

HORSERACE BETTING LEVY BOARD

BUSINESS PLAN 2013

INTRODUCTION

1. Section 24(1) of the Betting, Gaming and Lotteries Act 1963 requires the Horserace Betting Levy Board to assess and collect monetary contributions from bookmakers and the successor company to the Horserace Totalisator Board, and to apply them for purposes conducive to any one or more of:

- a) The improvement of breeds of horses.
- b) The advancement or encouragement of veterinary science or veterinary education.
- c) The improvement of horseracing.

OBJECTIVES

General Objectives

2. Generally the Levy Board will, within current financial constraints:
- a) Support, as cost-effectively as possible, the provision, country-wide and year round, of horseracing in a form which retains high standards of integrity and is attractive to the racehorse owner, the racegoer and the off-course punter.
 - b) Place emphasis on generating horserace betting turnover and thus gross profits, thereby enhancing the Levy and so the funds available for pursuing its objectives, whilst taking proper account of racegoers, horse population and other stakeholder interests.
 - c) Ensure its financial support for the racing industry is cost-effective, value for money and carefully monitored.
 - d) Apply funds at an appropriate level to the improvement of breeds of horses and to veterinary science and education.
 - e) Manage and monitor its net assets and maintain adequate cash balances.

Specific objectives for 2013

3. Specifically in 2013, the Levy Board will, within current financial constraints:
- a) Focus on increasing the prize money allocation in its distributions and encourage racecourses to increase their prize money contributions further.

- b) Incentivise racecourses by linking its grants to executive and sponsorship prize money contributions and to Levy generation.
- c) Carry out detailed, ongoing analysis of the Fixture List and race programme, including the analysis of betting and other relevant data, and make recommendations to optimise the Fixture Criteria, focusing on Levy generation and the use of funding to achieve, where feasible, a minimum of 7 races per fixture and a minimum of 6 runners per race.
- d) Use the 2012 expenditure programme as the baseline for 2013.
- e) Request the BHA, on behalf of Racing, to make recommendations in relation to the Levy Board's distribution of funds to prize money and racecourses, for implementation in 2014.
- f) Contribute to the costs of the technical, security and regulatory services for the protection of the integrity of racing (also known as raceday services).
- g) Re-introduce loans to racecourses with an appropriate rate of interest and administration fee, and support the financing of racecourse projects by Capital Credit grants.
- h) Seek to maintain reserves at no less than £30m and not more than £40m.
- i) Work with the Department for Culture, Media and Sport and the Racing and Betting industries on requirements involving reform or replacement of the Levy.

INCOME, RESERVES AND EXPENDITURE

Previous Levy Schemes

4. The movements in Licensed Betting Office (LBO) gross profits over the last six years with the changes in the number of actual fixtures that took place and number of LBOs are shown at Table A.

Table A: Analysis of Previous Levy Schemes

	<u>Change in LBO gross profit on British horseracing</u>	<u>Change in number of fixtures*</u>	<u>Change in number of LBOs **</u>
44 th to 45 th Levy Scheme (2006/07)	+2.2%	+3.1%	+8.1%
45 th to 46 th Levy Scheme (2007/08)	+3.2%	+1.7%	+7.1%
46 th to 47 th Levy Scheme (2008/09)	-7.3%	+6.3%	+0.9%
47 th to 48 th Levy Scheme (2009/10)	-8.7%	0.0%	-1.7%
48 th to 49 th Levy Scheme (2010/11)	-12.5%	+1.5%	+0.8%
49 th to 50 th Levy Scheme (2011/12)	-1.4%	-2.5%	+0.5%

* The change in the number of actual fixtures that took place represents the movement between calendar years i.e. the movement between calendar years 2010 and 2011 is shown next to 49th to 50th Levy Scheme.

** The number of LBOs reflects a snap-shot as at the end of each respective Levy Scheme.

Income Assumptions

5. The following income assumptions are made:

- a) The forecast Levy yield for the 51st Levy Scheme is £65.9m as noted in the Bookmakers' Committee Recommendations to the Levy Board on 31st October 2011. The total Levy Board income in the 51st Levy Scheme, including payments from Betfair (under its five-year deal with British Racing), voluntary contributions from other bookmakers, income from prior year Levy Schemes and interest income, is £73.9m.
- b) The forecast Levy yield for the 52nd Levy Scheme of £65.9m is in line with the Recommendations from the Bookmakers' Committee to the Levy Board on 24th October 2012. This Levy yield estimate is underpinned by the 'Big 3' bookmakers, who have provided a minimum guarantee of £45.0m.
- c) The total Levy Board income in the 52nd Levy Scheme, including payments from Betfair (under its five-year deal with British Racing), voluntary contributions from other

bookmakers, income from prior year Levy Schemes and interest income, is budgeted to be £74.0m.

