



21 Bloomsbury Street (Floor 5) - London - WC1B 3HF  
Telephone: +44 (0)20 3603 3148 Fax: +44 (0)20 7333 0041

Chairman: W Roseff  
General Secretary: S D McInroy

Mr Paul Lee  
Chairman  
Horserace Betting Levy Board  
Parnell House  
25 Wilton Road  
London  
SW1V 1LW

*Dear Paul*

## **THE 54<sup>th</sup> LEVY SCHEME - RECOMMENDATIONS BY THE BOOKMAKERS' COMMITTEE**

### **INTRODUCTION**

1. I am pleased to submit the Bookmakers' Committee recommendations for the 54<sup>th</sup> Levy Scheme for distribution to Board members and inclusion as an agenda item at the Board meeting scheduled for 17 Sep 14.
2. The Committee met on 8 Sep 14 and, in arriving at its recommendations, once again focussed its deliberations on the premise of changes that have occurred since the last Scheme was agreed (53<sup>rd</sup> Levy Scheme) and that will occur before the end of the next Scheme (54<sup>th</sup> Levy Scheme).
3. The Committee's position is that as a result of undoubtedly difficult trading conditions and intervention by Government<sup>1</sup> the 'ability to pay' of bookmakers' will be reduced significantly during the period of the 54<sup>th</sup> Levy Scheme, whilst 'racing's' 'need' shall remain broadly constant. It is this premise that has shaped the recommendations for the 54<sup>th</sup> Levy Scheme.

### **CONTEXT OF THE RECOMMENDATIONS**

#### **The Economy**

4. Notwithstanding the perception by some of an improvement in the wider economy, bookmaking continues to reflect the uncertainty and lack of confidence felt by its customers. This is particularly noticeable in the high street retail sector which is already under significant cost pressure.

#### **Cost of Providing British Horseracing in LBOs**

5. As the cost of providing British horseracing in LBOs continues to rise, it is appropriate that those most affected by the cost of providing TV pictures should continue to be provided some level of

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<sup>1</sup> Media costs, Machine Gaming Duty, Point of Consumption Tax and implementation of the Code for Responsible Gambling.

relief. This is again addressed in our recommendations as a 'Flat Rate Rebate' (FRR).

6. You would wish to note a significant change to the format and structure of FRR and a small increase to the overall 'cost' to the levy<sup>2</sup>. Mindful of the continuing challenges faced by smaller LBOs, some of whom continue to face increased costs in providing customers access to British horseracing whilst at the same time making £0 profit from doing so<sup>3</sup>, the Committee recommends shifting the focus of FRR from all 8881<sup>4</sup> LBOs to only 4443<sup>5</sup> Very Small<sup>6</sup> and Small<sup>7</sup> LBOs which has the effect of targeting FRR at LBOs most in need irrespective of ownership.<sup>8</sup> The Committee believes that such a move lessens both the risk of unemployment of staff due to shop closures but also, and very significantly in the context of the 54<sup>th</sup> Levy Scheme, should help to protect racecourse media rights revenues. We estimate that closure of LBOs would lead to a reduction in media payments made by bookmakers as follows:

Reduction in LBOs	Reduction in LBO Media Payments <sup>9</sup>
100	£2.66m
200	£5.33m
300	£7.99m
400	£10.65m
500	£13.32m

### **BHA Fixture List 2015**

7. The Committee understands that the BHA intends to publish the 2015 Fixture List in mid-October and wishes to highlight that the recommendations for the 54<sup>th</sup> Levy Scheme are, as in previous years, made on the understanding outlined at paragraph 9.a and 9.b (below). We are concerned at the BHA proposal to limit AW fixtures between December and March to only 6 races per card. Reducing the number of races during the period of the year when historically the weather is at its worst and AW racecourses provide a valuable source of uninterrupted British horseracing, appears ill advised. Further, a reduction in either the total number of fixtures or the total number of races held during the period of the 54<sup>th</sup> Levy Scheme would undoubtedly impact negatively upon the assumptions used to generate these recommendations and would impact directly on levy generation and racing's other revenue streams.

### **RECOMMENDATIONS FOR THE 54<sup>th</sup> LEVY SCHEME**

8. These recommendations are put forward on the understanding that the parties, being the HBLB and the Bookmakers' Committee, will use their reasonable endeavours as follows:

- a) To achieve a fixture programme in 2015 of a minimum of 1450 HBLB Criteria Fixtures<sup>10</sup> and an improvement in the average number of runners per race across all codes.
- b) The Betting Patterns Working Party should continue to work with bookmakers' representatives in respect of the fixture programme. In particular, race planning would continue to be targeted to deliver a minimum of 7 races per racecard and a minimum of 6 runners per race.

