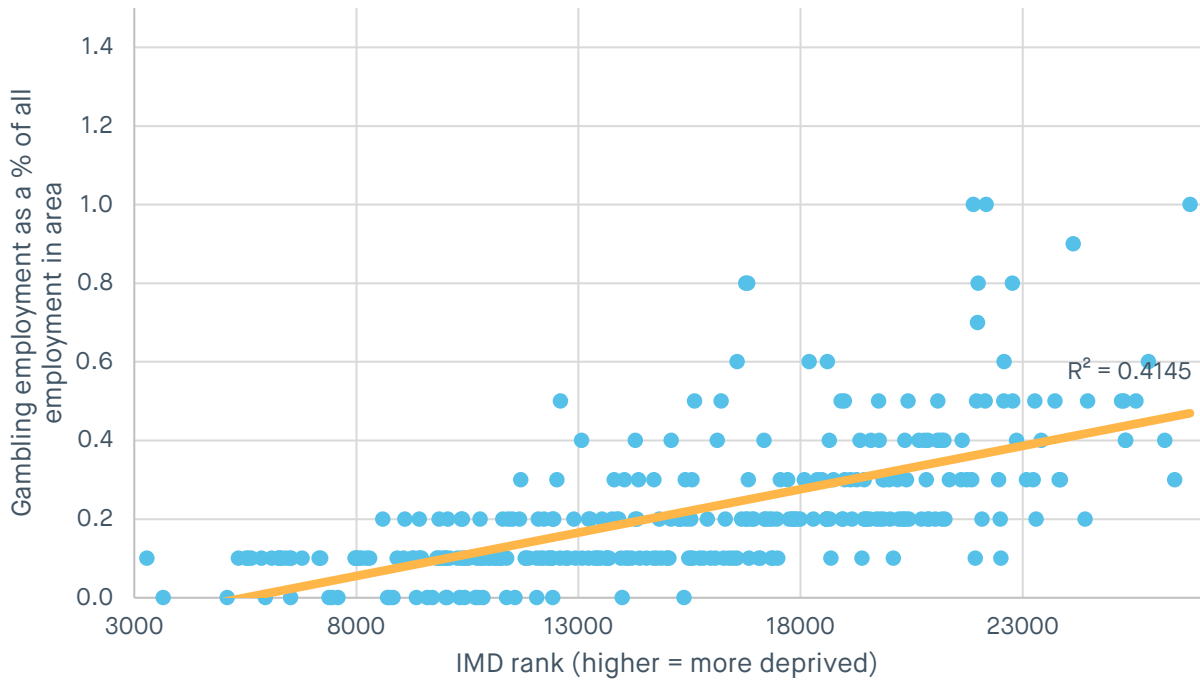


Source: ONS Business Register and Employment Survey, MHCLG Index of Multiple Deprivation

This correlation coefficient is skewed downward by two local-level outliers – Stoke-on-Trent, where Bet 365 is headquartered, and Three Rivers, which includes the headquarters of Camelot Group. If these outliers are removed, the correlation coefficient rises to 0.64, with the IMD explaining about two fifths (41%) of the regional variation in gambling employment at a local authority level.

⁵ Unfortunately, directly comparable IMD data for Scotland, Wales and Northern Ireland are not available.

Figure 17: Gambling employment (% of total employment) and Index of Multiple Deprivation, by local authority in England (excluding Stoke-on-Trend and Three Rivers)



Source: ONS Business Register and Employment Survey, MHCLG Index of Multiple Deprivation

While it is right that economic impact studies consider the importance of an industry at the local level, particularly in the context of deprived areas where other jobs and sources of economic activity are in short supply, in the case of industries such as gambling this should be considered against regional variations in societal harms from the industry’s existence. As we discussed in the previous chapter, while gambling may be a relatively more important employer in deprived parts of the UK, it is also the case that problem gambling and the harms stemming from it are also more pervasive in these localities. As such, it is not clear if the net economic impact of gambling, taking into account societal costs as well as benefits, disproportionately favours or disfavors deprived communities.

Tax revenues

The most difficult direct economic contribution of the gambling industry, to establish from official statistics, is the industry’s contribution to tax revenues. The direct Exchequer contribution of gambling extends far beyond gaming and betting duties. In addition, the industry pays corporation tax, and its employment generates Income Tax receipts and National Insurance Contributions. Other direct contributions of the industry include business rates and irrecoverable VAT.

Some of these tax receipts are difficult to arrive at, particularly given the pervasiveness of offshoring in the gambling industry; Paddypower's owner Flutter, Bet 365 and William Hill all list subsidiaries offshore in locations such as Guernsey, Gibraltar and the Isle of Man in their annual accounts.⁸⁶

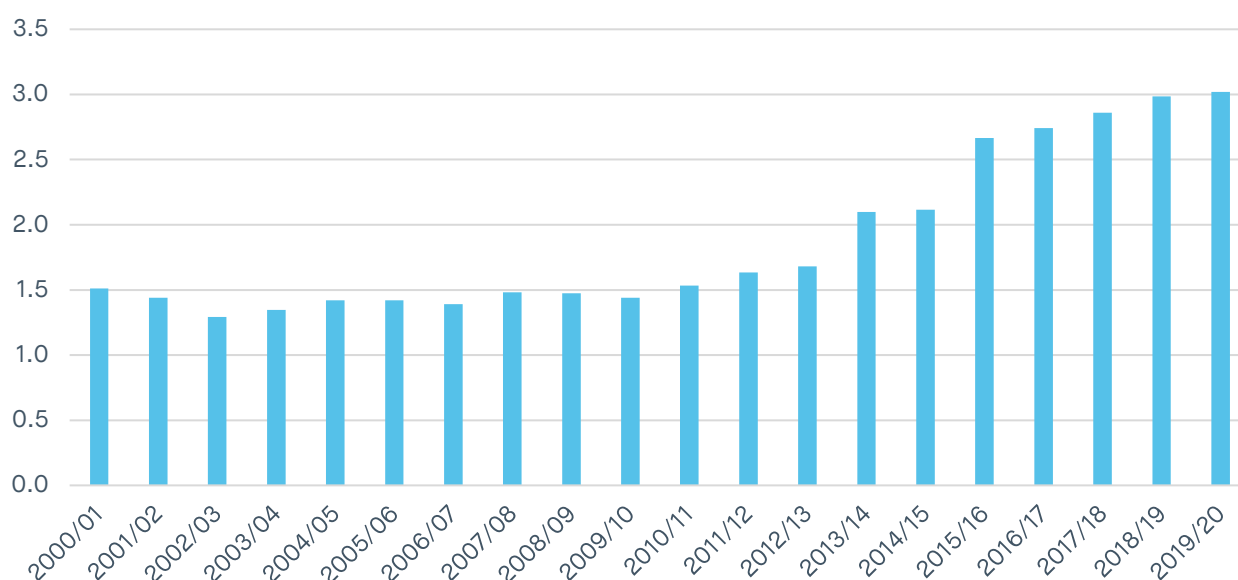
However, betting and gaming duty statistics are readily available from HM Revenue and Customs, and revenues from employment-related taxes can be estimated using reasonable assumptions

based on the number of individuals employed in the sector and the distribution of wages. Another source of information is the “input-output” tables produced by the Office for National Statistics. Among other things, these tables contain information on taxes on products and production faced by different industries. While data limitations place constraints on the precision of our tax estimates here, we believe they provide a useful “order of magnitude” estimate of the gambling industry’s tax footprint.

