

HORSERACE BETTING LEVY BOARD

BUSINESS PLAN 2014

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 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 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 2014

3. Specifically in 2014, the 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, including through a new model which awards racecourses based on their planned contributions in the coming year.
 - b) Incentivise racecourses by linking their 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 2013 expenditure programme as the baseline for 2014 and make recommendations for a revised expenditure programme for 2015 following review.
 - e) Review on an ongoing basis the effects of Board's revised model for the distribution of the majority of its prize money and consider further refinements for 2015.
 - f) Contribute to the provision of cost-effective technical, security and regulatory services for the protection of the integrity of racing in the interests of the racing public, punter and participant.
 - g) Continue to provide 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.
 - j) In consultation with the Department, develop an appropriate operating agreement between the Department and the Board; and, if the Department undertakes a Triennial Review of the Board, provide all necessary assistance.
 - k) Continue to liaise constructively with the Racing and Betting industries to promote strong and trusted working relationships for the commercial benefit of both.

INCOME, RESERVES AND EXPENDITURE

Previous Levy Schemes

4. Table A shows the movements in Licensed Betting Office (LBO) gross profits on British horseracing with the changes in the number of actual fixtures that took place and of LBOs.

Table A : Analysis of previous Levy Schemes

	Change in LBO gross profit on British horseracing	Change in number of fixtures*	Change in number of LBOs **
44 th to 45 th Levy Scheme	+2.2%	+3.1%	+8.1%
45 th to 46 th Levy Scheme	+3.2%	+1.7%	+7.1%
46 th to 47 th Levy Scheme	-7.3%	+6.3%	+0.9%
47 th to 48 th Levy Scheme	-8.7%	0.0%	-1.7%
48 th to 49 th Levy Scheme	-12.5%	+1.5%	-0.8%
49 th to 50 th Levy Scheme	-1.4%	-2.5%	0.0%
50 th to 51 st Levy Scheme	-2.1%	-7.3%	n/k

* The change in the number of actual fixtures that took place represents the movement between calendar years i.e. the movement between 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 total income in the 52nd Levy Scheme period (2013/14), including contributions from Betfair, other bookmakers, interest and other income, is assumed at £76.6m.

6. On the basis of the Levy yield forecasts presented by the Bookmakers' Committee in its Recommendations to the Levy Board in October 2013 and taking into account the £4.5m additional voluntary contribution by the four largest retail bookmakers, the total income in the 53rd Levy Scheme period (2014/15), including contributions from Betfair, other bookmakers, interest and other income, is assumed at £81.1m.

Investments

7. The Board has adopted the following assumptions in respect of racecourse loans:

- New racecourse loans are granted on four year terms and existing loans are repaid in line with their original terms.
- £8.6m is provisionally allocated for loans to racecourses in 2014. The amount available for racecourse loans in 2015 is estimated, at February 2014, to be £8m.

Deficit and Reserves

8. Although the majority of expenditure is planned on Racing's calendar year basis, the Levy Board has elected to measure its performance by reference to the budgeted surplus/deficit at a March year end date, in line with its fiscal year. With this in mind, given the target reserves range of £30m to £40m, the Board has agreed a deficit budget for 2014/15. The reserves position will be monitored closely, in order that cumulative losses do not reduce reserves below the target range. This approach addresses the difference between income forecasts based on Levy Schemes (fiscal years) and expenditure budgets based on calendar years in line with Racing's Fixture List. Therefore the expenditure budgets for the Racing calendar years 2014 and 2015 are a function of the Levy yields of the 52nd, 53rd and 54th Levy Schemes.

Financial Summary

9. Table B summarises the income and expenditure account and forecast reserves for 2014/15 (Racing calendar year 2014), along with comparatives for 2012/13 and 2013/14.

Table B: Summary income and expenditure and reserves for 2012/13 to 2014/15

	2014/15 Budget £m	2013/14 Forecast £m	2012/13 Actual £m
Total income	£81.1	£76.6	£74.8
Total core expenditure	£79.4	£73.7	£62.2
Administration costs (HBLB and Bookmakers' Committee)	£2.3	£2.5	£2.5
Betting exchanges judicial review	-	-	£0.4
Final salary pension scheme	-	-	£1.4
Operating (deficit)/surplus	(£0.6)	£0.4	£8.3
Reserves at 31st March	£42.4	£43.0	£42.6
Total calendar year expenditure – 2014, 2013, 2012 *	£82.0	£76.3	£64.8

*The calendar year expenditure figures quoted for 2012 and 2013 are as per the original budget agreed by the Board.