- d) No onshore bookmaker moves all or part of its remote betting operation offshore during the period of the 52nd Levy Scheme.

Investments

6. The Levy Board agreed at its meeting in July 2012 that reserves should be within the range £30m to £40m and that about £20m should be held in cash and near cash (i.e. accessible within 12 months). On the assumption that existing loans to racecourses continue to be repaid in line with their original terms and no loan deferrals or re-negotiations are approved, £9.3m was reserved for new racecourse loans, which will be granted on four-year terms, with the following priorities for lending:

- (1) Capital improvements needed as a result of BHA/legal requirements.
- (2) Non-revenue-generating loans for horse specific projects e.g. turf, drainage, stabling.
- (3) Revenue-generating loans.
- (4) Loans to parties other than racecourses for the improvement of horseracing or other Levy Board responsibility.
- (5) Racecourse loans for non-horse specific projects.

Loan applications totalling £8.0m were provisionally approved, in December 2012, for loans to 17 different racecourses. It is expected that £2.5m will be drawn down by March 2013, with the remaining £5.5m being drawn down in 2013/14.

The amount available for racecourse loans in 2014 is currently estimated at about £10m.

Surplus, Cash and Reserves

7. Whereas Levy income is derived from Levy Schemes, which operate on a fiscal year basis, expenditure budgets are based on calendar years in line with Racing's Fixture List. For example, the Levy Board's expenditure budgets for the Racing calendar years 2013 and 2014 are a function of the forecast Levy yields of the 51st, 52nd and 53rd Levy Schemes. Given that the Levy Board has set a target reserves range of £30m to £40m, and since the reserves position at 31st March 2013 is forecast to be £38m, the Levy Board considered it acceptable to approve a deficit budget of £1.9m for 2013/14.

Financial Summary

8. Table B summarises the income and expenditure account and forecast reserves for 2013/14 (Racing calendar year 2013). Total calendar year expenditure in 2013 is £76.3m (compared with £65.3m in 2012).

Table B Summary income and expenditure and forecast reserves for 2013/14 (i.e. Racing calendar year 2013)

2013/14	£m
Total income	74.0
Total core expenditure	73.1
Levy Board administration costs (including Bookmakers' Committee)	2.8
Operating deficit 2013/14	(1.9)
Reserves at 31st March 2014	36.1
Total calendar year expenditure – 2013	76.3

Tranche 1 – Fixed Allocations

9. As in previous years, the initial allocations are made to those heads of expenditure which are not distributed to prize money and racecourses. The allocation for 2013 is shown at Column C of Table C, together with the actual expenditure in 2011 and the budgeted (**) allocation for 2012. Note that Breeders Prizes and Channel 4 have been moved to Tranche 2 (see Paragraph 16 below).

Table C	Fixed Allocations			
	<i>Para</i>	Column A	Column B	Column C
		2011*	2012**	2013
Veterinary Science ***	10	927,000	1,200,000	1,600,000
Training	11	870,000	900,000	1,000,000
Point to Point	13	200,000	200,000	250,000
Breed Societies	14	100,000	100,000	115,000
Administration	15	3,241,000	3,600,000	2,806,000
Betting exchanges judicial review	15	0	0	450,000
Totals		5,338,000	6,000,000	6,221,000

* The expenditure figures shown for 2011 represent the actual costs incurred in this calendar year.

** The calendar year expenditure figures quoted for 2012 are as per the original budget agreed by the Levy Board at the end of 2011.

*** Expressed as calendar year allocations but in practice is apportioned on an academic year (October to September) basis.