Betting and gaming duties

Betting and gaming duties – including General Betting Duty, Remote and Non-Remote Gaming Duty and Machine Games Duty – raised about £3bn in the 2019/20 fiscal year. Since 2010, the amount of revenue raised from these duties has approximately doubled, reflecting both the growth in gambling industry yields as well as the introduction of new duties such as Machine Games Duty (introduced in February 2013) and reformed Remote Gaming Duty in December 2014.⁸⁷

Figure 18: UK betting and gaming (B&G) duty receipts, £ billions



Employment-related taxes

Drawing on data on average earnings in the gambling industry, from the Annual Survey of Hours and Earnings (ASHE), it is possible to estimate the amount of employment-related tax revenue derived from the industry’s labour market footprint in the UK. This includes Income Tax paid by employees, as well as employee and employer National Insurance Contributions.

We estimate that, in 2019, gambling industry jobs accounted for approximately £400 million in employment-related taxes. This includes:

- £142 million in employer National Insurance Contributions
- £123 million in employee National Insurance Contributions
- £148 million in Income Tax paid by gambling industry employees

In total, this equates to 0.1% of all receipts from employment-related taxes in the UK. This is a lower proportion than gambling’s share of UK-wide GVA, reflecting the relatively low jobs density

of the sector (relatively few jobs for each £1 million of GVA), as well as relatively low pay in the sector.

Another consideration is that survey data such as ASHE is also unlikely to truly reflect pay at the very upper end of the income distribution either, leading to underestimates of tax revenues. In the case of the gambling industry, executive pay can be substantial, with associated tax implications. Denise Coates, CEO and co-founder of Bet365, was the UK's biggest personal tax contributor in 2019, paying about £125 million in tax.⁸⁸

Corporation tax and other taxes on profits

There is a lack of official, public data on the amount of corporation tax paid by the gambling industry. Calculating this is further complicated by the pervasiveness of tax offshoring, as discussed earlier. Nevertheless, it may be possible to arrive at some “order of magnitude” estimates, based on conservative assumptions.

According to input-output tables produced by the ONS, which provide details on spending and distribution of income by industry, gross operating surplus (GOS) in the gambling sector stood at £5.1bn in 2015 – the latest year for which detailed input-output tables are available.

GOS differs from profits shown in company accounts for several reasons. Only a subset of total costs are subtracted from gross output to calculate the GOS. Essentially GOS is gross output less the cost of intermediate goods and services to give gross value added, and less compensation of employees and taxes and subsidies on production and imports. It is gross because it makes no allowance for consumption of fixed capital.⁸⁹

As such, one cannot straightforwardly apply corporation tax rates to the GOS figures to estimate industry-level corporation tax receipts. We note that across the UK economy as a whole corporation tax revenues amounted to 5.9% of GOS. Applying this percentage to the gambling industry, and deducting gaming & betting duties from GOS for the sector, gives a corporation tax figure of approximately £150 million in 2015. This amounts to about 0.3% of corporate tax receipts in the 2015/16 fiscal year – broadly in line with the sector's contribution to UK-wide GVA.

Given the limited growth in industry GVA and gambling yields since then, current figures for corporation tax receipts are likely to be a similar order of magnitude.

Other taxes

Other taxes paid by the gambling industry include irrecoverable VAT, business rates and other taxes of products and production incurred in the process of providing goods and services to customers. Here, the ONS input-output tables provide insights. The tables show that in 2015 the gambling industry paid:

- £558 million in taxes (less subsidies) on goods and services purchases – e.g. irrecoverable VAT.
- £181 million in taxes (less subsidies) on production – such as business rates.

This amounts to 0.3% of all taxes on products and production paid across the entire UK economy – like corporation tax, broadly in line with the industry's contribution to UK GVA.

Total taxes

These calculations provide some estimates for the direct tax contribution of the UK gambling industry. While Exchequer revenue from betting & gaming duties is highly accurate, based on HMRC data, we have had to resort to model-based estimates of corporation tax receipts and income tax receipts. In the case of corporation tax, offshoring and opacity of financial reporting introduce a significant degree of uncertainty around the figures.

With the available data, we are also unable to arrive at estimates of some additional tax receipts, such as those arising from dividends tax and capital gains tax associated with the gambling industry. Nevertheless, these estimates should provide a useful gauge of the “order of magnitude” of tax revenues directly associated with the industry.

The combined value of our estimates revenues from betting & gaming duties, employee-related taxes, corporation tax and taxes on intermediate products & production is £4.3bn. As a proportion of total central government receipts in 2019/20, this amounts to about 0.6% of revenues. About 70% of this is derived from betting and gaming duties.

As a sense check we note that Entain – which owns Coral and Ladbrokes among other gambling businesses – produces a breakdown of the taxes it pays in the UK, as part of its tax statement.⁹⁰ In 2019, the company paid £507 million in UK taxes, of which 78% was betting and gaming duties. The company accounted for about 13% of total UK betting and gaming duty revenues. If we use this to “scale up” Entain’s tax contribution – assuming that it is reflective of the wider gambling industry – one arrives at a total UK-wide estimate of about £3.9bn. Our estimate is slightly higher than this, largely reflecting the fact that it includes employee NICs and Income Tax, whereas Entain’s tax statement just includes employer NICs.

Summary

Despite growth over the past decade, the gambling industry accounts for a relatively small share of UK GDP (0.4%), employment (0.3%) and tax revenues (0.6%). This modest economic impact is also true at a regional level – only in two local authorities across the UK does gambling account for more than 1% of all jobs in the area, and in terms of GVA the sector accounts for less than 1% of economic output across the UK’s regions. While our analysis suggests gambling is economically more important in deprived areas, these benefits need to be measured against the costs of problem gambling – which the previous chapter showed to be more pervasive in economically deprived communities.

While the percentages are small, it is the case that the gambling industry supports tens of thousands of jobs across the UK.

In addition, this chapter has just explored the direct economic footprint of the gambling industry. The reality is that the industry does not act in isolation – it buys goods and services from firms in other parts of the economy, in turn supporting jobs and employment elsewhere. The industry’s employees also spend money, creating further jobs. It is these wider benefits that we turn to in the next chapter, to form a more holistic picture of gambling’s economic impact.

