

## **Written evidence submitted by Bacta**

### **Introduction**

Bacta is the trade association for the amusement machine industry and supply chain. We have around 500 members comprising the owners and operators of Family Entertainment Centres at the seaside, inland Adult Gaming Centres, companies that hire machines to pubs and clubs as well as the manufacturers and distributors of all types of amusement machines. Pre Covid-19 our members employed directly and indirectly 34,000 people, and we made a collective contribution to the economy of nearly £2 billion. We also currently generate £270 million in Machine Games Duty and machine VAT.

About three-quarters of the amusement machines in the country are gaming machines of one kind or another. The remaining quarter are anything from ticket redemption machines at the seaside, videos, pool tables, jukeboxes to rides for young children.

The industry has a long tradition stretching back to the Victorian era. Its backbone is formed by members of the travelling showmen community that have over the years decided to put down roots in particular locations throughout the country. In the modern era there is also a strong international component to the industry. Two large European gaming companies have a strong presence in sectors of the British amusement machine business.

The amusement machine industry has been under considerable pressure for a number of years and Covid-19 has made a significant number of our members businesses including our AGCs unviable. Despite very welcome and helpful government support and drastic cost cutting, costs continue. For example, staff, property costs, utilities, communications, maintenance, security, and insurance costs all continue to accrue. We have estimated that these costs are between 45% to 55% of normal. While supply chain cooperation can help with payment schedules, ultimately bills have to be paid. Clearly, the longer businesses are not operational the less sustainable this becomes.

Furthermore, the situation at the coast is compounded by the fact that in essence the businesses only generate revenue during the holiday season, essentially from Easter to the August Bank Holiday. That means that seasonal business of whatever kind will have not seen any meaningful income from Autumn 2019 and will not see any until Easter 2021. If we are not open by then that will mean the end for many seasonal businesses that have held on only with the prospect of Easter income factored into their crisis planning. All government support to date and any reserves will be exhausted by then.

The government must not sit back and watch our sector and the supply chain which has largely been ignored, collapse. We urgently need support to ensure business continuity.

### **Financial support for the Amusement, leisure, and hospitality sectors' supply chains**

For the third time, machine game suppliers which supply pubs and bars with pool tables, juke boxes and fruit machines have been forced to stop their supply with little or no notice and without any financial support. These suppliers to arcades, pubs and the wider amusement and leisure industry have no or few other markets and with no end to lockdown in site, these supply chains cannot survive losing their entire customer base which has ceased trading without support from the government.

Manufacturers and distributors of amusement machines have one market - amusement arcades either at the seaside or inland, and operators who supply machines to pubs and clubs. They often

have to fund their purchases up front and are paid once the summer season gets going. They are carrying a huge debtors list and have no prospect of any other income. Even manufacturers less exposed to the seaside market are in a similar position, but less seasonally impacted. Whatever their income, it has come to a grinding halt just as retailers, hospitality and leisure businesses have. These suppliers all have factories offices and warehouses on which rates are being paid.

We are therefore calling on the government to:

**1. *Extend Business Rates Relief to the supply chain:***

Business Rates Relief must be extended across the supply chain and be backdated to March. The sector has been just as badly impacted as their consumer facing customers, yet they have had no support beyond the CJRS. Without the supply chain ready to support the industry there is a very real risk that the recovery will be significantly restrained both through lack of the financial support the supply chain usually is able to provide as well as the absence of products and services. In a recovery situation there will be a rapid uptick in demand. Without a supply chain to support it, there will inevitably be over-trading and unnecessary business failures.

Even 80% relief would help, or alternatively, local authorities could assess the amount of turnover supported by the leisure, retail and hospitality sector and base relief for the supply chain on this.

**2. *Machine game suppliers should be prioritised for the Local Authority Discretionary funding:***

Despite the "supply chain" being eligible for the most recent Local Authority Discretionary funding, nearly all of our members have been denied this support. The government must not sit back and let the supply chain collapse. Local Authorities must prioritise the sector.