Expenditure Assumptions

10. The following assumptions were made by the Board in setting its expenditure budget:
- a) The 2014 Fixture List is comparable with that in 2013 in that the number of programmed fixtures as a whole is around 1,460 of which the number of HBLB Criteria Fixtures (defined as those in receipt of a Raceday Services grant) is approximately 1,436, as in 2013. In the event, the final numbers were 1,464 and 1,442 respectively.
 - b) The target reserves range is £30m to £40m, with a minimum of £20m held in cash (and near cash) and £8.6m is made available for racecourse loans in 2014.
 - c) Calendar year total expenditure in 2014 is £82.0m.

Tranche 1 – Fixed Allocations

11. Allocations, in calendar year 2014, made to those heads of expenditure which are not distributed to prize money and racecourses are as shown in Table C, together with the actual expenditure in 2012 and the budgeted allocation for 2013.

Table C: Fixed Allocations (not prize money or racecourses)

	2014 £000	2013* £000	2012 £000
Veterinary Science **	£1,800	£1,600	£1,200
Training	£1,222	£1,000	£900
Point to Point	£250	£250	£200
Breed Societies	£115	£115	£100
Total Administration	£2,423	£2,806	£3,343
Betting Exchanges Judicial Review	-	£450	£263
Great British Racing International	£350	£350	-
Total	£6,160	£6,571	£6,006

* The calendar year expenditure figures quoted for 2013 are as per the original budget agreed by the Board at the end of 2012.

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

Veterinary Science

12. The Board agreed in December 2013 the Veterinary Advisory Committee's (VAC) recommendations. The Board had previously agreed to introduce a multi-year indicative commitment for future years and a stepped approach to increasing the veterinary budget from £1.6m in 2012/13 to £2m in 2014/15 in order to bring it back to the level of 2009/10. The veterinary budget for calendar year 2014 will be regarded as £1.8m, with the increased budget focused on veterinary science research projects. Details of the Board's commitment to this area were issued in a [press release](#) in January 2014.

Training

13. The Board's contribution to Industry Training has increased to £1.2m in 2014 from £1.0m in 2013, following an industry-wide review by BHA following a request by HBLB. The contributions being made by the Board are in the following areas, on which monitoring and evaluation reports will be provided by BHA to the Board at agreed intervals:

BHA coordinated Industry Recruitment, Training & Education	2014 £000
Stable Staff – Recruitment, Apprenticeships, etc.	303
British Horseracing Education and Standards Trust (BHEST) Awarding Body and Diploma direct costs	59
Jockey Continuation Training (includes Nutrition Programme)	56
Other (Pony Racing, Life Skills, Functional Skills, whip use, etc.)	35
Various courses (including Health and Safety, Assistant Trainers, Head Lads)	22
Jockey Coaching Programme (in conjunction with British Racing School)	106
Racing Excellence Series (Apprentice Riders)	30
Racing Workforce and Employer Needs Analysis	55
Stable Staff Training Improvements (flows from the above heading)	45
BHEST Racing to School	195
National Stud	180
Thoroughbred Breeders Association Education and Employment Scheme	86
Retraining of Racehorses	50
Total	<u>£1,222</u>

Point to Point

14. The allocation for point to points for 2014 is £250,000 in 2014, the same as in 2013. Further refinements will be considered for 2015 in the light of the change in the method of distribution of the fund in 2013, which now sees a larger payment made to fixtures at times which are otherwise less attractive for venues to stage.

Breed Societies

15. The allocation to breed societies for 2014 is £115,000, as in 2013. The Board makes such grants in line with its statutory responsibility for “the improvement of breeds of horses”. The budget includes direct awards to the most vulnerable rare equine breeds, a provision to cover costs for Contagious Equine Metritis testing and support for the now-annual equine rare breeds show. Only the rare equine breeds listed by the Rare Breed Survival Trust (RBST) are eligible for direct grant funding and the RBST supplies HBLB with independent, confirmed data on breeding numbers and commentary on each breed regarding its status, the outcome of its breeding programme, risk factors and the key challenges affecting each society. This independent opinion supports HBLB’s evaluation of the society’s account of previous grant expenditure and its justification of current proposals and its future development plans.

Great British Racing International (GBRI)

16. The Board’s contribution to GBRI in 2014 was agreed as part of a two-year approval for 2013 and 2014, totalling £350,000 in each year. This grant will be reviewed during 2014.

Administration

17. Table D below includes a breakdown of the total administration figure for both HBLB and the Bookmakers’ Committee of £2.4m for calendar year 2014, along with comparable figures for calendar years 2013 and 2012.

18. HBLB moved to new office accommodation at the beginning of February 2014. The like-for-like annual saving (rent, service charge and rates) on the previous premises is £186,000 per year. The Accommodation costs shown in Table D reflect the expiry of the lease at Parnell House in February 2014 and all of the non-capital costs associated with the re-location to 21 Bloomsbury Street.