Veterinary Science

10. In September 2011 the Levy Board approved the Veterinary Advisory Committee's (VAC) recommendations within the 2011/12 Veterinary Budget, including ring-fencing the sum of £406k to carry forward to 2012/13 in order to create a potential fund of some £1m for research projects commencing October 2012. From 2012/13, the Levy Board has agreed to introduce a multi-year indicative commitment for future years and a stepped approach to increasing the veterinary budget over the next three years from £1.6m to £2m in order to bring it back to the level of 2009/10. Expressed as calendar year allocations, therefore, the veterinary budget for 2012 continues to be regarded as £1.2m with £1.6m for 2013. This increase will result in the core veterinary expenditure on research, education, infectious disease and communication being maintained with additional resources being applied to research expenditure, creating a "small projects" fund to investigate topical issues and/or to collect pilot data and for stakeholder communication.

Training

11. In November 2011 the Levy Board agreed that the overall allocation to industry training should be £900k in 2012, the same as in 2011. For 2013 the Levy Board has agreed to increase this

to £1m. Specific allocations are £663k to activities overseen and/or carried out by BHEST (2012: £600k) and £175k to the National Stud (2012: £200k) with the remaining £162k accounted for by the TBA Education and Employment Training Scheme (£60k) (2012: £60k), Retraining of Racehorses (£50k) (2012: £0 from Training budget, but a £50k charitable donation) and a new heading of £50k towards preparatory work in creating an MBA programme with a mix of traditional MBA subjects and specialisations relating to racing.

12. For 2013, the Levy Board instigated a review of the largest elements of the Training submission with a view to achieving a more consultative process and a bottom-up, needs-based approach so that, by the time the submissions reached the Levy Board, they would have been considered by a number of interested parties, contain full cost estimates and planned measurable returns and have a visible link with wider industry training objectives. This approach has been extended to other areas of the Training budget and will be developed further for 2014. Discussions are underway with interested parties. The process preferred by the Levy Board is for BHA to develop a multi-year projection of Racing and Breeding's training requirements and for any sum requested from the Levy Board to be seen as part of that overall requirement.

Point to Point

13. The allocation for point to points for 2013 has been increased to £250k from £200k in 2012 and the method of distribution of the allocation will change. Instead of a flat rate payment to all fixtures, the structure will be akin to the Levy Board's Fixture Incentive Scheme for horseracing under the Rules of Racing. This will see a larger payment made to fixtures at times which are otherwise less attractive for venues to stage. It is reasonable that additional payments should be targeted at those fixtures considered most vulnerable and to assist the Point to Point Authority in achieving a better balanced list of fixture dates. The final distribution structure has been agreed between the Levy Board and the Point to Point Authority. This new method has had some initial effect of ensuring that fixtures staged at less popular times have continued to be programmed. More refinement and targeting in the grant structure is planned for 2014.

Breed Societies

14. The allocation to breed societies for 2013 has increased to £115k from £100k in 2012. A review by the Levy Board's Codes of Practice Sub Committee in September 2012 considered a number of proposals to support its strategy to improve compliance with the Codes of Practice. The £15k increase was recommended in order to provide further specific assistance to the non-thoroughbred breeding sector to ensure compliance with the Codes, via a voucher to be redeemed at a Levy Board-approved laboratory to be used for a test for certain diseases.

Administration (including Betting Exchanges Judicial review costs)

15. This is shown at Table D below, which includes a breakdown of the total figure of £3.3m for calendar year 2013, along with comparable figures for calendar years 2012 and 2011. It has been assumed that the operating costs of the Levy Board and the Bookmakers' Committee remain in line with current costs and also that:

- i. The legal challenge in respect of users of betting exchanges is resolved by the end of May 2013. A further provision of £450k has been made in respect of the costs associated with the appeal by William Hill. This brings the total anticipated cost of the Judicial Review to £750k.
- ii. The wind-up and closure of the Levy Board's final salary pension scheme is now complete. The 2012/13 forecast includes full provision for the estimated remaining costs and no further costs are incurred in subsequent years on this pension scheme.
- iii. The Levy Board moves to cheaper office accommodation by spring 2014 resulting in an expectation that there might be a short period, following the re-location, whereby rent is payable on two office properties.