CHAPTER FOUR - THE INDIRECT AND INDUCED ECONOMIC FOOTPRINT OF THE GAMBLING INDUSTRY

The previous chapter explored the direct economic impact of the gambling industry. In this chapter, we explore what are known as the *indirect* and *induced* economic impacts of the industry.

Indirect economic impacts relate to the additional GVA, jobs and tax revenues generated along the supply chains of an industry. When an individual gambles, his or her spending not only supports economic activity in the gambling industry itself, but also other industries that are part of the supply chain of the gambling sector. In the case of casinos, for example, this might include the food & drinks industry if the casino contains a bar or restaurant. Online gambling firms support jobs and economic activity in sectors such as information and communication technology.

Induced impacts relate to the economic activity supported by the spending power of employees. Through creating jobs directly and along supply chains, the gambling industry supports consumer spending power in the UK which translates into additional economic activity elsewhere – for example in the retail sector.

In this chapter, we present estimates of the indirect and induced economic impacts of gambling, based on analysis of *input-output tables* produced by the ONS. Input-output tables provide detailed information on spending along industry supply chains, allowing such economic impacts to be calculated. To estimate job and tax impacts, we augment HMRC tax data and employment statistics from the BRES dataset.

Indirect and induced GVA and jobs

The table below outlines our estimates of the GVA and employment effects of the gambling industry, segmented into direct, indirect and induced effects. These effects show the total impact of a £1 million increase in net spending⁶ on gambling.

Figure 19: Overall economic effect of £1m net spending on gambling on GVA, compensation of employees and jobs

	Direct impact	Indirect impact (supply chain effects)	Induced impact (from spending power of employees)	Total impact
GVA	£638,038	£175,515	£310,261	£1,123,814
Compensation of employees	£230,589	£99,335	£134,629	£464,553
Jobs	7 jobs	4 jobs	5 jobs	16 jobs

Source: SMF modelling based on ONS input-output tables and Annual Survey of Hours and Earnings

A £1 million increase in gambling spend by UK households would, according to our calculations, lead to a £1.1 million increase in overall UK economic output, measured in terms of GVA. This is broken down into £0.6 million in direct GVA uplift (i.e. a direct boost in gambling industry GVA),

⁶ i.e. spending less prize money.

a £0.2 million indirect uplift through supply chain effects and a £0.3 million induced uplift from increased employee spending power.

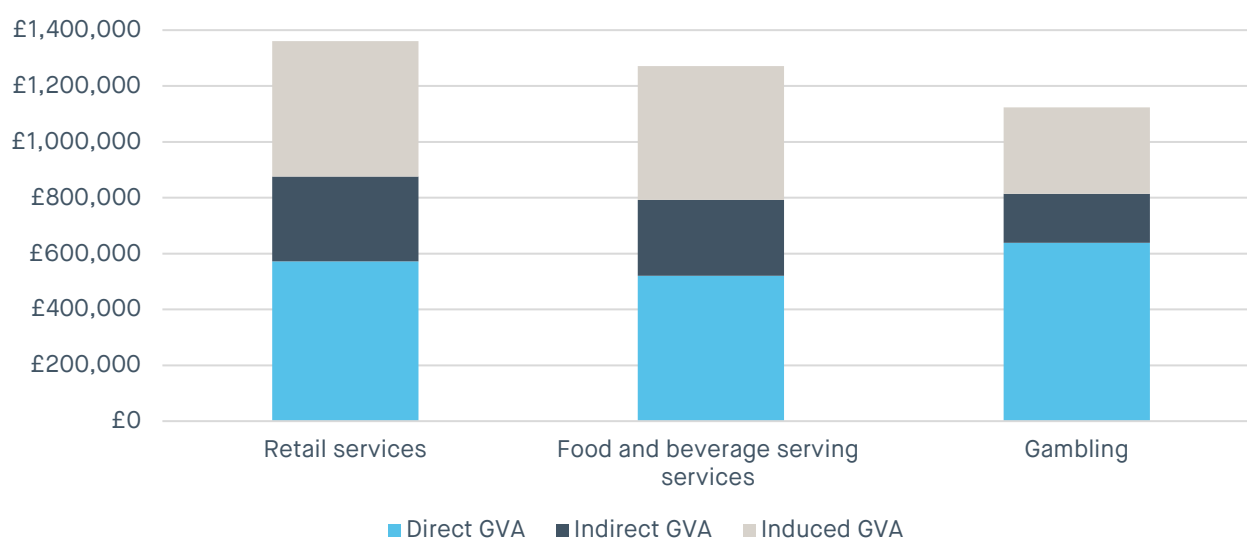
In terms of jobs and wages, we estimate that a £1 million increase in gambling leads to a £460,000 increase in compensation of employees across the economy when direct, indirect and induced effects on jobs are considered, and 16 more jobs. Seven of these jobs are estimated to be direct job creation within the gambling industry itself, with the remaining nine arising elsewhere along supply chains and as a result of employees spending money in the wider economy.

These figures need to be put into context and compared with other sectors of the economy. Notably, our analysis shows that, across the 129 goods & services categories in the ONS input-output tables on which we based our analysis, gambling had:

- The 92nd highest GVA effect. (The increase in UK GVA from each £ spent on gambling, taking into account direct, indirect and induced effects)
- The 110th highest employee compensation effect. (The increase in aggregate employee compensation from each £ spent on gambling, taking into account direct, indirect and induced effects)
- The 92nd highest jobs effect. (The increase in aggregate jobs from each £ spent on gambling, taking into account direct, indirect and induced effects)

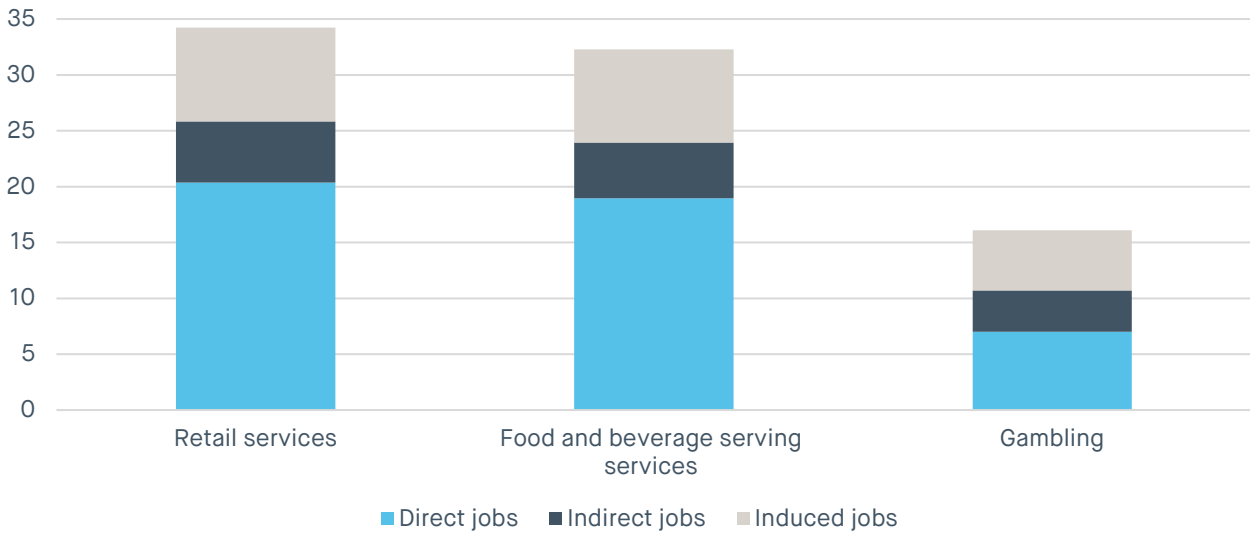
That is to say, gambling has low economic “multipliers” compared with most other parts of the economy – for each pound spent on gambling, the uplift to GVA and jobs is lower compared with spending on most other goods and services. As the charts below shows, these economic effects are significantly lower than for other items that consumers might reasonably purchase in the absence of gambling – such as retail goods and food services. For example, we estimate that £1m spent on retail would create 34 additional jobs once all effects are considered – more than twice as many jobs as would be created from £1m net spend on gambling.