**3. *Retail, Leisure and Hospitality Rates Relief Schemes and associated grants should be extended to the supply chain:***

The financial support afforded to the rest of the leisure and tourism industry should apply to the supply chains that serve them. Not only are these customers suffering from losing 100% of trade, but they have also additionally had to carry a substantial debtors list on their balance sheets as customers are unable to pay their bills due to lockdown. They are as a result, less likely to survive the crisis. Consequently, we run the tragic risk of causing these businesses' customers to go bust just as the economy gets going again because they are unable to meet customer demand. The support they have received will have been wasted.

It is also unfair that retail businesses that have previously continued to trade, some very successfully, during the crisis received support under the RLH schemes, whilst many of those businesses that saw income dry up, simply did not. The government must correct this anomaly.

**More support must be afforded to high street and seaside arcades:**

**1. *A temporary reduction of VAT to 5% for seaside arcades.***

The Chancellor, in announcing a temporary cut in VAT to 5% for the tourism sector, recognised the unique impact of Covid-19 and associated restrictions, on this seasonal business sector. It is only fair that we receive the same support given to all other tourism and hospitality sectors, especially as

seaside amusement arcades are so vital to the economy of the coast and often in some of the UKs most deprived areas where they are often one of the few economic engines in the locality.

The benefit of the cut would be in the survival of many seaside businesses that are currently on the edge.

The reduction is easily achieved. It is applied to Amusement Machines which are discretely described in the VAT legislation by Clause 23A of the VAT Act. No change to primary legislation is required. The Chancellor can by Order apply the rate to 'relevant machines.' There are no wider implications. The cost is low, in the order of £10-£15 million, representing a few thousand on average to each arcade.

The benefit of a 5% rate of VAT applied to amusement machines would have as its effect a direct boost to seaside arcades as these are the venues in which machines attracting VAT are almost uniquely located.

The Chancellor has been clear in his desire to help the tourism sector. As seasonal businesses the impact of closures and Tier restrictions has had a uniquely negative and an additional impact on the sector. The reduced rate of VAT is a very helpful and sensible response as part of the package of measures that have been put in place. We do not understand why this relief has not been extended to the amusement arcade sector. It can be done easily in the way we suggest. We are part of the tourism sector; our members operate tourism businesses and they have been impacted just as badly as other tourist businesses that have benefitted from the relief.

As these machines are overwhelmingly found in seaside locations the effect of the reduced rate would extend to the very businesses the Chancellor has said he wants to help.

## **2. Temporary reduction in Machine Games Duty (MGD) to 5%**

The introduction of MGD has been a considerable additional cost burden on our members, many of whom are already extremely financially strained due to the Covid-19 crisis. In light of this unprecedented situation, we are calling on the government to temporarily reduce MGD to 5% in line with the VAT reduction, to 5% to help struggling high street arcades.

A reduction in MGD will also have a significant benefit to the pubs that provide amusement machines as part of their offer to customers, and important part of British culture that has also been incredibly damaged by this pandemic.

If rates were dropped to 5% for both MGD and VAT for six months the loss in receipts would total £32.5 million. Clearly this is a relatively small amount in the level of support provided to business across the UK economy but a significant boost to companies in the amusement machine sector. Please see below for our cost analysis:

### **Cost Analysis:**

Based on all machines in Britain excluding betting offices and casinos.

The total number of amusement machines is c310,000.

Of which roughly 133,000 attract VAT and 177,000 MGD.

The collective turnover of all amusement machines is around £1.6 billion according to a 2015 report by PWC.<sup>3</sup>

Of the 177,000 machines attracting MGD, around 53,000 are assessed at a rate of 5% and the remainder at 20%.

Most machines in seaside arcades pay either VAT at 20% or the 5% rate of MGD.

MGD receipts in 2018/19 were roughly £150 million for machines taxed at 20% and around £10 million for machines taxed at 5%.

It is estimated that the VAT generated by other amusement machines is around £110 million.

Therefore, if rates were dropped to 5% for both MGD and VAT for six months the loss in receipts would total £32.5 million.

### **Wider impacts of closures and other key asks:**

#### **High street arcades should be identified as non-essential retail:**

Since the beginning of the pandemic, we have been calling for the government to classify our high street arcades – Adult Gaming Centres (AGCs) as non-essential retail, particularly given the nature of our business and our similarities to other high street venues that are classed as non-essential retail, i.e. bookmakers.