**Table D Breakdown of the Levy Board and Bookmakers' Committee Costs
(Calendar year)**

	2011 £'000 Actual	2012 £'000 Budget ⁽¹⁾	2013 £'000 Budget
Board Members' salaries	113	116	116
Staff costs	1,126	1,199	1,233
Travel & subsistence	42	59	62
IT maintenance & development	101	69	70
Accommodation ⁽²⁾	593	508	600
Legal & professional	431	243	273
Audit & tax	56	62	60
Printing, postage & stationery	38	37	35
Insurance	16	16	18
Interest & bank charges	17	-	-
Other costs	18	22	25
Depreciation	77	43	28
Sub-total	2,628	2,374	2,520
Overheads recharged to Bookmakers' Committee	(35)	(35)	(35)
Total Levy Board administration costs	2,593	2,339	2,485
Bookmakers' Committee costs	317	304	321
Other costs – non administration			
Betting exchanges judicial review	154	263	450
Levy Board final salary scheme pension costs	171	700	-
Total other costs – non administration	325	963	450
Total Levy Board and Bookmakers' Committee costs	3,235	3,606	3,256

(1) The calendar year expenditure figures quoted for 2012 are as per the original budget agreed by the Levy Board. All Levy Board forecasts are prepared on a fiscal basis reflecting the financial year reporting period.

(2) The budgeted increase in accommodation costs reflects the expiry of the lease at Parnell House in February 2014 and the expectation that there might be a short period, following the re-location to new office accommodation, whereby rent is payable on two office properties.

Tranche 2 – Prize Money and Racecourses

16. The approved allocations for 2013 for prize money and racecourses are shown at Column C of Table E, together with the two previous years' approved allocations. The prize money allocation of £50.2m (including Breeders' Prizes) can be seen as a significant advance on 2011 and 2012 allocations and approaches the Levy Board's actual expenditure on prize money in 2010 of £53.2m, which was itself a higher figure than would have been the case if the Levy Board had not run a significant deficit.

Table E		Prize Money and Racecourses		
		Column A	Column B	Column C
	<i>Para</i>	2011	2012	2013
Raceday Services	17	16,400,000	16,400,000	16,400,000
Fixture Incentive Scheme	19	2,100,000	2,800,000	3,000,000
Channel 4 (1)		1,000,000	1,000,000	0
Breeders' Prizes (2)	21	700,000	700,000	0
British Thoroughbred Marketing	22	0	0	350,000
Prize Money (2)	23	34,000,000	38,200,000	50,200,000
Contingency			0	150,000
Totals		54,200,000	59,100,000	70,100,000

(1) No grant is being made in 2013 to racecourses in respect of Channel 4 coverage.

(2) For the purposes of this table, 2013 Breeders' Prizes are regarded as a sub-heading of prize money. The £50.2m allocation to prize money includes contributions to Breeders' Prizes and to the British Owners and Breeders Incentive Scheme (BOBIS).

Raceday Services

17. The Levy Board has previously noted that the costs of raceday services should be a matter for agreement between the racecourses and service provider, this being currently the BHA for most of these functions. Further, the Levy Board had also previously taken the decision that it should make only a contribution to raceday services, rather than full cost recovery, and that the Levy Board's contribution should continue to decline and be directed to prize money, as a matter of principle.

18. The Levy Board has agreed that its £16.4m contribution in 2012 should be repeated in 2013 but that, from January 2014, no contributions would be made to raceday services and the £16.4m would be allocated to prize money and fixture incentives on a basis to be determined. Maintaining status quo for a year would also allow time to assess options for ensuring that there were appropriate levels of incentive for racecourses to stage midweek racing and at other times to fulfil

the Levy Board's Fixture Criteria. The BHA has been asked by the Levy Board to lead in making recommendations by 5th April 2013 as to how this will be achieved, as part of its review of the distribution of Levy.

Fixture Incentive Scheme (FIS)

19. The Levy Board noted in June 2012 that it is a priority that the existing Criteria gaps are made as attractive as possible, of which there were some 28 in 2012 (including 3 on Good Friday). The Criteria is regarded as the optimal pattern of fixtures through the year; therefore, it is sub-optimal that any fixtures race outside the Criteria before the Criteria slots are filled. This point was conveyed by the Executive, utilising the findings of race-by-race betting data, through the BHA's Fixture Review Group and the Levy Board's Betting Patterns Working Party (BPWP). The Levy Board also agreed to provide some fixture incentive payments and Raceday Services payments to Enterprise fixtures (a certain type of self-funded fixture) which relocated to Criteria slots in 2013. Ultimately, all Criteria gaps other than Good Friday have been filled in the 2013 Fixture List, which has been generally welcomed as a logical and satisfactory outcome.