Figure 20: Overall economic effect of £1m net spend on gambling on total UK GVA compared with spend on retail and food services



Source: SMF modelling based on ONS input-output tables and Annual Survey of Hours and Earnings

Figure 21: Overall economic effect of £1m net spend on gambling on total UK jobs compared with spend on retail and food services



Source: SMF modelling based on ONS input-output tables and Annual Survey of Hours and Earnings

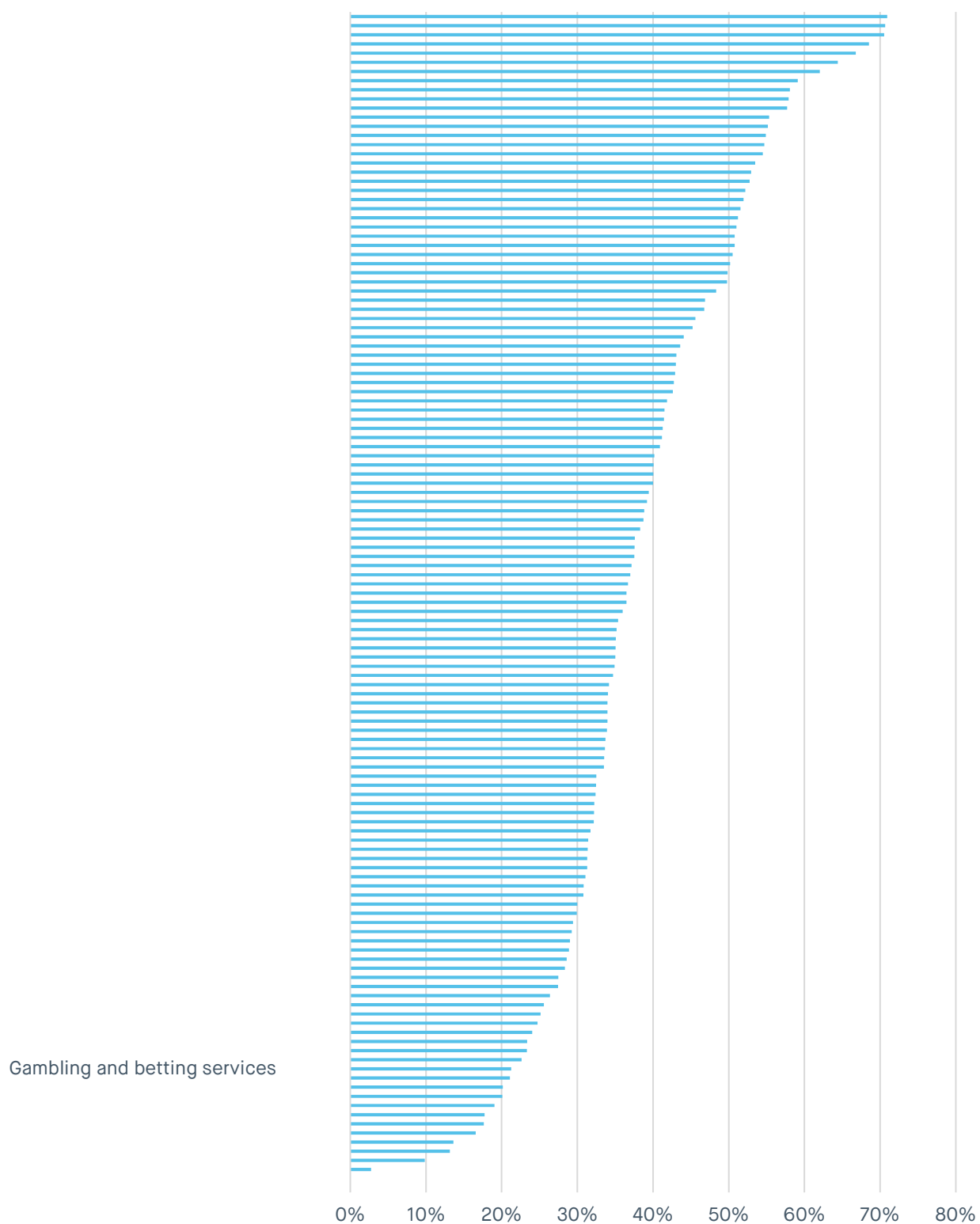
This is important in terms of understanding the extent to which gambling actually represents *additional* economic activity that would not have taken place in the absence of the industry’s existence.

Given the low economic multipliers seen for gambling, it seems to be the case that if the industry did not exist, and consumers instead spent money elsewhere, the economic impact would in fact be positive. GVA and jobs lost from gambling would be more than offset by, for example, money spent in retail and hospitality. We turn back to this point later in the report, when we consider the likely economic uplift that could be realised from reducing rates of problem gambling.

A key driver of the limited economic multipliers for gambling is the fact that the industry has one of the “shortest” supply chains of the entire UK economy. Consumer spending on gambling does little to create jobs elsewhere in the economy, with a relatively high amount of gambling spend absorbed by the industry itself. This contrasts with sectors such as retail, where consumer spending in shops and online supports jobs across a wide range of industries including logistics (transporting goods to shops and homes) and manufacturing (to produce goods for the retail sector to sell). This contrasts greatly with an individual spending an extra pound at say a fixed odds betting terminal, or in an online roulette game – there is very little of a supply chain associated with such spending.

One measure of the shortness of supply chains is the value of intermediate consumption as a proportion of final expenditure a good and service. Intermediate consumption refers to the purchases of goods and services made by an industry as part of its operations – for example, rent of commercial real estate, telecommunications services and purchases of gambling machines. For the gambling industry, intermediate consumption accounted for just 21% of the value of net gambling expenditure, ranking it 116th out of 129 in terms of the relative “length” of its supply chain. For the retail sector, this figure was 37%.