In June 2020 this was agreed with UK/English government and we were, as High Street Arcades, listed in the government's Shops Guidance for Non-essential retail. Number 10, with three days' notice, then told us via DCMS that we would not be allowed to open on June 15th alongside other retailers, on the clear misunderstanding that High Street Arcades were like those found at the seaside and full of people. It was claimed we had multiple hard surfaces posing a heightened risk of transmission and furthermore AGCs could not be delineated in the legislation which referred to amusement arcades which therefore covered both Adult Gaming Centres and Family Entertainment Centres.

These arguments did not stack up then and they do not now:

- We have very few people on the premises at any one time;
- They don't stay for very long;
- They tend to be fairly stationary in-venue;
- Every surface is cleaned regularly as part of our Covid protocols which themselves are endorsed by government and sit on the .gov.uk website;
- In any case it is now known that aerosol risk is the primary transmission vector (and wearing a mask is now compulsory);
- Also there have been no Covid cases associated with AGCs at all as far as we are aware;
- Finally, subsequent legislation has separately identified AGCs so there is no reason this cannot be done;
- We are the only High Street venue that is required to be closed in Tier 3 in England and Level 3 in Scotland and Alert Level 3 in Wales.

The government should clarify that Adult Gaming Centres are non-essential retail and amend the current legislation on Tiering/Levelling accordingly. This classification is now more important than ever as we come out of national lockdown in the coming months. The Adult Gaming Centre sector is also

prepared to implement a similar range of restrictions to betting shops and we can achieve the equivalent.

**Re-opening our venues at the earliest opportunity:**

Regarding our seaside Family Entertainment Centres, these venues are seasonal and have missed an entire year of their peak trading times – Easter, Summer, and numerous Bank Holidays. The survival of many seaside arcades is on a knife edge, and as we approach Easter and better weather, we simply cannot have two seasons in a row of no trading – it would effectively be the end of the industry. We are urging the government to ensure this part of the sector is also able to re-open as soon as possible, and to ensure a full re-opening as we approach peak trading season for these seaside arcades.

Furthermore, our supply chain is at real risk of collapse and a number of our members are unlikely to survive this crisis. It is therefore even more critical to re-open premises and kick-start the amusement industry again.

We want to support the government's work to tackle the virus and re-build the economy. With that in mind, our approach has always been to put the safety of staff and the public first. Bacta members have invested extensively in staff training, social distancing, and hygiene measures in line with government guidance.

We have been in regular contact with colleagues across government to demonstrate how our members have made their venues Covid-secure and the importance of re-opening to their long-term viability, and we hope the sector will be considered for re-opening at the earliest possibility given all the sector has had to endure over the past 10 months.

**Business Loan Schemes**

The Bounce Back Loans have been popular and worked well. The various CBILS schemes have been less successful. It has taken far too long for applications to be processed. In a number of cases loans have been refused for reasons it is difficult to fathom or because bacta members are deemed to be in the gambling business – which putatively contravenes some banks' CSR policies. It is our opinion that where the government has backed the loan it is wrong for banks to apply conditions that were absent from the government Guarantee.

A number of our members are now being told they have to pay off their existing CBILS loans before taking out new ones. Repayments in any case will not start until April on the anniversary for the scheme being launched.

There is going to be increasing demand for extra loans as the lockdown has and will extend far beyond where anyone expected. Banks must continue to support the economy.

**Business Rates Relief extension**

Employment and premises costs are the two largest fixed or semi-fixed costs for nearly all businesses. The CJRS has been enormously helpful to businesses as has rates relief in the hospitality and leisure sector.

A cliff edge end to both these supports will be catastrophic. They need to be phased out as the economy recovers from the current pandemic and businesses begin to generate the revenue that will allow them once again to meet their costs.

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An extension of business rates relief beyond the current extension which is due to expire in April is therefore critical. Whilst optimally, relief should be extended for a further year for the retail, leisure, and hospitality sector of which we are a part, even half a years' extension would help the high street which is on its knees.

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