tote ANNUAL REPORT & ACCOUNTS 2011

tote
ANNUAL REPORT & ACCOUNTS 2011

the horserace totalisator board (**tote**)
annual report and accounts 2010/2011

Presented to Parliament pursuant to Section 31 of the Betting, Gaming and Lotteries Act 1963.
Laid with the Horserace Betting Levy Board Annual Report and Accounts 2011.

contents

board members

The Board is the embodiment of the statutory entity, Horserace Totalisator Board, known as the Tote. Each member of the Board is appointed by Her Majesty's Government to carry out their duties.

Non-executives

Mike Smith	Chairman
Sir Ian Good CBE	Senior Independent Board Member Chairman of Remuneration Committee and member of the Pensions Committee
Noel Harwerth	Chair of the Audit and Pension Committees
Len Cowburn	Member of the Audit Committee
Mark McCafferty	Member of the Remuneration Committee

Executives

Trevor Beaumont	Chief Executive Officer
Philip Whitehead	Finance & IT Director

Board Members' Responsibilities

The statutory powers under which the Tote is enacted require the Board members to keep proper accounts and records in relation to those accounts and to prepare a statement of account in respect of each accounting period.

In doing so, the Board has adopted best practice procedures and accordingly the Board can confirm that accounts have been prepared to give a true and fair view of the state of affairs of the Tote and its businesses and of the profit or loss for the year. In preparing the accounts the Board has:

- selected suitable and applicable accounting policies and applied them on a consistent basis;
- made judgments and estimates that were prudent and reasonable;
- followed applicable accounting standards and highlighted any departures from the chosen accounting policies in notes to the accounts; and
- kept proper accounting records, safeguarded the assets of the Board and taken reasonable steps to prevent fraud and other irregularities.

Secretary

Andrew Lindley

Head Office

Douglas House
Tote Park
Wigan
WN3 4HS

Auditors

Ernst & Young LLP
100 Barbirolli Square
Manchester
M2 3EY

Solicitors

Slaughter & May
One Bunhill Row
London
EC1 8YY

chairman's statement

still dedicated to doing what is right...

The economic environment remained challenging and there was substantial distraction occasioned by the continued efforts by the Government to sell the business... but the Tote team continued to meet their broader responsibilities and delivered further substantial returns to Racing.

The financial results were patchy; stable in the shops, improved for Pool activities and disappointing in telephone and internet where tax free off shore location by competitors is now the norm. Having said that, the business generated substantial cash so that it could both continue to invest and meet its obligations to Racing by improving the level of financial support thereby cementing the formal Racecourse partnering arrangements.

The capital investment in the year was substantial and designed to secure long term benefits for the business. Particular elements were:

- A new state of the art data centre
- New bet capture and betting screen systems for the shops
- Enhanced security mechanisms to protect staff and customers

Support for Racing was again beyond reproach.

- £11.7million was contributed directly to Racing. This represented an increase over 2010 of more than half a million pounds and included a similar increase in sponsorship to assist Racecourses that have experienced largely flat performance in terms of on-course betting. Within the total the major elements were:
    - The Tote remained by far the biggest sponsor and supporter of the sport with sponsorship provided to 724 horseraces and total sponsorship spend of £5.2million.
    - Payments to Racecourses relative to Pool betting under the partnering arrangement were also £5.2million.
- An additional indirect £6.7million was also provided in Horserace Betting Levy payments.

Pool betting activities were buoyant. Turnover was a record £390million. Whilst on-course turnover was muted there was substantial revenue growth in Tote Direct and International sales. This improvement is another testament to a long term approach and the consistent development of commercial partnerships, allowing an additional £1million distribution of Pool betting contribution (within the £11.7million) at the end of the year to match that achieved last year.

As I said last year, despite the uncertainties, the business has remained stable and certainly has again proved its resilience, even though the public conjecture about the future ownership of the business started to take its toll as key staff sought a more stable future elsewhere, particularly once the Board's idea of the Tote Foundation was turned down by the Government towards the end of the financial year.

This statement would not be complete without commenting on the Government's sale process overall. The position of the Tote was and is that:

- Given the uncertainties and constraints associated with Government stewardship, the business should transfer to new ownership.
- As the Government had not purchased the business nor invested nor stood behind any of the Tote's obligations, then the rights of the key stakeholders, being employees and Racing must be recognised and protected and put at the forefront of determinants for a transfer.
- The Tote Board has a duty both to advise Government and to do everything it can to ensure the going concern post acquisition and long term stakeholder protection.

- The Tote Board should seek an alternative to sale that would give a stable long term future for the business and thereby protect its stakeholders.

It is this latter point that particularly exercised the Board. The Board presented to the Government and then at Government's request actively pursued the concept of the Tote Foundation under which the business would become wholly owned by a Charity with the Government receiving a £50million compensatory award, paid over time. This would secure the future of the business and provide employee security and enable it to continue to support Racing, the objective for which the Tote was established more than 80 years ago. Racing wholeheartedly supported this idea.

The Tote Board's final effort was to encourage Government to ensure that the sale agreement gives irrevocable safeguards for employees and Racing. We saw this request as particularly justified given that the business remains financially robust and is transferred as a going concern both in an accounting and a functional sense. I am also pleased to report that results in the first ten weeks of the new financial year remain firm.

This Report and Accounts is the last that will be produced before the Horserace Totalisator Board is dissolved as part of the sale process and is in abbreviated form. The Accounts are also unusual in that whilst there is clarity from the current Board members about the financial structure and going concern outlook for the business as currently constituted, understandably neither the Board members nor the auditors can form a view on the position post sale. Accordingly the Audit Report reflects the auditors' inability to form a view on the 'going concern' outlook post dissolution and sale.

The Tote Board and Executive Team, once again, gives thanks to all employees for their efforts and dedicated service. Our best wishes to them for the future under the new ownership.

ceo statement

It is a very sad privilege that it falls to me to say some words on behalf of the staff as the institution that is the Tote comes to its end as a public body.

The Tote has had a difficult rationale. It has had to deliver a great service to horseracing and its race-day customers. It has had to deliver to the wider national and international betting markets. It has had to deliver value to its ultimate owner whilst doing its duty to maximise profit in support of all Racing's stakeholders. And it has had to do it all competing against the behemoths of betting whilst standing as a public corporation.

