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Chairman: M O'Kane
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Dear Paul

THE 55th LEVY SCHEME - RECOMMENDATIONS BY THE BOOKMAKERS' COMMITTEE

INTRODUCTION

1. I am pleased to submit the Bookmakers' Committee recommendations for the 55th Levy Scheme for distribution to Board members and inclusion as an agenda item at the Board meeting scheduled for 30 Oct 15.
2. The Committee, in arriving at its recommendations, once again focussed its deliberations on the premise of changes that have occurred since the last Scheme was agreed (54th Levy Scheme) and that will occur before the end of the next Scheme (55th Levy Scheme).
3. The Committee's position is that as a result of increased costs¹, the 'ability to pay' of bookmakers' will continue to reduce during the period of the 55th Levy Scheme. Conversely, racings income through media rights will continue to grow which implies racings' 'need' for support from the Levy will decline over the same period. It is this premise that has shaped the recommendations for the 55th 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.

Adjustments for Inflation

5. In what is a significant departure from previous precedent and in a proactive measure that seeks to increase levy yield, whilst acknowledging it is detrimental to bookmakers, it is the unanimous position of

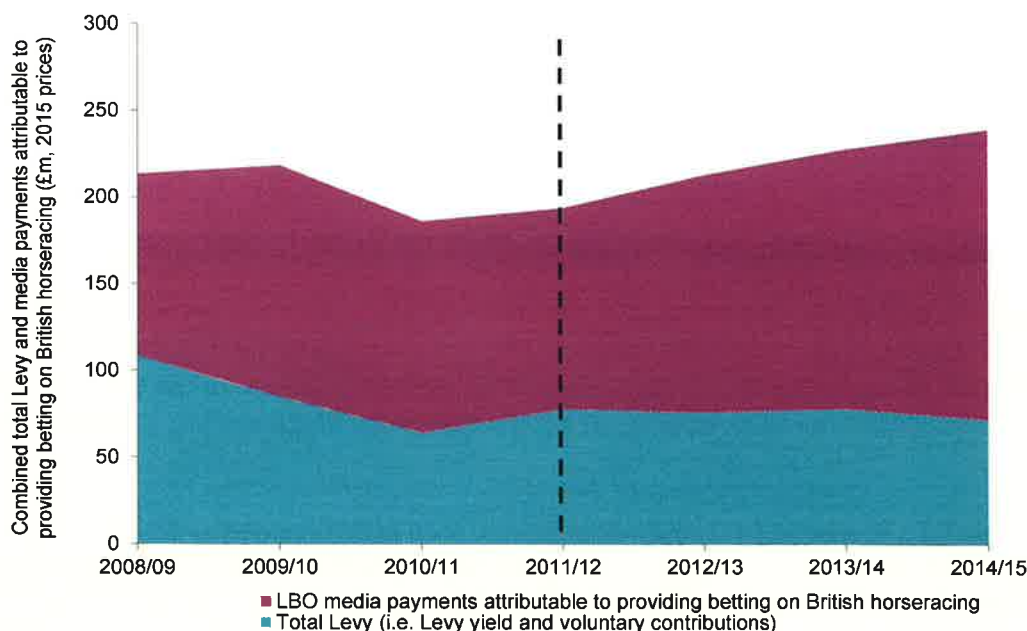
¹ Media costs, employment costs and implementation of the Code for Responsible Gambling as it applies to British horseracing business.

the Committee to recommend that the RPI increase for inflation should not be applied to 'Thresholds' and 'Flat Rate Rebate' for the period of the 55th Levy Scheme. The Committee has also elected not to recommend an inflation-based increase to the levy contributions of On-course bookmakers. These measures shall increase statutory levy yield above that which may have been anticipated if RPI were applied to the 55th Levy Scheme.

The Increasing Cost of Providing British Horseracing in LBOs

6. Figure 1 shows that although total Levy payments have decreased from £77.9m to £72.0m in real terms, 7.6% (2.6% p.a.) since the Government determined Scheme of 2011/12, media payments by LBOs attributable to providing betting on British horseracing are estimated to have increased by 44.3% (13.0% per annum) during the same period.