20. The final details of the 2013 FIS have been agreed between the Levy Board and RCA Executives and circulated to racecourses. An uplift has been possible for qualifying fixtures particularly on January and February weekdays. A contingency has been retained for rearranged and additional fixtures (estimated at around £150k), taking the total allocation for 2013 to £3.0m, from £2.8m in 2012.

Breeders' Prizes/BOBIS

21. The Levy Board's allocation to Jump Breeders' Prizes in 2013 is £400k, up from £300k in 2012. The Flat Breeders' Prizes Scheme has been subsumed into the new British Owners and Breeders Incentive Scheme (BOBIS), presented by the Thoroughbred Breeders' Association and BHA to the Levy Board, with a request for funding by the Levy Board of up to £1.1m in 2013.

British Thoroughbred Marketing

22. The Levy Board has allocated £350k to activities overseen by BHA and Racing Enterprises Limited for the promotion of British racing. Details will be announced by the parties involved in early 2013.

Prize Money Principles

23. The following principles are used in the allocations for 2013:

- a) The 2013 Basic Daily Rate award is based on racecourses' one year prize money contribution (2011) and one year betting turnover (2011) performance. The separate Flat and Jump formulas for converting a racecourse's own 2011 prize money contribution to a "Merit"

award from the Levy Board were reviewed by the RCA and racecourses with proposals endorsed by the Levy Board Executive.

- b) All Racecourse and Leasehold fixtures in 2011 count towards the Merit award.
- c) The appearance money scheme funding continues.
- d) Supplementary midwinter Jump prize money payments on Sundays to Fridays from the Levy Board are maintained.
- e) A transitional fund, providing additional prize money support to certain racecourses, has been maintained in the light of the move to a one-year Merit system and the introduction of the new Flat and Jump formulas.
- f) The Divided Race Fund has been retained.
- g) Twilight fixtures are maintained in current slots and again should start no later than 5pm.
- h) The Quality Support Fund (QSF) has increased to just over £6.5m.
- i) An allocation of £680k from the overall prize money allocation is made, to be expended following proposals to be agreed through 2013 from the BPWP, to incentivise Levy generation. Most of this will be utilised by a new incentive to assist prize money on Sundays and to enable the Interactive Race Planning initiative to run for a full year in 2013. One important change for 2013 is that, if there is any uncommitted sum in the incentive fund by summer 2013, it is added to prize money for the rest of the year, rather than potentially being left unused.
- j) The Levy Board has made provision for a contribution of £300k to British Champions Day (2011 and 2012: £90k) but has agreed to fund up to £400k depending on the inclusion of a high quality televised handicap and/or any upgrades to Group 1.
- k) Payments to a racecourse of £4k per race will be made in circumstances in which a racecourse's fixtures are the subject of late-notice televising on Channel 4, usually as the result of abandonment of fixtures in the original schedule. Funds will be taken from the as-yet unallocated sums in the FIS.
- l) Saturday afternoon funding criteria is that Racecourse fixtures achieving prize money on the day of £135k in April to September inclusive (other than summer Jumping fixtures, which have a £115k threshold) and £115k in other months receive 100% BDR funding, with 50% to any fixtures below the threshold, to a maximum of four funded fixtures in total. These thresholds increase from £120k and £100k respectively in 2012.

7 Race Cards and 6 Runner Fields

24. There is no incentive or penalty scheme in 2013 for race cards with fewer than 7 races or races with fewer than 6 runners. This subject is being discussed for 2014 as part of the work of the Fixture Review Group.

Race Values

25. There are significant benefits in having a set of race values agreed by Racing to provide structure to the race programme particularly for higher race classes (1 -4). The BHA has introduced new race values from January 2013.

Quality Support Fund

26. Resolution of the QSF 2013 was reached in early November 2012 and races within the Scheme have been offered out to racecourses. The Levy Board was keen to ensure the continued promotion of quality races, including for developing younger and less experienced horses, and approved an increase in the allocation from £4.9m in 2012 to £6.5m. This followed extensive work undertaken by BHA in developing optimal Flat and Jump race programmes for higher-class horses.