Against such a difficult background, one might expect an unmotivated, lacklustre workforce that has stopped trying to impress or is quick to become embroiled in replies to criticism. In fact, it is just the opposite. The staff at the Tote are amongst the very best I have met. They have a sense of purpose and belonging born of the history of the business and the long association with racing. I would go so far as to say that to work for the Tote is much more than a job.

Enthusiasm fosters real dedication, expertise and entrepreneurship. The staff at the Tote have all of this, and in great abundance. They are experts, the best in their field from the call centre to the shops and from the pools to the technologists and other professionals that keep it all running. I am proud of them and the commercial edge that they give to the business and they should be proud of themselves.

Our management and staff will be committed to delivering a profitable future and I know that they can be relied upon to put in maximum effort for the new owner, just as they did so magnificently over the years during the trials and tribulations of the sale process.

business review

Contribution to Racing

2010/11 was the second year of the three year partnering arrangements that are in place with all 60 British racecourses. They are designed to give financial security in an uncertain environment through guaranteed levels of sponsorship, the opportunity to increase contributions relative to pool betting on course and the further opportunity to share in the overall profitability of the pool business with augmented contributions at the year end.

The partnering arrangement is built upon working together to drive pool betting on racecourses. This has been successfully achieved using modern tools such as handheld betting terminals to allow mobile attendants to roam the racecourses, pool betting pitches akin to those of traditional bookmakers and 'fast-betting' ATMs.

Once again the Tote delivered against its promises in spectacular style with a total contribution to racing's coffers of £11.7million for the year, up from £11.3million in 2009/10, making the latest five year running total of contributions to racing (excluding Horserace Betting Levy) £56.5million.

The Tote remained the biggest sponsor of horseracing by some margin with 724 races at 172 individual race meetings, worth a total of £10.3million in prize money, carrying the Tote brand. The Tote's total contribution to sponsorship for the year was just over £5.2million which was an increase of over half a million pounds on the previous year's total of £4.7million.

The contributions relative to pool betting on course were £4.2million, which was comparable to last year and a solid performance with hospitality and customer confidence still challenging. However, the continued growth of international connections to the pools meant an improved overall profitability for the Pool division allowing the Board to boost contributions to racecourses with an augmentation of £1million.

Pool division

The main theme for the Pool division has been continued turnover growth through new business streams.

Total pool size for the year was £389million, up from £353million the previous year. The five year increase is £113million from 2005/6 when turnover was £277million.

The growth story includes the ordinary bet types such as Win Place and Exacta with the pool size excluding the three 'big win' bets, Jackpot, Scoop6 and Super7, having increased by a signally impressive £32million. This should be no surprise as a win bet on the Tote on every race this year would have paid 12% more than the SP, and an exacta 20% more than the computer straight forecast.

The big win bets had their own stories over the year with a series of massive rollovers. The Jackpot had a record total turnover of £13.5million. It also had its second highest roll over win fund of all time in early August of £2,308,852 and then exceeded the £1million mark again later the same month with a total pool of £1,116,944. Another sequence of eight consecutive rollovers culminated in a Jackpot pool of £2,036,156 at an Exeter meeting on 8th March. This was won by a single winning ticket placed by a race-goer on-course who staked just £2 in total to win a record pay-out of £1,445,671. The Scoop6 pools also achieved a high of £2million in May 2010, before reaching £1million twice in August and £1.5million twice in October. The biggest pay-out of the year was in October, when one winner landed the bonus fund of £1,119,788 to add to their win fund pay-out the previous week. Nearly £45million has been paid out to Scoop6 winners in the last three years with the bet having produced twelve millionaires to date.

Investments into the pool from overseas sources grew by £38.6million in the year to £111.4million. Sadly, only £16.7million of this growth was delivered through the joint ventures with horseracing's picture rights holders as their business model continued to put off potential customers and drive them to take horseracing from other parts of the world to satisfy their markets at British horseracing's expense.

The growth of international business has again increased the percentage of pool investments taken off course. This now stands at 75.6% of the pool compared to 72.8% in 2009/10 and 58.7% in 2005/6 and highlights the likely future for further pool growth.

Tote Direct, which sells Tote bets in nearly every licensed betting office in Britain, contributed £117.6million of the total investment to the pools. This was £5.4million behind last year which reflects the pressure on traditional horseracing business in British betting offices. To combat further decline, Tote Direct has started to offer connections to overseas pools at times when Britain is not racing and turnover on this embryonic business was £7.3million in the year and represents excellent potential for the future.

The performance on the racecourse was flat at £94.9million. Whilst this was £0.7million behind the prior year results, there had been 91 abandonments representing lost budgeted turnover of £4.5million in the year which compares to the prior year when there were 94 abandonments, representing £3.2million of budgeted turnover.

Retail division

The main theme for the retail division has been developing fitness for growth.

New technology allowing for multiple broadband connections to the betting shops has been installed to underpin a massive change program in the customer and staff experience that has been rolled out this year and has included new tills, shop displays, gaming machines and security systems.

For over the counter business, new till systems have been introduced which allow for much greater speed and flexibility. This has been linked to a much revised screen system and data link between tills and screens which allows for richer and better synchronisation in shop displays. The result has been a reduction in the rate of decline being seen in the traditional over the counter business from 9.9% year on year to 3.3% and a small improvement in core margin of 0.2% despite a year of customer friendly results at key horseracing and sporting events.

For the gaming machines business, the new technology is in the form of 'Videobet', the new Global Draw software platform which hosts the most up to date games and player features designed to capture customer interest. It also allows for very quick changes to software via broadband links in order to ensure that shops always have the latest games. It also returns detailed information on game play back across the internet allowing for in depth customer analysis and responsive yield management and marketing in shop. This has been delivered into shops with a machine density that has been optimised in the year at just under four per shop to allow for physical constraints and maximum profitable usage. Accordingly, machine growth for the year has improved from 0.4% in 2009/10 to 6.4% in 2010/11 with a significant leap in the last part of the year as the impact of Videobet began to be felt. In the last four week period the machines delivered an average weekly profit per machine of £680; £48 per week better than the full year average.