<sup>2</sup> RPI increase would result in FRR of £2.37m. Estimated 'cost' of FRR is £2.65m. Increase in FRR = c.£280k.

<sup>3</sup> The BC estimates in excess of 300 LBO's currently do not make enough from British horseracing to cover the cost of providing it to customers.

<sup>4</sup> Full Year Equivalent as at 31 Mar 14. Assumes all LBOs open part-year are open for 6 months.  $(9211 - 660/2) = 8881$

<sup>5</sup> Does not include part year LBOs as counterbalanced by LBOs claiming less than £1100/£500.

<sup>6</sup> Those LBOs having less than £40,000 Leviable Horseracing Gross Profit.

<sup>7</sup> Those LBOs having between £40,000 and £60,000 Leviable Horseracing Gross Profit.

<sup>8</sup> Marginal FRR at a total 'cost' of c.£25k shall apply to approximately 100 LBOs having a leviable horseracing gross profit of £60-61k.

<sup>9</sup> Assumes average LBO media payments for Very Small and Small LBOs = £26,631

<sup>10</sup> Defined as those fixtures in receipt of a Raceday Services Grant.

I very much hope that the Board will take full account of the points set out in this letter in order to reach agreement on these recommendations and thus avoid a referral to Government.

Catchment. The Committee recommends that the levy should continue to be based on percentage payment of bookmakers' gross profits on horseracing business conducted in Great Britain. For the purposes of the 54<sup>th</sup> Levy Scheme, this term shall mean the gross profit derived from horserace betting business conducted on horseracing taking place in England, Scotland and Wales only.<sup>11</sup>

Rates.

LBO. Bookmakers making gross profit via betting on British horseracing on this channel should continue to pay 10.75% of gross profit as levy.

Telephone/Internet Bookmakers. We recommend that bookmakers who derive their gross profit from such business should pay levy at 10.75% of such combined gross profit, where it arises from British horseracing.

Bookmakers Engaged in Spread Betting. We recommend that bookmakers who derive their gross profit from spread betting businesses should pay levy at 2.15% of such gross profit, where it arises from British horseracing.

Betting Exchanges. We recommend that betting exchanges should continue to be assessed for levy on the basis of 10.75% of their gross profit on British horseracing business, where gross profit is defined as the commission deducted by the exchange from the amounts paid out by it to bettors and bet-takers.

Racecourse Bookmakers. We recommend that the previous annual fixed fee for racecourse bookmakers who stand at licensed racecourses should be retained, with the proposal that the fee should be increased in line with RPI to £240<sup>12</sup> per annum.

Point-to-Point Only Bookmakers. In respect of bookmakers who stand only at point-to-point events and/or at harness-racing and/or trotting events, the Committee would propose that their annual fixed contribution should be increased in line with RPI to £192.<sup>13</sup> Bookmakers who otherwise pay levy under other clauses would be exempt from any additional payment under this sub-paragraph.

LBO Threshold. We recommend that the threshold be retained for chains of 100 shops or fewer subject to the threshold being applied to no greater than 30 shops selected by the operator. For eligible shops, we recommend an increase in the threshold figure at which the headline rate of levy is payable. This increase should be in line with the headline rate of RPI as at the end of Jul 14. Eligible shops with a gross profit of less than £57,257<sup>14</sup> will pay a rebated charge on a sliding scale related to the percentage by which their gross profit falls short of £57,257.

Flat Rate Rebate. We recommend the continuance of a Flat Rate Rebate (FRR) amended to apply to only those LBOs generating less than £61,000 gross profit from British horseracing betting business (BHBB) which would be deducted from a bookmaker's liability during the year-end reconciliation at which individual liabilities are finalised. We recommend that FRR should be set at £1100 per LBO for the first 30 LBOs generating £60,000 or less gross profit from BHBB in any chain and £500 for all other shops generating £60,000 or less gross profit from BHBB in any chain. Marginal relief (£500

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<sup>11</sup> We note the Scotland independence vote on 18 Sep 14 and, as unsighted on the outcome, have assumed 'no change'.

<sup>12</sup> Based on RPI of 2.5% on 31 Jul 14.

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

pro-rata) will apply for LBOs generating a profit from BHBB of between £60,001 and £60,999<sup>15</sup>. LBOs open for less than the full period of the 54<sup>th</sup> Levy Scheme shall attract a rebate pro-rata. The calculation would be made at the end of the Levy form as a reduction of a bookmaker's total levy liability, which could not be reduced below £0.

**Default Percentage.** The Committee recommends that bookmakers who are unable to measure accurately their British horseracing gross profit be required to base their declarations for levy on the average percentage of gross profit attributable to British horseracing achieved by, as a minimum, Corbetts, Gala Coral Group, Ladbrokes plc and William Hill plc in their combined LBO estates during the calendar year 1 Jan 14-31 Dec 15. We will seek to expand the number of contributors in the sample.