Figure 22: Supply chain spending as a percentage of final expenditure on a good or service, across the 129 categories in the ONS input-output tables



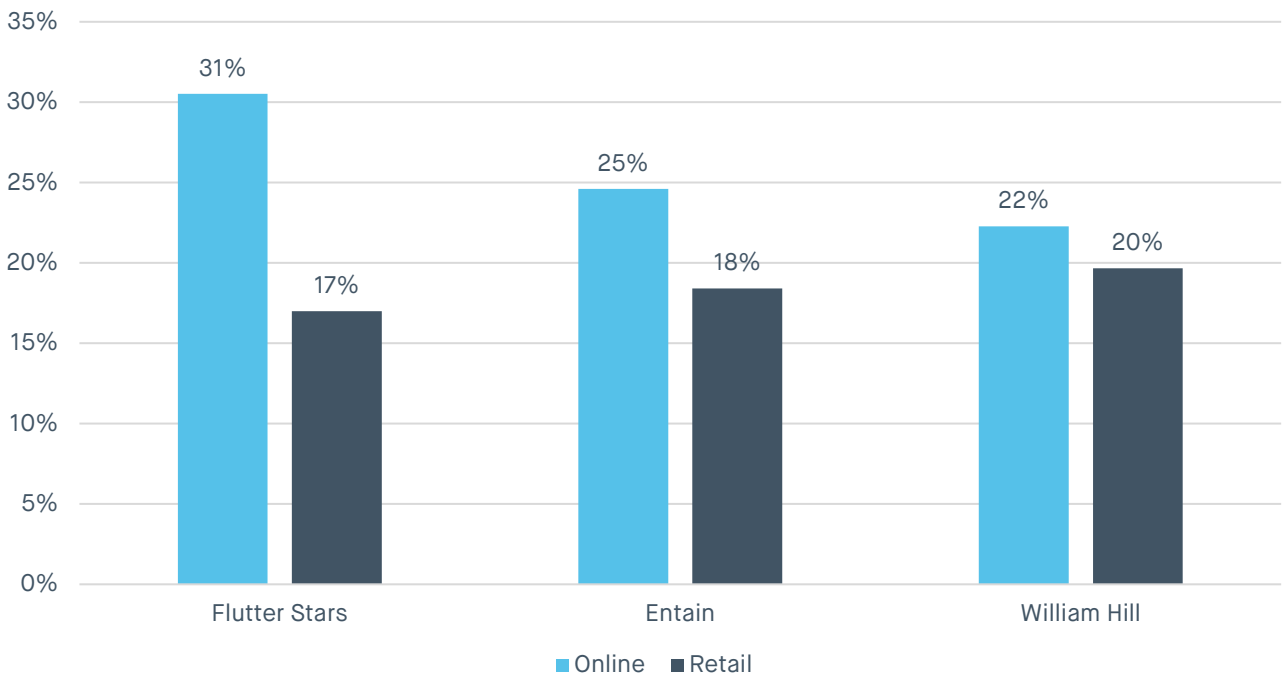
Source: SMF modelling based on ONS input-output tables

Multipliers for gambling sub-sectors

We have shown that gambling has a lower economic multiplier than most other forms of economic activity. Unfortunately, we lack the necessary data to separately estimate the multipliers for online and retail gambling, reflecting the more general shortage of detailed information we have found in producing this report. However, there is good reason to think that the macroeconomic benefits of online gambling are even lower than for gambling as a whole. Given the shift towards online gambling in recent years, this gives good reason to believe that the economic multipliers of gambling – already low – are shrinking.

Financial reports show that online gambling is typically more profitable than retail gambling. The chart below compares the operating profit margins for the online and retail divisions of the three leading betting companies in the UK. In each case, the online margin is higher. To take the case of Flutter Stars, this means that for every £100 generated online, Flutter Stars has to spend £69 on the costs of providing their service; whereas for every £100 generated in a shop, it spends £83. That implies that less of the money generated from online gambling is recirculated into the economy compared to retail.

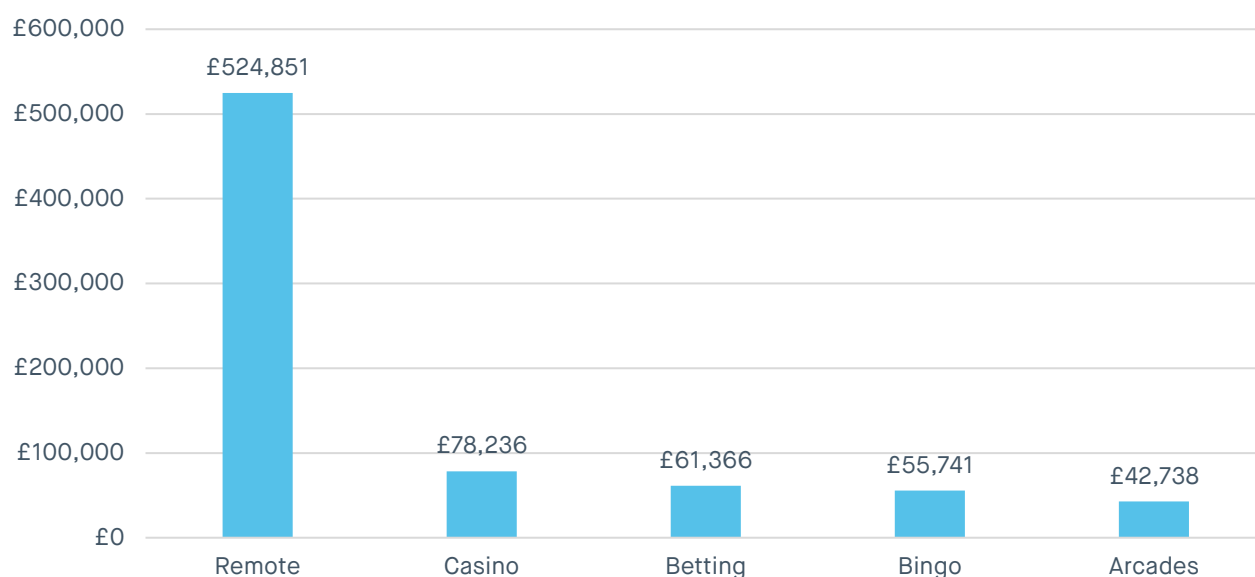
Figure 23: Operating profit margin, 2019⁷



Source: Annual Reports, SMF analysis

Moreover, serving online gamblers entails different sorts of costs to serving retail gamblers. Online involves spending more on marketing and technology as opposed to rent and physical maintenance. Crucially, online gambling is less labour intensive. In 2018, remote gambling accounted for 37% of industry revenue but just 10% of industry employment in the UK.⁹¹ As the chart below shows, remote gambling employed one person for every £525,000 it generated compared to £40-80,000 for betting, casinos, bingo and arcades.