Summary of All Expenditure in 2013

27. Table F shows all 2013 expenditure headings.

Table F	2013 Allocations on basis of £76.3m expenditure
	£
Total calendar year expenditure allocation	76,300,000
Prize Money	50,200,000
Raceday Services	16,400,000
Fixture Incentive Scheme	3,000,000
Veterinary Science and Research	1,600,000
Training	1,000,000
Channel 4	-
Point to Point	250,000
Breed Societies	115,000
Administration costs	2,806,000
British Thoroughbred Marketing	350,000
Contingency	150,000
Betting Exchanges judicial review	450,000
Total expenditure - 2013	76,321,000

Sub-Heading: Prize Money Expenditure

28. The BHA, on behalf of Racing, has been asked to submit to the Levy Board, in spring 2013, principles for allocating the biggest headings of Levy expenditure including prize money.

29. The 2013 breakdown is shown in Table G below with originally agreed 2012 allocations for comparison.

30. It can be seen that BDRs for Racecourse Fixtures act as the balancing figure to reach a £48.7m total. The way in which the increase in BDRs for Racecourse Fixtures as between Flat and Jump has been allocated is so as to ensure the overall split of the £48.7m is 61% Flat, 39% Jump, reflecting the 2011 Levy generated by each code.

LEVY BOARD PRIZE MONEY ALLOCATION 2013 WITH 2012 COMPARISON

TABLE G

	2012			2013			NOTE	CHANGE vs 2012
	FLAT	JUMP	TOTAL	FLAT	JUMP	TOTAL		
	£	£		£	£	£		
BDRs Racecourse Fixtures	15,994,147	11,588,382	27,582,529	20,751,240	14,965,700	35,716,940	1	8,134,411
Winter Jump	-	432,000	432,000	-	592,800	592,800	2	160,800
Transitional Fund	-	200,000	200,000	80,000	220,000	300,000	3	100,000
Blanket AWT	1,110,200	-	1,110,200	1,443,260	-	1,443,260	4	333,060
BHA Twilight Fixtures	980,000	-	980,000	1,274,000	-	1,274,000	5	294,000
Sunday Appearance Money	275,000	460,000	735,000	275,000	460,000	735,000	6	0
Ffos Las BDRs	37,000	300,000	337,000	-	-	-	7	(337,000)
British Champions Day	90,000	-	90,000	300,000		300,000	8	210,000
Quality Support Fund	4,030,750	880,500	4,911,250	4,518,500	2,039,500	6,558,000	9	1,646,750
Saturday Handicap Fund	180,000	120,000	300,000	75,000	55,000	130,000	10	(170,000)
Racing and Betting Incentive Fund	300,000	200,000	500,000	330,000	220,000	550,000	11	50,000
Divided Race Fund	660,000	440,000	1,100,000	660,000	440,000	1,100,000	12	0
TOTAL	23,657,097	14,620,882	38,277,979	29,707,000	18,993,000	48,700,000		10,422,021
Flat/Jump split	61.8%	38.2%		61.0%	39.0%			

Breeders' Prizes	400,000	300,000	700,000		400,000	400,000		(300,000)
BOBIS	-	-	-	1,100,000		1,100,000		1,100,000

GRAND TOTAL	24,057,097	14,920,882	38,977,979	30,807,000	19,393,000	50,200,000		11,222,021
Flat/Jump split	61.7%	38.3%		61.4%	38.6%			

Notes

- 1 Balancing figures after items in notes 2-12 allocated
- 2 £6,000 per Sunday to Friday Jump Racecourse fixture in 2012. Uplifted by 30% = £7,800 * 76 fixtures
- 3 Agreed with RCA at £80,000 Flat, £220,000 Jump
- 4 £18,200 per fixture in 2012. Uplifted by 30% = £23,660 * 61 fixtures
- 5 £10,000 in 2012. Uplifted by 30% = £13,000 * 98 fixtures
- 6 No change to £100 per runner on Sundays
- 7 From 2013, Ffos Las has all 16 originally-granted fixtures eligible for BDR from main BDR Racecourse Fixtures pool
- 8 Agreed allocation
- 9 Assumed at BHA-proposed £6,558,000 with agreed Flat/Jump split
- 10 Reflects multi-year commitments made in 2012 and no new grants in 2013
- 11 Agreed allocation
- 12 Estimated at £1.1m for 2013