Figure 1: Combined Total Levy and Media Payments Attributable to Providing Betting on British Horseracing (£m, 2015 prices)



Source: KPMG Report for The Bookmakers' Committee Oct 2015.

7. Figure 1 also shows that estimated combined Levy and media payments have increased in real terms between 2011/12 and 2014/15 by £46m, an increase of 23.5% (7.3% per annum).

8. 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 relief. This is addressed in our recommendation to retain FRR.

9. The Committee remains mindful of the continuing challenges faced by smaller LBOs who continue to face increased costs in providing customers access to British horseracing whilst at the same time making £0 profit from doing so². The focus of the 55th Levy Scheme shall therefore be to once again target FRR at LBOs most in need irrespective of ownership.³ 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 55th 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:

² 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.

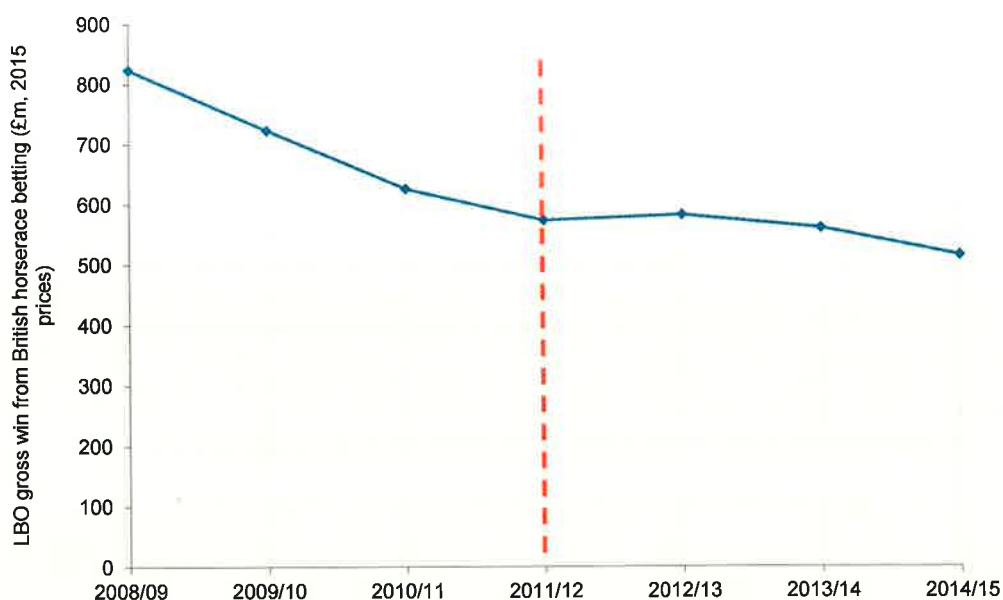
³ Marginal FRR at a total 'cost' of c.£25k shall apply to approximately 100 LBOs having a leviable horseracing gross profit of £60-61k.

Reduction in LBOs	Reduction in LBO Media Payments ⁴
100	£2.7m
200	£5.3m
300	£8.0m
400	£10.7m
500	£13.3m

Reduced LBO Gross Win on British Horserace Betting Business

10. The evidence is that bookmakers' gross win from British horserace betting has (in real terms) fallen by 10.1% (3.5% per annum) since 2011/12, the date of the last determination by Government.

Figure 2: LBO gross win from British horserace betting (£m, 2015 prices)



Source: KPMG Report for The Bookmakers' Committee Oct 2015.