⁷ Operating profit margin is calculated by subtracting operating costs from net revenue and dividing by net revenue. It does not account for interest, tax, depreciation or amortisation.

Figure 24: Gross gambling yield per employee

Source: Gambling Commission, SMF analysis

Jobs in remote gambling are likely to be better paid than jobs in other parts of the industry, but not by enough to offset the large discrepancy shown above. It seems safe therefore to assume that a smaller share of online gambling revenue goes on wages than for other forms of gambling. That implies that online gambling is associated with lower “induced” spending, and thus gives us further reason to expect its economic multiplier to be lower.

Tax multipliers

Another important consideration is the wider tax implications of the gambling industry. In the previous chapter we explored the direct tax contribution of the industry. As with GVA and jobs, there are also indirect and induced tax effects as a result of spending on gambling. For example, through supply chains, gambling spending leads to higher corporation tax receipts in other parts of the economy.

We estimate that gambling has a lower tax multiplier than other consumer sectors such as retail and food services. In addition to the short supply chains of the industry limiting indirect and induced tax impacts, another consideration is the VAT-exemption of most gambling activity.⁹² As such, while gaming and betting duties are significant, they broadly offset the VAT exemption of consumer spending on the industry. Furthermore, the relatively low “jobs density” of gambling as an economic activity, combined with low average wages, limits the amount of income tax raised by the sector.

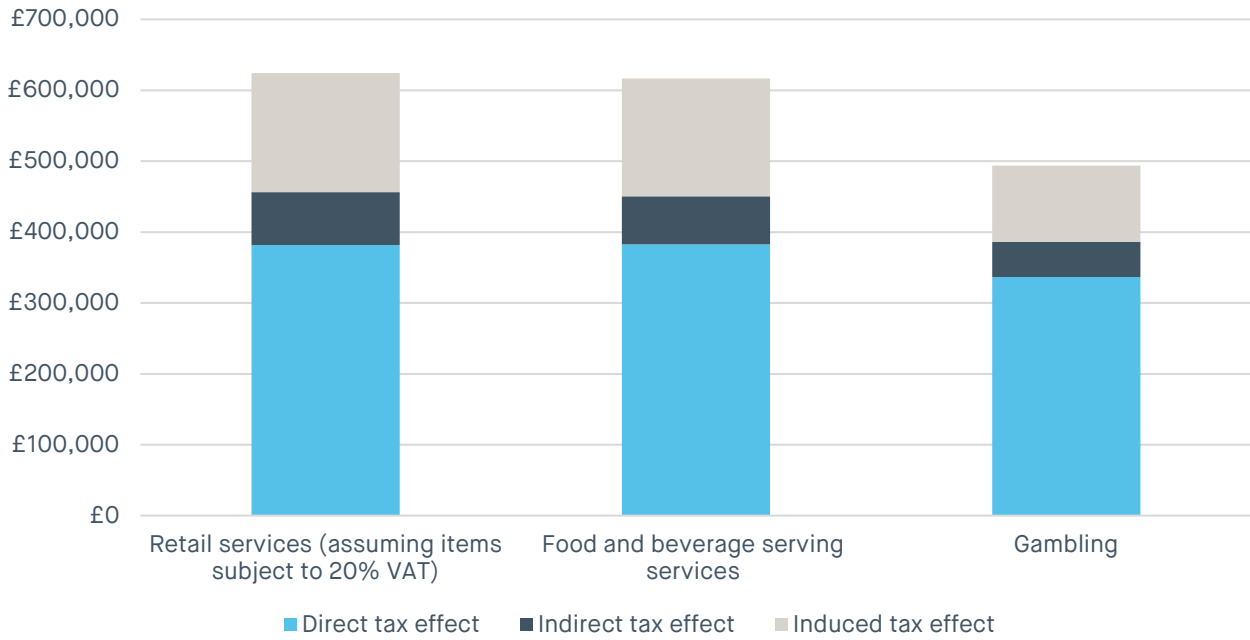
Overleaf, Figure 25 decomposes tax effects into:

- Direct tax effects – taxes paid directly by the industry, and directly resulting from spending on its goods and services. This includes corporation tax, Betting & Gaming duties, VAT faced by end consumers (in the case of food services and retail), employment-related taxes and taxes on intermediate products and production (such as irrecoverable VAT and business rates).
- Indirect tax effects – additional tax revenues generated through increased economic activity along supply chains.

- Induced tax effects - additional tax revenues generated through increased employee spending power

£1m net spend by consumers on gambling is estimated to equate to about £500,000 of additional tax revenue, once indirect and induced economic effects are considered. This compared to over £600,000 in the case of consumer spending on retail and food services.

Figure 25: Overall effect of £1m net spend on gambling on UK tax revenues compared with spend on retail and food services



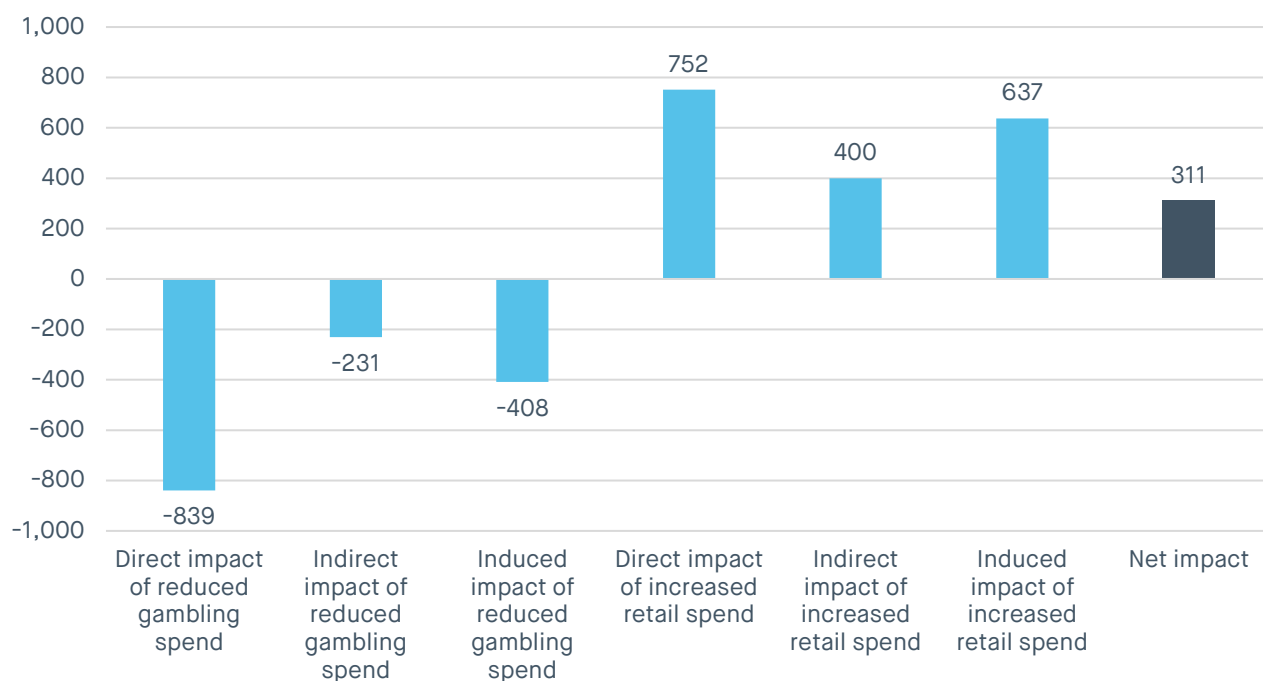
Source: SMF modelling based on ONS input-output tables and Annual Survey of Hours and Earnings