The division has also introduced a cross between machine and over the counter business with new terminals offering traditional bets on sporting events. These machines are largely geared up to European sport with foreign language interfaces and are proving popular and delivering new income.

The overall result has been a return to growth in the business at gross profit level with a £1.7million increase on the prior year.

There have been some significant cost pressures on the division as well however, including the VAT increases in 2010 and 2011 which had the combined effect of increasing VAT for the division by 2.5% on the previous year; actual cash cost to the machine business being £1.1million and £0.5million for the rest of the division. There was also an increase in costs of £850,000 in the provision of SiS and TurfTV without any associated benefit.

To defend against the cost increases, the division has introduced a new pay and grading mechanism that modernises the approach to pay and more accurately reflects shop rankings. In conjunction with this, it has also developed a work scheduling methodology that supports staffing efficiencies and wage cost controls. To further increase productivity and staff well-being, the training and development functions have been overhauled and minimum security standards in the shops have been defined and introduced.

The result was a small but significant increase in net profitability despite the cost pressures and general market conditions.

Remote

For the remote platforms, the theme is split in two with the internet growing to secure its future as a key element of the group business and the telephone in a pattern of managed decline which is likely to continue for the foreseeable future.

The internet betting platform has benefitted from a year with a new look and feel for customers navigating through the site and their customer account as well as new sports and in-running products and a content rich environment. The division has also had its first ever dedicated television marketing campaign and implemented an industry leading affiliate management product to drive new business.

The result has been a string of impressive growth metrics with bets up 23% year on year, average active accounts per month up 13%, new registrations up 79% year on year and new registrants with at least one bet up 56% year on year. The net profitability has, however, been stifled by the Tote's position as a UK based sportsbook which must compete against an industry that is located in tax free jurisdictions, saving them enough in tax and Horserace Betting Levy to offer prices and discounts that the Tote cannot.

The same pattern was seen on the gaming side of the website with the online casino players increasing in number by 42%. The slots games improved by 13% in terms of unique players as a result of wholesale change to the products on offer. Lastly, a move to a much stronger bingo product has seen excellent growth in the product take up with turnover increased by 219% year on year and unique players increased by 56%.

The telephone betting business continues to decline in terms of new account generation as the younger debit card customers choose internet and mobile devices as their means of access to betting services. That said, the telephone remains the channel of choice for many customers in particular those with horseracing as their primary market; a sport which delivers 82% of the turnover to this platform. In a tough year of managing decline, the most resilient customers were those who bet on credit provided by the business with turnover from this section of the customer base declining by slightly less than 8%.

finance report

A good year's financial performance particularly in Retail and Totepool.

Turnover for the year has increased by 2.8%. Totepool turnover at 11.5% has grown substantially and Totesport Internet at 3.6% has also grown in a year that has witnessed significant competition. Pool has benefited as the international business continues to be pursued aggressively and Internet from new product and site innovation. Turnover does however include a change in the reporting of Casino turnover from that last year when it was included at the gross win figure (being the turnover less amounts paid out as winnings) rather than stakes placed (last year has been restated by an increase of £99million).

£ms
Turnover

	2011	2010	
	£000	£000	%
Totepool (1)	359.9	322.8	11.5%
Retail	2,256.8	2,204.0	2.4%
Internet	207.9	200.6	3.6%
	2,824.6	2,727.4	3.6%
Telephone	104.7	122.3	(14.4%)
	2,929.3	**2,849.7**	**2.8%**

[1] this figure becomes £388.5million (2010 £352.7million) including pool turnover shown in Internet & Telephone

The overall gross win percentage is level with last year with Retail over the counter and machines gross win percentage above last year. Totesport Telephone margin percentage was 1.2% points below last year impacted by very favourable racing results for customers. The Totepool overall margin percentage was lower as expected as the international business mix as a proportion of the total pool turnover has increased and it is driven by lower margin single race bets. Excluding the overseas turnover, Totepool margin increased.

Gross win has increased by 1.9% driven largely by Totepool's international expansion and FOBTs, the latter growing by 4.2%. In the case of the latter, although the machine density is at a commercial and physical optimum, yield management performance has been driven hard by the operations team. Without the Telephone turnover and margin pressures, the gross win for the group would have increased by 3.7%.

Betting duty and levy have reduced in Retail and Telephone principally, in line with lower over the counter and telephone sportsbook gross win.

Commissions represent payments to third parties as profit shares, principally for Tote Direct partners, but the increase over the prior year is due to the significant growth in international Totepool business.

Gross profit was up 1.5% in a difficult year excluding Totesport Telephone, with Telephone included it was in line with last year. The two major divisions of the Tote increased, Totepool by over 5% and Retail by 0.5%; Totesport Internet also grew by over 3%.

The majority of costs have been reduced or held by management, however, the robust performance at gross profit could not be repeated at operating profit level (before exceptional items) which was down 17.1% as a result of operating expenses, in particular data feeds, provision of pictures, AMLD, FRS17 adjustment for pensions, and rents, increasing substantially at a time when group gross profit was in line with the previous year. Marketing of the online business has also been increased as a deliberate management action. Adjusting for these costs, the operating profit (before exceptional items) would show only a marginal decline of 1% having also suffered from the increase in VAT that can not be recovered in the Tote.

Exceptional items comprise the costs relating to privatisation and sale process, and provisions for onerous leases and impairment of tangible assets in loss making shops.

There has been no dividend received in the year from the group's investment in Satellite Information Services (Holdings) Limited - in 2010 the dividend was £0.9million.

Early in 2008 the group's debt was refinanced and this has enabled it to continue to benefit from low interest rates over the period, although 2011 includes the cost of the finance leases for the first time. Bank debt at 31st March 2011 comprised £8.2million repayable within one year, £14.1million 1-2 years, and £35.0million in 2-5 years. At the year end there was also £4.6million in total outstanding under finance leases relating to the investment in the latest EPoS (Electronic Point of Sale) tills and screen display systems in the Retail estate. Cash in hand and at the bank amounted to £7.7million.

