

**Report by the  
Comptroller and Auditor General**

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**HM Customs and Excise**

# **Revenue from Gambling Duties**

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## Executive summary

**1** There are six types of gambling duties including those on the National Lottery, pools betting, bingo, gaming such as casinos, general betting (such as bets taken by bookmakers), and licences to operate individual amusement machines. In 1998-99 HM Customs and Excise (the Department) collected £1,530 million in gambling duties; an increase of some 22 per cent in real terms over the amount collected in 1993-94. The amount of duties collected in 1998-99 represented an average rate of 22 per cent of the £7 billion spent on gambling in the United Kingdom, which was approximately 1.3 per cent of total consumer expenditure or £284 for every household.

**2** This report examines:

- the Department's analysis and management of risks to the revenue;
- whether the Department's arrangements for deploying their resources are fully effective in meeting the risks.

**3** Our review of gambling duties has been carried out in parallel with a review of the work of the Gaming Board examining their role in regulating the gambling industry. This work was co-ordinated so that the findings could be compared and areas identified for greater co-operation that could improve performance. A report on the Gaming Board is due to be published shortly.

## The Department's analysis and management of risks to the revenue

### Identifying the risk

**4** The Department are responsible for assessing whether traders have paid the correct amount of duty and for detecting and deterring illegal traders who are seeking to evade duties. Responses from the Department's 13 collections show that the highest risks to gambling revenue are:

- operators using amusement machines without obtaining licences which were cited by eleven collections;
- illegal bookmakers which were mentioned by ten collections.

Most collections' effort was devoted to auditing the highest risks to the revenue, amusement machine suppliers and operators and bookmakers. On the other duties the collections generally perceived the risks to revenue to be lower.

**5** For amusement machines, unlike other betting and gaming duties, there is no statutory requirement for licensing authorities to notify the Department of traders eligible to pay the licence duties. The Department recognise that there is a risk that they may not be aware of all permitted sites or operators and that consequently duty on some amusement machine licences may not be collected.

**6** There are over 200,000 machines where the licence can be purchased either by one of some 850 suppliers, or major operators or by over 60,000 small operators of the machines. Legislation is silent as to whether the supplier or the operator of amusement machine purchases the licence. The Department recognise that there may be some benefits if the 850 or so amusement machine suppliers were made responsible for purchasing the licenses.

**7** Apart from amusement machines, the main way by which the Department becomes aware of a new trader undertaking betting and gaming activities is through the local licensing authorities. As there are over 1,000 licensing authorities in the United Kingdom giving an average of almost 77 licensing authorities for each collection, there is a risk that these licensing authorities may be uncertain to which of the Department's 13 collections they should report details of new traders. A licensing authority may, therefore, not always inform a collection of all new traders and the situation may not be detected by the collection.

**8** The placing of telephone bets through bookmakers that are based offshore and betting and gaming on the Internet could substantially affect the amounts of revenue that the Department collect in duties in the future. The Department estimate that lost revenue from telephone betting would amount to £50 million in 2000-2001 if all telephone betting was to move offshore. Because betting and gaming on the Internet is still developing the Department estimate that the amount of revenue that is currently lost is only small but they recognise it as a growing threat.

### **Information on illegal traders**

**9** There is only a limited amount of information available within the Department that might alert officers to the probability of illegal trading and they mainly rely on intelligence to identify the possibility of its occurrence. Three cost-effective ways the Department obtains information on potential illegal traders are:

- through the use of hot lines which are published within local telephone directories and on the Department's web site but not the Yellow Pages. Due to the cost of advertising space in the numerous local directories, the Department have confined the advertising of the hotline to reporting illegal activities concerned with drug smuggling and VAT evasion. The Department are considering, however, the possibility of including more information in the directories and whether it will be cost effective to do so. The Department's web site only mentions illegal betting;
- contacts with registered traders such as major bookmakers who have introduced their own teams to detect illegal bookmakers, usually operating in premises, such as public houses, which are not licensed for gambling;
- sharing information with other public sector organisations who have an interest in the activities of illegal traders. Collections have occasionally obtained information from the police and the Gaming Board and the Inland Revenue, making use of the statutory provision allowing HM Customs and Excise to obtain information from the Inland Revenue to assist with their duties. This information has helped the Department increase their understanding of the risks of illegal trading in their areas.

### **Actions against illegal traders**

**10** From 1995-96 to 1998-99, there were 18 cases where the Department took criminal action with respect to unlicensed amusement machines and 74 civil prosecutions. In addition 841 machines were seized leading to £206,000 of restitution receipts. Although there is no requirement on amusement machines operators to pay arrears of duties on machines for periods of illegal operation, action by the Department was nevertheless successful in collecting duty of £380,000 or £4,130 per case.