CHAPTER 5 - ECONOMIC IMPLICATIONS OF REDUCING RATES OF PROBLEM GAMBLING

In Chapter 4, we explored the overall economic impact of spending on gambling, including indirect and induced economic impacts. We showed that, compared with equivalent spending in areas such as retail and hospitality, gambling expenditure generates less economic output and fewer jobs.

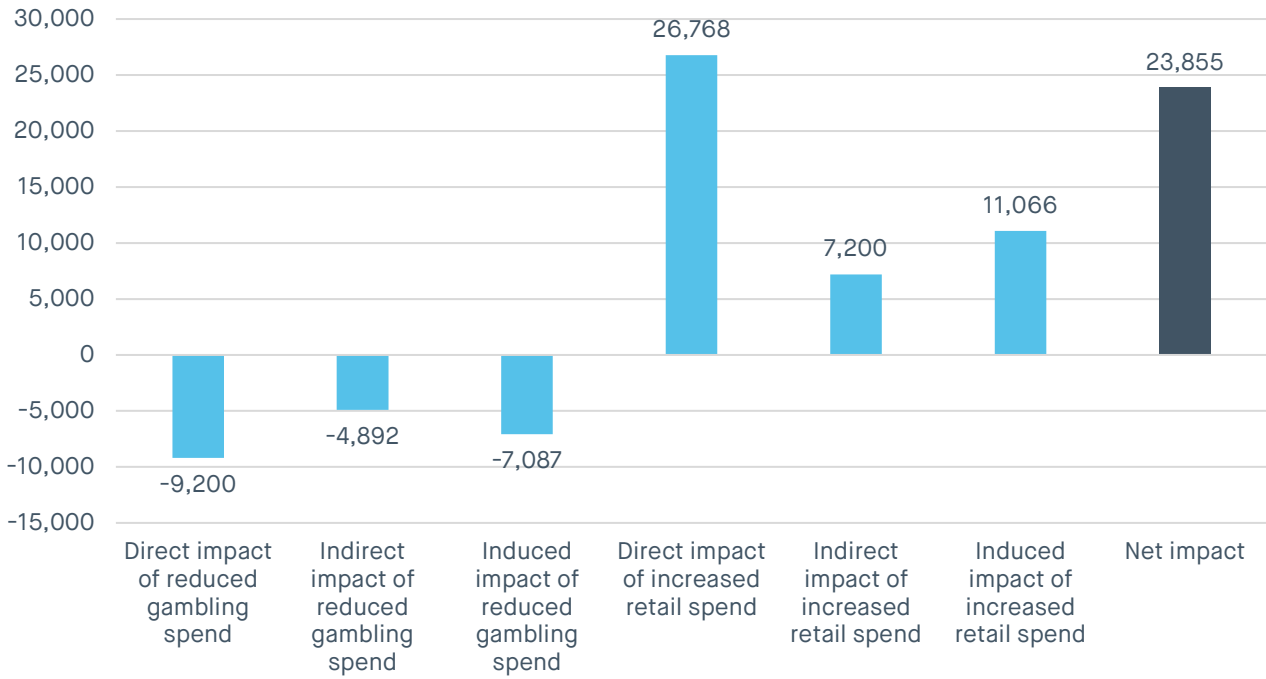
As such, measures which curtail problem gambling would almost certainly have a positive economic impact, as gamblers would probably spend their money elsewhere in the economy. Based on our straight line average estimate that 10% of gambling industry revenues are derived from problem gamblers (see Chapter 2), if 10% of gambling expenditure was instead spent on retail, we estimate that overall UK GVA would be £311 million higher, with a net increase in jobs of about 24,000. Furthermore, the Exchequer would receive an additional £171mn in tax revenues.

Figure 26: Impact of a 10% decline in gambling net spend on GVA (£ millions), assuming consumers instead spend money in the retail sector



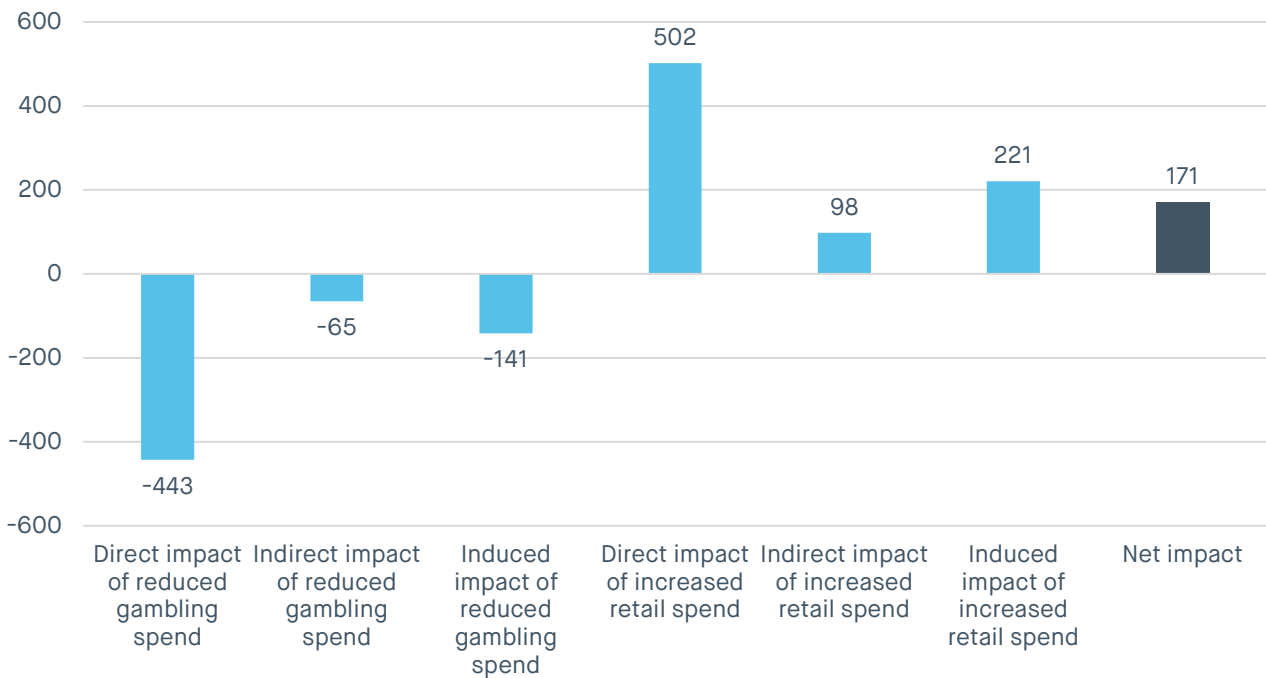
Source: SMF calculations based on ONS input-output tables