Contribution to racing in 2011 of £11.7million (2010 £11.3million) includes an additional £1.0million exgratia payment to racing as a result of the excellent Totepool performance in the year - the same amount was also added as an exgratia payment in 2010. These payments once agreed by the Board were paid after each year end.

The group's tax charge at £1.8million (2010 £3.9million) based on a corporation tax rate of 28% results in an effective rate against profit before tax of 27.2% (2010 29.1%). The charge for the year has been impacted by potential disallowable expenses within privatisation costs, and accelerated capital allowances due to increased capital expenditure during the year.

Cash flow before financing in the year was £1.5million, lower than the previous year due to a number of factors. In 2011, there was no SIS dividend (2010 £0.9million), capital expenditure was higher by £2.4million, and payments to racing were £1million higher. In 2010, the taxation payment was lower as it benefited from the conclusion of pending capital allowances claims.

The Tote's defined benefit pension scheme valuation used for FRS 17 accounting has been based on the most recent actuarial valuation being 1st April 2009, updated in order to asses the liabilities of the scheme at 31st March 2011. The net pension scheme deficit before tax accounted for in the financial statements has reduced by £5.9million to £5.1million (2010 £11.0million). The recovery plan for the deficit agreed with the trustees of the pension scheme began in July 2010 and is continuing.

corporate governance

The Board maintained its previously reported high standards of corporate governance throughout the year with monthly Board meetings and periodic Audit, Remuneration and Pensions Committee meetings to ensure strategic level control as well as monthly Executive Committee meetings to ensure operating level control.

Internal Controls & Risk Management

The Audit Committee has overseen the risk management in the business using internal and external audit resource as well as management control of risk deployed relative to a risk universe map and divisional risk register through the various control functions (including Legal, Pool Integrity, Finance, Security, Health and Safety amongst other dedicated departments). These systems manage the risk of failure to a reasonable level without entirely eliminating risk from the business.

Regulatory Compliance

The Tote operates under power derived from statutes and is regulated by the Gambling Commission and Alderney Gambling Control Commission.

To meet the main tenet of both regimes the Tote has embedded principles of social responsibility into its operations, specifically with regard to the protection of young and vulnerable persons, keeping crime out of gambling and ensuring that gambling is carried out in a fair and open way.

Charitable Giving

The Tote's nominated charity for the year of review has been Racing Welfare.

By order of the Board

Andrew Lindley
Secretary

report of the auditors

Independent auditors' report to the members of the Horserace Totalisator Board

We have audited the Board's annual report and financial statements for the year ended 31 March 2011 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Total Recognised Gains and Losses and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Board's members, as a body, in accordance with section 31 of the Betting, Gaming and Lotteries Act 1963. Our audit work has been undertaken so that we might state to the Board's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board and the members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Board members and auditor

As explained more fully in the Statement of Board Members' Responsibilities set out on page 3, the Board members are responsible for the preparation of the annual report and the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Board's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board members; and the overall presentation of the financial statements. In addition, we read all the financial and non financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Basis for disclaimer of opinion on financial statements

As explained in note 1 to the financial statements, the current business is expected to be transferred into Tote (Successor Company) Limited on 13th July 2011 and that entity is expected to be sold to Lightcatch Limited that day.

The Board members have prepared cash flow forecasts and other information needed for the assessment of the appropriateness of the going concern basis of preparation of the financial statements on the basis of the Tote in its current form and taking into account existing banking facilities. As disclosed in note 1, the Board members have concluded that the business in its current form is a going concern.

The audit evidence available to us was limited because the Board members have not had access to additional cash flow forecasts and other information needed for the assessment of the appropriateness of the going concern basis of preparation of the financial statements following the transfer of business and subsequent sale and have therefore been unable to extend their assessment to cover the period beyond the expected date of sale.

This indicates that there is a material uncertainty which may cast doubt on the businesses' ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this material uncertainty.

As a result of the lack of information available to the Board members, we consider that they have not been able to take adequate steps to satisfy themselves, specifically in connection with the business in its future form, that it is appropriate for them to adopt the going concern basis because the circumstances of the Tote and the nature of the business require that such information be prepared, reviewed and concluded upon by the Board members and ourselves, for a period of at least twelve months from the date of approval of the financial statements. Had this information been available to us we might have formed a different opinion on the financial statements.

Disclaimer of opinion on financial statements

Because of the significance of the matter described in the Basis for Disclaimer of Opinion on Financial Statements paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly we do not express an opinion on the financial statements.

Ernst & Young LLP
Registered auditor
Manchester
8th July 2011

consolidated profit and loss account

For the year ended 31st March 2011

	Note	2011 £000	2010 £000
Turnover – continuing operations	2	**2,929,173**	2,849,704
Amounts payable to winning customers		**2,713,370**	2,637,979
Betting duty		**17,728**	18,558
Statutory levy		**6,762**	7,579
Commissions		**43,021**	36,750
Cost of sales		**2,780,881**	2,700,866
Gross profit		**148,292**	148,838
Operating expenses			
Wages and salaries		**49,407**	48,416
Social security and pension costs		**5,815**	4,657
Depreciation and amortisation		**10,068**	9,754
Other operating expenses		**62,125**	60,801
Operating expenses excluding exceptional items		**127,415**	123,628
Exceptional items	5b	**4,209**	–
Operating expenses including exceptional items		**131,624**	123,628
Group operating profit before exceptional items		**20,877**	25,210
Exceptional items		**4,209**	–
Group operating profit after exceptional items		**16,668**	25,210
Income from investments		**–**	851
Interest receivable	3	**–**	27
Interest payable and similar charges	4	**(1,055)**	(963)
Net return/(interest) on pension scheme liability	16	**440**	(573)
Profit before contribution to racing		**16,053**	24,552
Contribution to racing	7	**11,677**	11,284
Profit before tax		**4,376**	13,268
Taxation	8	**1,242**	3,858
Retained profit transferred to reserves		**3,134**	9,410

consolidated statement of total recognised gains and losses

For the year ended 31st March 2011

	Note	2011 £000	2010 £000
Profit for the financial year		**3,134**	9,410
Actuarial gain/(loss) on pension scheme liability	16	**3,354**	(3,366)
Deferred tax relating to pension scheme liability		**(1,653)**	943
Current UK corporation tax on pension deficit payments		**613**	–
Total recognised gains relating to the year		**5,448**	6,987