19. The calendar year expenditure figures quoted for both 2012 and 2013 are as per the original budget agreed by the Board, since actual HBLB accounts and forecasts are prepared on a fiscal basis reflecting the management and financial accounting reporting period.

Table D: HBLB and Bookmakers' Committee Administration Costs (calendar year basis)

	2014 £000 Budget	2013 £000 Budget	2012 £000 Budget
Board Members' salaries	115	116	116
Staff costs	989	1,233	1,199
Travel & subsistence	58	62	59
IT maintenance & development	108	70	69
Accommodation	433	600	508
Legal & professional	255	273	243
Audit & tax	47	60	62
Printing, postage & stationery	35	35	37
Insurance	15	18	16
Other costs	21	25	22
Depreciation	60	28	43
Sub-total	2,136	2,520	2,374
Overheads recharged	(23)	(35)	(35)
Total HBLB administration costs	2,113	2,485	2,339
Bookmakers' Committee costs	310	321	304
Other costs – non administration			
Betting exchanges judicial review	-	450	263
RBS pension costs	-	-	700
Total other costs – non administration	-	450	963
Total HBLB and BC costs	2,423	3,256	3,606

Tranche 2 – Prize Money and Racecourses

20. The 2014 calendar year allocations for prize money and racecourses are shown in Table E, together with the two previous years' approved budget allocations.

21. The allocation to prize money includes contributions made to Breeders' Prizes and to the British Owners and Breeders Incentive Scheme (BOBIS) and assumes that all of the £4.5m from the new Incentive Fund agreed between the four largest retail bookmakers and Racing will be spent on prize money in the course of the year.

Table E: Prize Money and Racecourses

	2014 £000	2013 £000	2012 £000
Raceday Services	£16,400	£16,400	£16,400
Fixture Incentive Scheme	£3,000	£3,000	£2,800
Channel 4	0	£0	£1,000
Prize Money	£56,385	£50,200	£38,900
Totals	£75,785	£69,600	£59,100

Breeders' Prizes/BOBIS

22. The Board's allocation to Breeders' Prizes in 2014 is £400,000 for the Jump Scheme, the same as in 2013.

23. The Board's contribution to the British Owners and Breeders Incentive Scheme (BOBIS), in its second year, has increased to £1.253m, from £1.1m in 2013.

Sub-Heading: Prize Money Expenditure

24. The overall split of prize money in 2014 as between Flat and Jump will be 61% Flat : 39% Jump, reflecting the 2012 levy generation by each code. Distribution in 2013, based on 2011 levy generation, was also 61% : 39%.

25. Full details of the prize money allocations to each heading of expenditure are as shown in Table F.

26. For 2014, the Board has implemented a number of changes to the methods in allocating its largest heading of prize money, General Prize Fund grants. These follow the receipt of recommendations from Racing. Part of the 2014 award from HBLB is based on each racecourse's indicative prize money contribution in that year, rather than, as in the past, basing awards on retrospective performance. In 2015, the intention is to introduce a wholly forward-looking system. The other significant change is that the GPF budget has been divided 60% "Merit" (the amount reflecting a racecourse's prize money contribution) and 40% "Betting" (based on the amount of betting turnover generated by each racecourse's eligible fixtures), rather than 50/50 as in the past. This amendment, requested by Racing and agreed by the Board, was considered likely to act as a further incentive to racecourses to invest in prize money. The Board will, during 2014, look to assess

any consequent impact, including the extent to which a racecourse's regard to betting turnover in setting a race programme may have been affected.

Raceday Services and Fixture Incentives

27. In 2014, the Board will continue to make payments to racecourses towards Raceday Services and in Fixture Incentives in the same way as in 2013, having endorsed a recommendation to do so from Racing. The payment schedule will be near-identical to that in 2013.