Figure 27: Impact of a 10% decline in gambling net spend on employee jobs, assuming consumers instead spend money in the retail sector



Source: SMF calculations based on ONS input-output tables

Figure 28: Impact of a 10% decline in gambling spend on tax revenues (£ millions), assuming consumers instead spend money in the retail sector, on goods taxed at 20% VAT



Source: SMF calculations based on ONS input-output tables

Implications for regulatory reform

The economic analysis presented in this report is clear: while gambling supports tens of thousands of jobs across the UK and contributes about £8bn per annum directly to economic output, it seems very unlikely that this economic contribution is truly additional to what would have taken place if gambling did not exist. Indeed, with most other parts of the economy having more extensive supply chains, and thus higher economic multipliers, reductions in gambling expenditure would almost certainly be a net economic benefit as households instead spend money elsewhere. The Exchequer would gain too, as higher GVA and jobs in turn drive up tax receipts.

This has strong implications as far as the case for regulatory reform is concerned. While some are calling for timid reforms – citing concerns about the negative economic impact of reduced gambling spend – our analysis suggests that this argument does not stand up to scrutiny once one considers the fact that households would instead spend money elsewhere. Far from being a case for timidity, the economics of gambling – presented in this report – are in fact a case for bold, robust and significant regulatory reform. Done right, there is scope to both reduce the societal costs of problem gambling, and realise economic gains.

The need for better data and evidence

In order to achieve those benefits, regulation needs to be based on the best available data. In various places throughout this report, we have had to rely on indicative or out of date figures or make ‘best guess’ inferences. In particular, we have found that existing estimates of the external and social costs of gambling are likely to be substantial underestimates because many significant harms have not or cannot be costed with the information we currently have. Specifically, we do not have figures that account for costs of gambling to financial security, health and wellbeing, work and study, family and relationships and culture.

Nor do we have up-to-date comparable figures on the reliance of different sectors of the gambling industry on problem gambling. While an estimate for online gambling exists, it is based on data from a 2016 self-report survey asking gamblers about their frequency of betting and typical spending. That figure could be improved with more recent and perhaps more reliable spending data. However, data on other gambling sectors is even older and sparser, relying on data from a 2010 survey. More robust figures are urgently required to understand the current shape of the gambling industry in its exposure to problem gambling

To address these issues, and ensure that future gambling regulation is based on accurate, timely and detailed evidence, the Government should commission an urgent review of the social and economic costs of gambling, commencing in 2021 and concluding in line with the timeframe of the Gambling Act Review. No final decisions on legislative review should be made until the Treasury has conducted an assessment of the economic and social costs of each policy change.

The review of economic and social costs should be broad and thorough, considering not only the fiscal impact of the gambling industry to the Exchequer, but (drawing on the evidence we have presented here), the impact on the wider economy. It should also attempt to estimate wider social and external costs, so that policy can be informed by a fuller understanding of the harm caused by current levels of gambling. This breadth of scope suggests that while the Cabinet Office or Treasury might be best placed to lead such a review, it should be conducted on a cross-departmental basis, drawing in the Department for Business, Energy and Industrial Strategy, Ministry of Justice, the Department for Digital, Culture, Media and Sport and the Department for Health and Social Care/Public Health England.

ENDNOTES

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⁷² <https://www.respublica.org.uk/wp-content/uploads/2017/10/Wheel-of-Misfortune-Embargoed-until-Monday-16th-October-00.01.pdf>; see also Lewis, C., Holmes, L. & Scott-Samuel, A. (2014), Fixed odds betting terminal use and problem gambling across the Liverpool city region, Liverpool Public Health Observatory (Online).

⁷³ <https://www.bbc.co.uk/news/uk-41814465>;
<https://www.theguardian.com/news/datablog/2013/jan/04/5bn-gambled-britain-poorest-high-street>;
<https://www.theguardian.com/society/2017/jun/06/tories-fobt-gambling-labour>; see also
<https://www.mirror.co.uk/news/uk-news/uk-gambling-map-misery-shows-11185213>

⁷⁴ Gambling Review Report, para 20.13. This however is not entirely consistent with their recommendation in paragraph 21.13, to which we refer below in paragraph 259. See Lords Select committee page 35

⁷⁵ <https://committees.parliament.uk/publications/1700/documents/16622/default/>

⁷⁶ Written evidence from Estates Gazette (GAM0005)

⁷⁷ James Child, 'All bets are off on the UK's poorest high streets', Estates Gazette (10 July 2019): <https://www.egi.co.uk/news/more-than-half-of-top-four-bookies-are-in-the-uks-most-deprived-areas/>

⁷⁸ <https://www.newham.gov.uk/downloads/file/197/gamblingvulnerabilityindexnewhamreport>

⁷⁹ <https://www.westminster.gov.uk/gambling-research>

⁸⁰ <https://www.gamblingcommission.gov.uk/PDF/survey-data/Gambling-behaviour-in-Great-Britain-2016.pdf>

⁸¹ <https://igamingbusiness.com/swedish-report-calls-for-gambling-time-limits/>

⁸² <https://bmcpublichealth.biomedcentral.com/articles/10.1186/s12889-020-10008-9>

⁸³ <https://bmcpublichealth.biomedcentral.com/articles/10.1186/s12889-020-10008-9>

⁸⁴ <https://www.gov.uk/government/statistics/dcms-economic-estimates-2019-gross-value-added>

⁸⁵ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/835115/loD2019_Statistical_Release.pdf

⁸⁶ <https://www.thisismoney.co.uk/money/markets/article-8605137/Betting-giants-Flutter-Bet-365-William-Hill-tax-haven-row.html>

⁸⁷ <https://cliffondavies.com/wp-content/uploads/2014/12/HMRC-Gambling-Tax-new-rules-from-01.12.14.pdf>

⁸⁸ <https://www.casino.org/news/denise-coates-bet365-was-biggest-uk-tax-contributor-in-2019/>

⁸⁹ [https://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Gross_operating_surplus_\(GOS\)_-_NA](https://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Gross_operating_surplus_(GOS)_-_NA)

⁹⁰ <https://entaingroup.com/sustainability/tax-statement/>

⁹¹ Gambling Commission (2018), "Industry statistics – April 2015 to March 2018"

⁹² <https://www.gov.uk/hmrc-internal-manuals/vat-betting-and-gaming>