consolidated balance sheet

At 31st March 2011

	Note	2011 £000	2010 £000
Fixed assets			
Intangible assets	10a	**131,093**	129,435
Tangible assets	10b	**46,388**	42,816
Investments	10c	**1,566**	1,566
Total fixed assets		**179,047**	173,817
Current assets			
Debtors	11	**9,478**	9,056
Stock		**42**	55
Cash at bank and in hand		**7,715**	9,508
Total current assets		**17,235**	18,619
Creditors : due within one year	12a	**(32,657)**	(29,422)
Net current liabilities		**(15,422)**	(10,803)
Total assets less current liabilities		**163,625**	163,014
Creditors : due after one year	12b	**52,516**	53,900
Provisions for liabilities and charges	13	**3,466**	2,712
Net pension liability	16	**3,745**	7,952
Profit and loss reserve	9	**103,898**	98,450
		163,625	163,014

Signed on behalf of the Board on 8th July 2011

Mike Smith
Chairman

consolidated cash flow statement

For the year ended 31st March 2011

	Note	2011 £000	2010 £000
Net cash inflow from operating activities	A	**27,419**	26,016
Returns on investments and servicing of finance	B	**(1,066)**	(63)
Taxation		**(2,057)**	(966)
Capital expenditure and financial investment	C	**(10,956)**	(8,563)
Contribution to racing		**(11,864)**	(10,123)
Cash inflow before financing		**1,476**	6,301
Financing	D	**(5,256)**	(4,394)
(Decrease)/Increase in cash		**(3,780)**	1,907

	Note	2011 £000	2010 £000
Reconciliation of net cash flow to movement in net debt			
(Decrease)/Increase in cash in the year		**(3,780)**	1,907
Cash outflow from movement in bank loans and lease financing		**5,256**	4,394
Non cash movement		**(4,935)**	–
Movement in debt	E	**(3,459)**	6,301
Net debt at 1st April		**(50,722)**	(57,023)
Net debt at 31st March		**(54,181)**	(50,722)

notes to the consolidated cash flow statement

For the year ended 31st March 2011

A. Reconciliation of operating profit	2011 £000	2010 £000
Operating profit	**16,668**	25,210
Depreciation charges	**10,013**	9,699
Impairment of tangible assets	**928**	–
Amortisation of intangible assets	**55**	55
Difference between pension charge and cash contributions	**(2,189)**	(1,476)
Profit on disposal of fixed assets	**(91)**	(160)
Increase in debtors	**(389)**	(949)
Increase/(decrease) in creditors	**1,486**	(6,247)
Increase/(decrease) in provisions	**925**	(129)
Decrease in stock	**13**	13
Net cash inflow from operating activities	**27,419**	26,016

The net cash inflow from operating activities includes cash outflows relating to exceptional items as follows:

	2011	2010
Privatisation costs	**(1,537)**	(299)
Restructuring costs	**–**	(930)

Since the year end privatisation costs of £608,000 have been paid.

B. Returns on investments and servicing of finance	2011 £000	2010 £000
Interest paid	(1,066)	(941)
Interest received	–	27
Dividend received	–	851
Net cash outflow from returns on investments and servicing of finance	**(1,066)**	**(63)**

C. Capital expenditure and financial investment

	2011 £000	2010 £000
Purchase of tangible fixed assets	(9,657)	(8,789)
Purchase of intangible fixed assets	(1,713)	(153)
Receipts from the sales of tangible fixed assets	414	379
Net cash outflow from capital expenditure and financial investment	**(10,956)**	**(8,563)**

The Group entered into finance lease arrangements for the purchase of tangible fixed assets totaling £4,935,000 (2010: £nil).

D. Financing

	2011 £000	2010 £000
Repayment of secured bank loan	(6,180)	(5,180)
New bank loans	2,000	–
Sale and leaseback of assets	366	832
Capital element of finance lease repayments	(1,442)	(46)
Net cash outflow from financing	**(5,256)**	**(4,394)**

E. Analysis of changes in net debt

	At 1st April 2010 £000	Cash flows £000	Other changes £000	At 31st March 2011 £000
Cash at bank and in hand	9,508	(1,793)	–	7,715
Overdraft	–	(1,987)	–	(1,987)
	9,508	**(3,780)**	**–**	**5,728**
Debt due within 1 year				
Bank loans	(6,180)	6,180	(6,180)	(6,180)
Finance leases	(150)	1,076	(2,139)	(1,213)
Debt due after 1 year				
Bank loans	(53,264)	(2,000)	6,180	(49,084)
Finance leases	(636)	–	(2,796)	(3,432)
	(60,230)	5,256	(4,935)	(59,909)
Net debt	**(50,722)**	**1,476**	**(4,935)**	**(54,181)**

notes to the financial statements

1. Accounting Policies

Basis of preparation

The financial statements have been prepared on the historical cost basis of accounting and in accordance with applicable UK accounting standards.

On 3rd June 2011 the Government announced that it had entered into a Sale and Purchase agreement with Lightcatch Limited, the parent company of Betfred, for the sale of the Tote business.

Under the Horserace Betting and Olympics Lottery Act 2004 ("2004 Act"), the sale of the Horserace Totalisator Board will be completed by all property, rights and liabilities to which the Board is entitled or subject immediately before the appointed day being vested on that date in a successor company.

In relation to this statutory process the appointed day has been determined by the Secretary of State as 13th July 2011; and the successor company is Tote (Successor Company) Limited, a limited liability company wholly owned by the Crown. The Board will then cease on the appointed day. Lightcatch Limited will then acquire the entire share capital of Tote (Successor Company) Limited on 13th July 2011.

Section 6 of the 2004 Act applies for the purposes of statutory accounts prepared by the successor company and states that the transfer effected by section 2 of the Act shall be treated as having occurred immediately after the end of the last complete accounting year of the Horserace Totalisator Board, and transferred all property, rights and liabilities to which the Board was entitled or subject immediately before the end of that year. In its application to accounts of the successor company the value of an asset, or the amount of a liability, on transfer shall be taken as the value or amount assigned for the purposes of the corresponding accounts of the Board for its last complete accounting year. The amount to be included in the accounts in respect of an asset or liability shall be determined as if anything done by the Board had been done by the successor company.