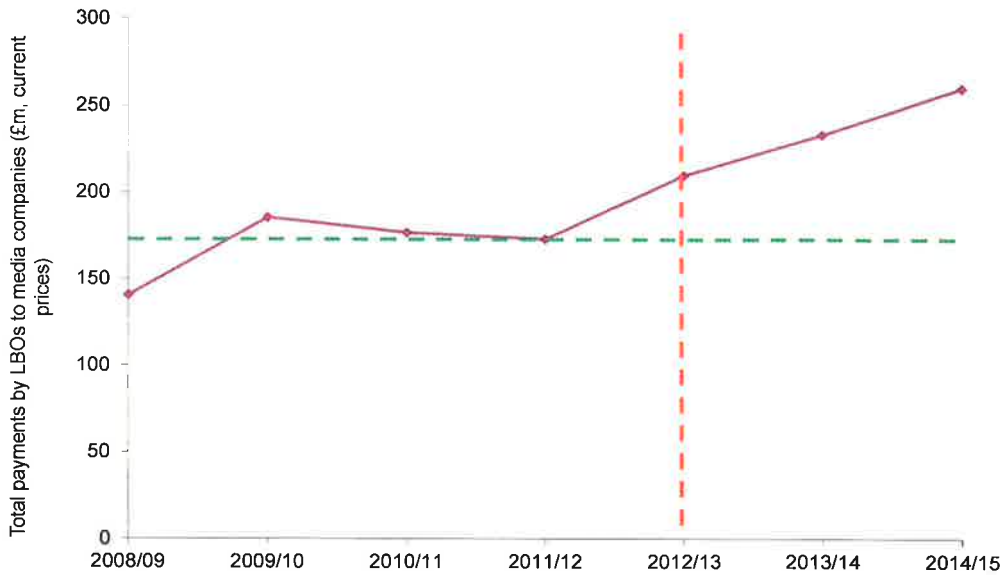
Racing's Increasing Revenues

11. A report for the BHA in 2013 indicated that the £173m⁵ media revenue that British horseracing received in 2012 was 'primarily' from bookmakers. It did, also, indicate that media income was generated from television subscriptions and print media. If, for simplicity, we assumed that all of the £173m media revenue for British horseracing in 2012 was sourced from LBOs, this would imply that 82% of LBOs' media payments of £210m in that year (Figure 3) was transferred to British horseracing. However, the report referred to above implies that the true percentage may be slightly lower. The Committee believes it reasonable to assume therefore that at least an additional £60m in media rights revenues has been received by racing since 2012.

⁴ Assumes average LBO media payments for Very Small and Small LBOs = £28,883

⁵ Economic impact of British Racing 2013, a Deloitte report for the British Horseracing Authority.

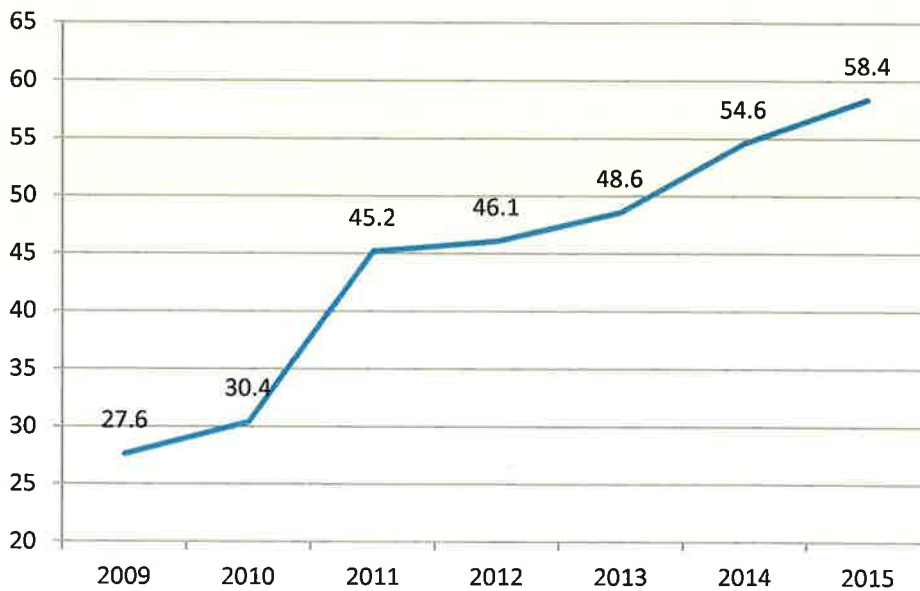
Figure 3: Total annual payments from LBOs to Media Companies (£m, 2015 prices)



Source: KPMG Report for The Bookmakers' Committee Oct 2015.