9. The Betting Generated Revenue (BGR)<sup>16</sup> estimated in the Bookmakers' Committee recommendations for the 53<sup>rd</sup> Levy Scheme was in the order of £75.39m<sup>17</sup> if 0% change in gross profit YoY. This has been revised following FY14/15 Q1 to an estimated BGR of £74.33<sup>18</sup>. Annex A (Table A-1) shows the estimated BGR for the period of the 54<sup>th</sup> Levy Scheme of £73.98m<sup>19,20</sup> should gross profit experience 0% change YoY from that estimated for the 53<sup>rd</sup> Levy Scheme. Annex A (Table A-2) shows the comparison between estimated BGR for 53<sup>rd</sup> and 54<sup>th</sup> Levy Schemes, Annex A (Table A-3) shows the estimated BGR for the 54<sup>th</sup> Levy Scheme should gross profit increase or decrease and Annex A (Table A-4) shows the comparison of indicative yields agreed by the Board as part of the BC recommendations and the actual BGR subsequently generated since the 50<sup>th</sup> Levy Scheme.

Yours sincerely



**Will Roseff**  
Chairman  
For and on behalf of  
The Bookmakers' Committee

9 Sep 14

<sup>15</sup> For example, Gross Profit on BHBB of £60,500 = £250 FRR, Gross Profit on BHBB of £60,050 = £450, Gross Profit on BHBB of £60,800 = £100 FRR.

<sup>16</sup> BGR comprises Statutory Levy and Betfair Contractual Payments.

<sup>17</sup> Bookmakers' Committee recommendations for the 53<sup>rd</sup> Levy Scheme, dated 14 Oct 13.

<sup>18</sup> BGR based on Bookmakers' Committee Q1 estimates FY14/15 and assuming 0% change in Q2-4 GP YoY.

<sup>19</sup> Ibid.

<sup>20</sup> Betfair has indicated their payment is likely to be £7.5m - £8m; we have assumed the lower figure in our BGR estimate.

**ANNEX A – BETTING GENERATED REVENUES (BGR)**

Table A-1

<b>54LS (15/16) BGR</b>	
<b>PLATFORM</b>	<b>£m</b>
Forecast Yield <sup>1</sup>	69.13
Betfair Contribution	7.5
Fixed Rate Rebate	(2.65)
<b>Total</b>	<b>73.98</b>

NOTE: - Marginal FRR is assumed to apply to 100 LBOs (currently 489 LBOs in £60k-£65k band).

- The 100 LBOs are assumed to generate Gross Profit on BHR of £60.5k.
- FRR does not include estimated £25k 'cost' of marginal relief.

Table A-2

<b>53LS (14/15) v 54LS (15/16) BGR</b>			
<b>PLATFORM</b>	<b>53LS (£m)</b>	<b>53LS (Revised) (£m)</b>	<b>54LS (£m)</b>
Forecast Yield <sup>2</sup>	70.21	69.15	69.13
Betfair Contribution	7.5	7.5	7.5
Fixed Rate Rebate	(2.32)	(2.32) <sup>3</sup>	(2.65)
<b>Total</b>	<b>75.39<sup>4</sup></b>	<b>74.33</b>	<b>73.98</b>

Table A-3

<b>GP CHANGE (%)</b>	<b>53LS BGR (£m)</b>
-10	67.65
-5	70.50
-3	71.89
-1	73.31
0	73.98
1	74.71
3	76.11
5	77.54
10	81.04

<sup>1</sup> All non-Betfair BGR.

<sup>2</sup> All non-Betfair BGR.

<sup>3</sup> Uses original FRR estimate as 'worst case'.

<sup>4</sup> Ibid.

Table A-4

<b>BGR BC RECOMMENDATIONS v ACTUAL</b>					
LS	YEAR	REC (£m)	ACT (£m)	+/- (£m)	+/- (%)
50	11/12	73.7 <sup>5</sup>	74.4	<b>+0.70</b>	<b>+1.0</b>
51	12/13	72.4	72.8	<b>+0.40</b>	<b>+0.6</b>
52	13/14	72.9	77.6	<b>+4.70</b>	<b>+6.4</b>
53	14/15	75.4	74.3 <sup>6</sup>		
54	15/16	74.0			

<sup>5</sup> Estimate set by DCMS during Determination of 50<sup>th</sup> Levy Scheme was £73.7m - £80.8m

<sup>6</sup> Based on Bookmakers' Committee Q1 estimates FY14/5 and assuming 0% change in Q2-4 GP YoY.