The future operation of the business now lies outside of the Board members' control. On the basis of the Tote in its current form however, having prepared cash flow forecasts and taking into account existing banking facilities, the Board members have concluded that the business in its current form is a going concern and the financial statements reflect this position.

Basis of consolidation

The financial statements include accounts of the Board and its subsidiaries, as shown in note 14, which have been made up to 31st March 2011.

Results and cash flows from newly acquired subsidiaries are included from the date of acquisition.

Goodwill

Goodwill arising on the acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired.

In accordance with FRS 10, goodwill arising on acquisitions of subsidiary undertakings after 1st April 1998 is capitalised as an intangible fixed asset and either amortised over the useful life, when this can be identified, or amortised over a presumed maximum of 20 years. Any impairment will be charged directly to the profit and loss account. The profit or loss on disposal of a business includes any goodwill arising on acquisitions which was previously eliminated against reserves under the former policy.

Goodwill arising on the consolidation of Tote Direct Limited is being amortised over 7 years.

Acquisition of licensed betting shops

The Board capitalises acquired betting office shop licences at cost. The difference between the purchase price including acquisition costs and the fair value of any tangible assets recognised is capitalised as an intangible asset. Licences are not amortised as they are regarded as having indefinite lives due to the well established market; the sustained demand for retail bookmakers and the successful renewal of betting permits and licences. As a result of this policy, licences are reviewed for impairment on an annual basis.

Fixed assets and depreciation

Tangible fixed assets represent properties and equipment and these are written off over their expected useful economic lives. Depreciation is provided on the straight-line basis over the following periods:

Freehold land	nil
Freehold buildings	40 years
Totepool buildings	20 years
Leasehold buildings	Period of the lease
Fixtures, fittings and equipment	3 to 20 years

Tangible assets are reviewed for impairment in any period where events or changes in circumstances indicate that the carrying value may not be recoverable.

Investments

The investment in Satellite Information Services (Holdings) Limited is shown at cost. Income from investments is taken to the profit and loss account in the year in which it is received.

Development costs

Costs arising from the continuing development of existing systems and related products are written off against income in the year incurred although no benefit may have been received in that year. Development expenditure attributable to major projects whose technical feasibility and commercial viability are reasonably assured is capitalised and amortised over the period in which benefits are expected to accrue.

Turnover

This represents amounts staked in the year on events, the online casino, internet games and fixed odds betting terminals.

Contribution to racing

This represents voluntary payments to racecourses, race sponsorship and related support costs, Greyhound Racing Trust payments and donations to charities associated with racing and gambling.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the exception that deferred tax assets are recognised only to the extent that the Board members consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Pensions

The Board operates a UK defined benefit scheme which was closed to new members in November 2007. In relation to this scheme, the amounts charged to operating profit are the current service costs and any gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are charged to operating profit immediately if the benefits have vested. If the benefits have not vested immediately, the costs are recognised by equal annual instalments over the period until vesting occurs. The interest cost and the expected return on assets are included as other finance income. Actuarial gains and losses net of deferred tax are recognised immediately in the statement of total recognised gains and losses.

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality bond of equivalent currency and term to the scheme liabilities. The resulting defined benefit asset or liability, net of the related deferred tax, is presented on the balance sheet.

Payments to defined contribution schemes are charged as an expense as they fall due.

Segmental reporting

The Board has taken advantage of the exemption contained within paragraph 6 of SSAP 25 and elected not to publish detailed segmental information, as this could be seriously prejudicial to the interests of the Board.

Leased assets

Where assets are financed by leasing agreements that give risks and rewards approximating to ownership (finance leases) the assets are capitalised in the balance sheet and depreciated over their useful economic lives. The amount capitalised is the capital element of the future lease obligations of such leased items. The leasing commitments are shown as amounts payable to the lessor. Depreciation on relevant assets is charged to the profit and loss account.

Lease payments are apportioned between capital and interest using the actuarial method. The interest is charged to the profit and loss account and the capital portion reduces the amount payable to the lessor.

All other leases are treated as operating leases and annual rentals are charged to the profit and loss account as incurred. For machines, rentals are determined by gross win and are charged when incurred.

2. Turnover

	2011	2010
	£000	£000
Totepool	359,855	322,823
Totesport Telephone	104,850	122,282
Totesport Internet	207,715	200,616
Totesport Retail	2,256,753	2,203,983
Turnover	**2,929,173**	**2,849,704**

The business was managed throughout the year in divisions that reflected the split of operations: Totepool, Telephone, Internet and Retail. The turnover for these distribution channels is shown in the table above.

3. Interest receivable

	2011	2010
	£000	£000
Bank deposits	**–**	**27**

4. Interest payable and similar charges

	2011	2010
	£000	£000
Bank loans	689	770
Finance leases	136	–
Other interest payable	230	193
Total interest payable	**1,055**	**963**

5. Operating profit

a. This is stated after charging/(crediting):

	2011	2010
	£000	£000
Wages and salaries	**50,050**	48,124
Board members' fees	**292**	292
Social security costs	**3,721**	3,591
Other pension costs	**2,214**	1,066
Unclaimed dividends	**(1,089)**	(944)
Depreciation of owned assets	**9,184**	9,550
Depreciation of assets held under finance leases	**829**	149
Fees payable to auditors in respect of:		
- the annual group accounts	**132**	132
- the subsidiary accounts	**8**	8
Operating lease rentals:		
- land and buildings	**8,256**	8,067
- equipment	**4,538**	5,359
Profit on disposal of fixed assets	**(91)**	(160)
Amortisation of intangible assets	**55**	55

b. Operating exceptional items

		2011	2010
		£000	£000
Privatisation costs	(a)	**2,145**	–
Impairment of tangible assets	(b)	**928**	–
Onerous leases	(b)	**1,136**	–
		4,209	–

(a) Costs incurred in preparation for the sale of the Tote by the Government, including staff payments, legal and financial advice and banking fees. The tax credit relating to the 2011 operating exceptional item is £397,000.