**11** If the Department finds that a supplier is not ensuring that amusement machine licences are being purchased they may pass the information to the Gaming Board. The Board take into account the licensing of machines and will consider withdrawing certificates to trade from any supplier that incurs civil or criminal penalties. The Department are currently seeking to improve their arrangements for sharing information with the Gaming Board and our work confirmed that there is scope for the Department to work more closely with The Board, to tighten controls.

**12** From 1995-96 to 1998-99, there were 26 cases where the Department took criminal proceedings against illegal bookmakers and 15 cases of civil proceedings. The rate of return was relatively low with total duty charged amounting to £175,000, an average of £4,300 per case.

### **Recommendations**

**13** On the Department's methods and information for dealing with the main risks to the revenue we have made a number of detailed recommendations (paragraph 2.27). Key recommendations are that the Department should:

- improve their procedures with respect to information from licensing authorities and their own records of licensed traders;
- look at whether they should pursue amusement machine operators for arrears of duty during periods of illegal operation;
- in assessing risk across excise duties, ensure that they still pursue sufficient cases of illegal bookmaking in order to maintain the integrity of the duty;
- improve methods of obtaining intelligence on illegal traders such as by giving wider publicity to their hot line and sharing information with other agencies on illegal traders.

## **Deploying resources to meet the risks to revenue**

### **Allocating staff**

**14** The Department allocate staff resources to collections for the audit of traders paying excise duties generally, rather than specifically for the audit of gambling duties. In 1998-99, total staff resources for excise duties were 1,400 staff years. Of this total, collections allocated some 41 staff years to the audit of gambling traders at a cost of £1.4 million. From 2000-2001 the Department will allocate resources according to a new risk model. The results of their risk assessment to date show that there are imbalances in the deployment of resources between collections and that it may be possible to reduce the numbers auditing excise traders, including betting and gaming and redeploy them to deal with other

risks to the revenue. The Department intend to redistribute staff between collections gradually as they recognise that the risk assessment work needs to be refined based on further experience and more data.

**15** The Department intend to select for audit a percentage of the traders from each risk category designated low, medium and high which will range from 25 percent to 100 percent of excise and inland customs traders. Teams within each collection will sift the traders selected and pass to assurance staff those traders they assess as being potentially non compliant. Because the Department's approach applies to all traders paying excise duties, there are risks that individual duties such as gambling could receive little attention if these traders are not selected for audit. The Department intend to monitor whether there has been sufficient audit coverage of individual duties and will increase coverage if necessary.

### **Setting targets and measuring performance**

**16** The Department have set general targets for additional revenue collected from excise traders and forecasts of revenue from gambling traders. These targets do not relate resources used to the level of under declaration. As currently designed, this could lead to over concentration on a few high risk traders with insufficient information being available on the overall levels of compliance and accuracy in the collection of gambling duties. From April 2000, the Department intend to introduce a new measure which will relate the level of resources used to the amount of additional revenue discovered.

### **Efficient use of staff**

**17** The Department recognise that when they introduce their new system for allocating staff to collections they will need to monitor how collections then allocate their staff to audit work. In particular the Department need to assess the extent to which collections are focusing on the areas of highest risk suggested by the risk assessment exercise and whether the results from the risk assessment exercise are robust.

**18** Collections organise their staff using either a "centralised" or "dispersed" approach and we analysed each of the Department's 13 collections according to their approach. The results of our analysis indicated that the effectiveness of the centralised approach is significantly greater in terms of the value of errors detected per officer year.

## Developing good practice

**19** The Department's three Centres of Operational Expertise are responsible for improving professionalism within the Department and identifying and developing good practices in auditing traders in betting and gaming. They cover three of the gambling duties (general betting, amusement machine licence duty and gaming duty). On our visits to collections staff mentioned that although the Centres are helpful in providing advice when contacted, they do not take a proactive approach in disseminating information and good practice. The Department have carried out a review of the roles and responsibilities of the centres for all duties including gambling. As a result the Department intend to set up one centre covering all gambling duties and they are considering whether there is more that the centre could do to identify and disseminate good practice.

**20** The Department recognises that sharing information with other organisations can be an efficient and effective way of supplementing the information they hold on a traders activities. In order to explore the opportunities for closer working and sharing of information we set up a joint meeting with representatives of the Department and the Gaming Board. This identified areas where there could be greater co-operation such as two way secondments, and sharing information on traders.

## Recommendations

**21** In deploying resources to meet the risks to the revenue, we have made a number of detailed recommendations (paragraph 3.33). The key recommendations are that the Department should:

- ensure that sufficient audit coverage is given to each individual duty within each financial year;
- consider whether Collections have organised their staff resources in the most efficient way to carry out audit work on betting and gaming traders;
- conduct sufficient random audits and set appropriate audit targets to measure the results of betting and gaming work;
- ensure that the Centres of Expertise are proactive in disseminating information and good practice on auditing traders; and

- take forward the opportunities identified for closer co-operation with the Gaming Board and other organisations including the Horserace Betting Levy Board and the Tote.