LEVY BOARD PRIZE MONEY ALLOCATION 2014 WITH 2013 COMPARISON				TABLE F					
	2014			2013			NOTE	CHANGE VS 2013	
	FLAT	JUMP	TOTAL	FLAT	JUMP	TOTAL			
	£	£	£	£	£	£			
GPF Racecourse Fixtures	20,466,820	15,857,310	36,324,130	20,751,240	14,965,700	35,716,940		1	607,190
Winter Jump		600,600	600,600		592,800	592,800		2	7,800
Transitional Fund			-	80,000	220,000	300,000		3	-300,000
Blanket AWT	1,647,000		1,647,000	1,443,260		1,443,260		4	203,740
BHA Twilight Fixtures	1,464,500		1,464,500	1,274,000		1,274,000		5	190,500
Sunday Appearance Money	275,000	460,000	735,000	275,000	460,000	735,000		6	-
British Champions Day	400,000		400,000	300,000		300,000		7	100,000
Future Champions Day	225,000		225,000			-		8	225,000
Good Friday Lingfield	126,000		126,000			-		9	126,000
Race Incentive Fund	4,568,500	1,989,500	6,558,000	4,518,500	2,039,500	6,558,000		10	-
Saturday Hcap Fund	25,000	47,000	72,000	75,000	55,000	130,000		11	-58,000
Racing and Betting Incentive - Twilights	65,000	65,000	130,000			-		12	130,000
Racing and Betting Incentive Fund	330,000	220,000	550,000	330,000	220,000	550,000		13	-
Divided Race Fund	854,000	546,000	1,400,000	660,000	440,000	1,100,000		14	300,000
Breeders Prizes		400,000	400,000		400,000	400,000		15	-
BOBIS	1,253,000		1,253,000	1,100,000		1,100,000		16	153,000
SUB TOTAL PRIZE MONEY	31,699,820	20,185,410	51,885,230	30,807,000	19,393,000	50,200,000			1,685,230
Flat/Jump split	61%	39%		61%	39%				-
Additional Voluntary Contribution Fund			4,500,000						4,500,000
GRAND TOTAL			56,385,230			50,200,000			6,185,230

Notes to Table F

1. Uplift reflecting addition of Transitional Fund and other adjustments to ensure like for like comparison with 2013.
2. £7,800 per Sunday to Friday Jump Racecourse fixture. One extra fixture in 2014.
3. Transitional Fund for 2014 included in GPF total.
4. £23,660 per fixture in 2013. Uplifted to £27,000 in 2014, rewarding additional racecourse prize money contribution.
5. £13,000 per fixture in 2013. Uplifted to £14,500 in 2014, rewarding additional racecourse prize money contribution.
6. No change to £100 per runner on Sundays.
7. £300,000, with up to £400,000 to be paid in certain circumstances.
8. £175,000, with up to £225,000 to be paid in certain circumstances.
9. Agreed allocation, subject to reaching total prize fund threshold.
10. Agreed at BHA-proposed £6,558,000.
11. Reflects multi-year commitments which end in 2014.
12. Agreed allocation for additional Twilight fixtures in autumn 2014 following a successful trial in 2013.
13. Distribution to be agreed in conjunction with Additional Voluntary Contribution (Incentive) Fund.
14. Increased by £300,000 to reflect actual cost of the scheme in 2013.
15. Agreed allocation. No change from 2013.
16. Agreed allocation in second year of the scheme.

Horserace Betting Levy Board
Income and Expenditure Account 2011/12 to 2014/15 ¹

	53rd Scheme	52nd Scheme	51st Scheme	50th Scheme
	March	March	March	March
	2014/15	2013/14 ⁴	2012/13 ²	2011/12 ²
	£'000	£'000	£'000	£'000
Levy Yield - current Levy Scheme	67,900	68,060	66,700	67,715
Levy Yield - previous Levy Schemes	-	55	146	174
Voluntary contributions	12,300	7,843	7,569	6,866
Interest and other income	913	652	419	119
Total Income	81,113	76,610	74,834	74,874
Total core expenditure	79,432	73,739	62,202	56,710
HBLB administration costs	2,023	2,238	2,291	2,433
BC administration costs	307	241	228	245
Total expenditure	81,762	76,218	64,721	59,388
Betting exchanges judicial review	-	-	370	117
Final salary pension scheme	-	-	1,382	223
Operating surplus/(deficit)	(650)	392	8,361	15,146

	2014	2013 ³	2012	2011
Calendar year expenditure				
Prize money (inc. Breeders' Prizes)	56,385	50,200	37,054	34,492
Raceday services	16,400	16,422	16,422	16,348
Fixture incentive scheme	3,000	3,000	3,140	2,131
Veterinary grants	1,800	1,600	1,736	927
Training	1,222	1,000	910	870
Channel 4	-	-	880	987
Point to Point	250	250	200	200
Breed societies	115	115	100	100
Great British Racing International	350	350	-	-
Contingency	-	150	-	-
HBLB Administration	2,113	2,485	2,270	2,599
Bookmakers' Committee Administration	310	322	225	317
Total excluding pension & judicial review	81,945	75,894	62,937	58,971
HBLB Retirement Benefit Scheme	-	-	1,554	171
Betting exchanges judicial review	-	450	273	154
Total	81,945	76,344	64,764	59,296

Notes:

- ¹ The figures shown exclude IFRS adjustments.
- ² The results for these years have been updated to reflect the change in accounting policy in 2012/13 for veterinary research grants.
- ³ The calendar year expenditure figures quoted for 2013 are as per the original budget agreed by the Board.
- ⁴ The figures shown for 2013/14 reflect the current fiscal year forecast.