(b) In accordance with FRS11 'Impairment of fixed assets and goodwill' the carrying values of certain assets within loss making betting shops have been reviewed. In addition, a provision has been made for the onerous element of associated property leases.

6. Board members and employees

a. Board members

Details of Board members' remuneration are as follows:	2011	2010
	£000	£000
Basic salary and fees	**829**	817
Benefits	**147**	186
Bonus and other payments	**524**	880
	1,500	1,883

In addition, pension contributions of £41,800 (2010: £40,500) were paid into a personal pension plan in respect of one board member.

b. Average number of employees during the year	2011	2010
	Numbers	Numbers
Totepool	**106**	88
Totesport Telephone and Internet	**234**	188
Retail	**1,939**	1,980
Group	**108**	182

In addition, the group employed 831 (2010: 873) casual and supplementary staff for racecourse operations.

7. Contribution to racing

	2011	2010
	£000	£000
Sponsorship and donations	5,234	4,708
Payments to racecourses	6,063	6,166
Greyhound Racing Trust	380	410
	11,677	11,284

8. Taxation

	2011	2010
	£000	£000
UK corporation tax	1,776	3,583
Over provision in prior years	(486)	(519)
Total current tax	1,290	3,064
Deferred tax:		
Origination and reversal of timing differences	(49)	107
Under provision in prior years	145	687
Effect of corporation tax rate change	(144)	–
	1,242	3,858

Included within deferred tax is a charge of £123,000 (2010: £253,000) which is presented as a net amount against the pension liability on the balance sheet rather than within provisions for liabilities and charges.

Factors affecting the tax charge for the year

The current tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2011	2010
	£000	£000
Profit on ordinary activities before tax	4,376	13,268
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28%	1,225	3,715
Effect of:		
- Disallowed expenses and non-taxable income	549	(13)
- Decelerated capital allowances	168	138
- Short-term timing differences	23	19
- Adjustments in respect of prior years	(486)	(519)
- Other	(189)	(276)
Current tax charge for the year	1,290	3,064

On 23 March 2011 the Chancellor announced the reduction in the main rate of UK corporation tax rate to 26% with effect from 1 April 2011. This change was substantively enacted on 29 March 2011 and therefore the effect of the rate reduction has been reflected in the statutory accounts. This change will also reduce the Company's future current tax charge accordingly. The Chancellor also proposed changes to further reduce the main rate of corporation tax by one per cent per annum to 23% by 1 April 2014. The overall effect of the further reductions from 26% to 23%, if these applied to the total deferred tax balance at 31 March 2011 would be to further reduce the deferred tax liability by approximately £86,000.

9. Reserves

	Profit and loss account
	£000
At 1st April 2010	98,450
Profit for the year	3,134
Actuarial loss and related tax on pension scheme liability	2,314
At 31st March 2011	**103,898**

10. Fixed assets

a. Intangible assets

	Rails pitches	Goodwill	Betting shop licences	Total
	£000	£000	£000	£000
Cost:				
At 1st April 2010	627	387	128,687	129,701
Additions	43	–	1,670	1,713
31st March 2011	**670**	**387**	**130,357**	**131,414**
Amortisation:				
At 1st April 2010	–	266	–	266
Charged in the year	–	55	–	55
At 31st March 2011	**–**	**321**	**–**	**321**
Net book values:				
At 31st March 2011	**670**	**66**	**130,357**	**131,093**
At 31st March 2010	627	121	128,687	129,435

10. Fixed assets (continued)

b. Tangible assets

	Properties	Fixtures, fittings and equipment	Total
	£000	£000	£000
Cost:			
At 1st April 2010	20,232	150,058	170,290
Additions	1,468	13,369	14,837
Disposals	–	(1,012)	(1,012)
At 31st March 2011	**21,700**	**162,415**	**184,115**
Depreciation:			
At 1st April 2010	12,051	115,423	127,474
Charge for the year	515	9,498	10,013
Impairment loss	–	928	928
Eliminated on disposals	–	(688)	(688)
At 31st March 2011	**12,566**	**125,161**	**137,727**
Net book values:			
At 31st March 2011	**9,134**	**37,254**	**46,388**
At 1st April 2010	8,181	34,635	42,816

The net book value of fixtures, fittings and equipment above includes an amount of £5,840,000 (2010: 904,000) in respect of assets held under finance leases.

	2011	2010
	£000	£000
Net book value of properties at 31st March comprises:		
Freeholds	**3,862**	3,987
Leaseholds (short leases under 50 years)	**2,229**	2,300
Other capital expenditure related to buildings	**3,043**	1,894
	9,134	8,181

	2011	2010
	£000	£000
Capital commitments at 31st March comprise:		
Contracted but not accrued	**453**	10,148

c. Investments	£000
At 1st April 2010 and 31st March 2011	1,566

This represents the Board's investment in Satellite Information Services (Holdings) Limited and is stated at historical cost.

11. Debtors

	2011	2010
	£000	£000
Credit customers	1,184	2,050
Other debtors	3,701	2,460
Corporation tax	33	–
Prepayments and accrued income	4,560	4,546
	9,478	9,056

All the above are due within one year.

12. Creditors

	2011	2010
	£000	£000
a. Due within one year		
Bank loans and overdrafts	8,167	6,180
Finance leases	1,213	150
Trade creditors	5,160	6,118
Other creditors	4,187	3,900
Corporation tax	–	1,350
Other taxes and social security	3,588	3,690
Accruals and deferred income	10,342	8,034
	32,657	29,422

b. Due after one year

	2011	2010
	£000	£000
Bank loans repayable:		
1 - 2 years	14,084	6,181
2 - 5 years	35,000	22,083
more than 5 years	–	25,000
Finance leases repayable:		
1 - 2 years	1,275	103
2 - 5 years	2,157	533
	52,516	53,900

The bank loans are repayable by instalments, secured by a floating charge over the assets of the Board and its main subsidiaries, and bear interest based on LIBOR.