12. There is additional evidence which appears to be consistent with higher media payments by LBOs having potentially fed through to increased media revenues for British horseracing. Racecourse Media Group ('RMG') reported that 2014 revenues from TurfTV, collected in British LBOs, increased by 10% from 2013. In the same year, LBO media payments increased by approximately 10%. We also note that Annual Reports of The Racecourse Association (2014) and The Racehorse Owners Association (2014/15) highlight the increased contributions to prize money by racecourses (Figure 4); it would be reasonable to assume that this is directly related to increased media revenues received by racecourses.

Figure 4: Racecourses' Contribution to Prize Money (£m)



Source: ROA Annual Report 2015 and RCA statement 14 January 2015.

Conclusion

13. The available evidence is, that at a time when the basis of the Levy, British horseracing gross win, has been falling⁶, and the cost to bookmakers of providing betting on British horseracing has been increasing⁷, British horseracing has increased significantly the sum it receives from bookmakers.

RECOMMENDATIONS FOR THE 55th LEVY SCHEME

14. 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 2016 of a minimum of 1450 fixtures 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.

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 55th 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.

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 annual fixed fee for racecourse bookmakers who stand at licensed racecourses should be retained. However, in line with our earlier observations, we intend not to apply an inflationary increase and propose that the fee for the 55th Levy Scheme be remain £240 per annum as per the 54th Levy Scheme.

⁶ Figure 2.

⁷ Figure 1.

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 proposes that their annual contribution should, in line with our earlier observations, remain at £192 for the duration of the 55th Levy Scheme. 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 200⁸ shops or fewer subject to the threshold being applied to no greater than 30 shops selected by the operator. Again, in line with our previous observations we have elected to recommend that the threshold is held at £57,257 for the period of the 55th Levy Scheme for eligible shops. Eligible shops with a gross profit of less than £57,257 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). We further recommend that FRR should continue to apply only to those LBOs generating less than £61,000 gross profit from British horseracing betting business (BHBB). This 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 unchanged from the rates applied to the 54th Levy Scheme; £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 for the period of the 55th Levy Scheme. Marginal relief (£500 pro-rata) will apply to LBOs generating a profit from BHBB of between £60,001 and £60,999⁹. LBOs open for less than the full period of the 55th 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 16-31 Dec 16. We will seek to expand the number of contributors in the sample.

15. The Committee believes it is reasonable to assume that the yield for the 54th Levy Scheme shall fall within the range £53.0m - £56.0m (Annex A, Table A-1). Annex A, Table A-2 shows the estimated levy yield for the 55th Levy Scheme should gross profit increase or decrease.

Yours sincerely



Mike O'Kane
Chairman

For and on behalf of
The Bookmakers' Committee

30 Oct 15

⁸ Increased from 100.

⁹ For example, Gross Profit on BHBB of £60,500 = £250 FRR, Gross Profit on BHBB of £60,050 = £475, Gross Profit on BHBB of £60,800 = £100 FRR.

ANNEX A

Table A-1

GP CHANGE YoY (%)	54LS LEVY¹ (£m)
5	59.5
3	58.0
1	56.8
0	56.0
-1	55.5
-3	54.4
-5	53.0

Table A-2

GP CHANGE YoY (%)	55LS LEVY² (£m)
5	56.1 – 59.2
3	54.9 – 57.8
1	53.5 – 56.5
0	53.0 – 56.0
-1	52.3 – 55.3
-3	51.2 – 54.2
-5	50.0 – 52.9

¹ Post-FRR.

² Post-FRR.