13. Provisions for liabilities and charges

	Onerous leases	Deferred tax	Total
	£000	£000	£000
At 1st April 2010	672	2,040	2,712
Arising during the year	1,234	(27)	1,207
Utilised	(309)	–	(309)
Effect of corporation tax rate change	–	(144)	(144)
At 31st March 2011	**1,597**	**1,869**	**3,466**

The onerous leases provision relates to vacant property leases and will be utilised within three years.

Deferred tax consists of:

	2011	2010
	£000	£000
Accelerated capital allowances	**2,530**	2,119
Other	**(661)**	(79)
	1,869	2,040

14. Subsidiary undertakings

The Board's wholly-owned principal operating subsidiaries are:

Company	**Operating activities**
Tote Bookmakers Limited	Retail bookmaker
Tote Credit Limited	Telephone and internet bookmaker
Tote Direct Limited	Agent channelling bets from licensed betting shops into Tote pools
Totesport Alderney Limited	Internet casino
Totepool Alderney Limited	Pool operator

All companies are registered in England and Wales, with the exception of Totesport Alderney Limited and Totepool Alderney Limited which are registered in Alderney, and the whole of each company's share capital comprises ordinary shares.

15. Commitments under operating leases

At 31st March there were annual commitments, excluding value added tax, under non-cancellable operating leases for land and buildings expiring:

	2011	2010
	£000	£000
Within 1 year	**1,045**	968
Within 2-5 years	**2,056**	1,700
After more than 5 years	**4,200**	4,497
	7,301	7,165

Leases of land and buildings are subject to rent reviews.

16. Pension commitments

The Board operates a funded pension scheme, the Horserace Totalisator Board (1968) Pension Scheme, providing benefits based on final pensionable pay for all qualifying staff. The scheme was closed to new members in 2007. Assets are held, separately from those of the Board, in trustee-administered funds. The trustees to the pension scheme include employee representatives. There is no investment by the funds in the businesses of the Board or of any of its subsidiary undertakings. During the year ended 31st March 2010 the employers' contribution rate was 20% of pensionable pay and from 1st April 2010 this decreased to 15.7%. Member contributions are payable at 6% of pensionable pay.

The valuation used for FRS 17 accounting has been based on the most recent actuarial valuation at 1st April 2009 and updated by independent qualified actuaries to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31st March 2011. The scheme assets are stated at their market value at 31st March 2011. The next actuarial valuation will take place no later than 1st April 2012.

Amounts recognised in the balance sheet are as follows:

	2011	2010
	£000	£000
Present value of scheme liabilities	(82,465)	(83,238)
Fair value of scheme assets	77,403	72,193
Deficit in the scheme	(5,062)	(11,045)
Related deferred tax asset	1,317	3,093
Net pension liability	**(3,745)**	**(7,952)**

The amounts recognised in the profit and loss are as follows:

	2011	2010
	£000	£000
Current service cost	2,128	1,040
Expected return on pension scheme assets	(5,173)	(3,768)
Interest on pension scheme liabilities	4,733	4,341
Total	**1,688**	**1,613**
Actual return on pension scheme assets	3,428	19,736

The amounts recognised in the statement of total recognised gains and losses are as follows:

	2011	2010
	£000	£000
Actuarial gain/(loss) recognised in the year	3,354	(3,366)
Cumulative actuarial gains/(losses) recognised since the adoption of FRS 17	(5,638)	(8,992)

16. Pension commitments (continued)

Changes in the present value of the scheme liabilities are as follows:

	2011	2010
	£000	£000
Scheme liabilities at 1st April	(83,238)	(61,847)
Current service cost	(2,128)	(1,040)
Interest cost	(4,733)	(4,341)
Actuarial gain/(loss)	5,099	(19,335)
Contributions by scheme members	(709)	(738)
Benefits paid	3,244	4,063
Scheme liabilities at 31st March	**(82,465)**	(83,238)

Changes in the fair value of scheme assets are as follows:

	2011	2010
	£000	£000
Scheme assets at 1st April	72,193	53,266
Expected return	5,173	3,768
Actuarial (loss)/gain	(1,745)	15,968
Contributions by employer	4,317	2,516
Contributions by scheme members	709	738
Benefits paid	(3,244)	(4,063)
Scheme assets at 31st March	**77,403**	72,193

The Group expects to contribute £2,400,000 in respect of employer's regular contributions in the year ended 31st March 2012.

The major categories of scheme assets as a percentage of total scheme assets are as follows:

	2011	2010
	%	%
Equities	26.9	26.5
Corporate bonds	40.0	39.2
Absolute Return funds	19.6	18.7
Property	9.5	10.1
Tactical Assets overlay funds	3.6	5.1
Cash	0.2	0.2
Insurance policies	0.2	0.2

16. Pension commitments (continued)

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	2011	2010
	%	%
Rate of inflation	**2.7**	3.9
Expected return on scheme assets	**7.1**	7.1
Rate of increase in salaries	**4.2**	4.4
Rate of increase in deferred pensions	**2.7**	3.9
Rate of increase in pensions in payment	**2.7**	3.8
Rate of increase in pensions in payment (post 6th April 2005)	**2.1**	2.4
Discount rate	**5.6**	5.7

The assumptions adopted as at 31st March 2011 are based on benefits increasing in line with Consumer Price Index rather than Retail Price Index as used in previous years. The effect of the change has been to reduce scheme liabilities by £5.1million as at 31st March 2011. The long-term expected rate of return on cash is determined by reference to bank base rates at the balance sheet date. The return on bonds is determined by reference to corporate bond yields at the balance sheet date. The return on equities and other high yielding asset classes are based on the rate of return on bonds with an allowance for out-performance.

Amounts for the current and previous four years are as follows:

	2011	**2010**	2009	2008	2007
	£000	**£000**	£000	£000	£000
Present value of scheme liabilities	**(82,465)**	(83,238)	(61,847)	(82,930)	(93,775)
Fair value of scheme assets	**77,403**	72,193	53,266	69,964	72,569
Deficit in the scheme	**(5,062)**	(11,045)	(8,581)	(12,966)	(21,206)
Experience adjustments on scheme liabilities	**149**	4,001	605	858	–
Experience adjustments on scheme assets	**(1,745)**	15,969	(22,294)	(9,883)	1,581