

**ANNEX B to Letter to The Secretary of State from the Government Appointed Members  
of the Horserace Betting Levy Board dated 30<sup>th</sup> November 2010**

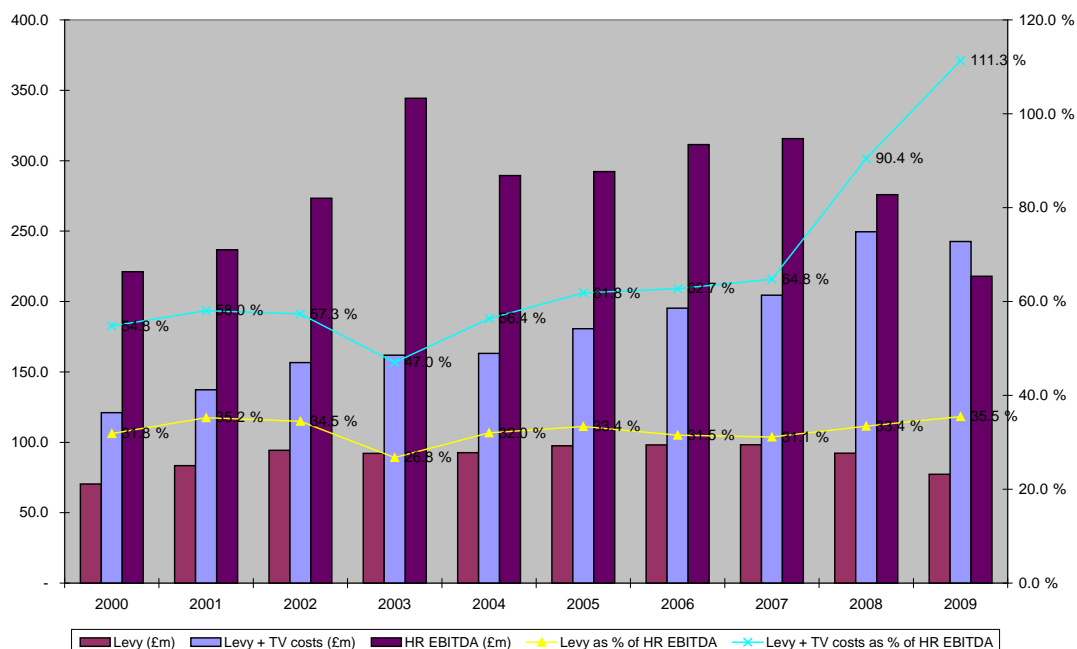
**THE 50<sup>TH</sup> LEVY SCHEME**

**RECOMMENDATIONS BY THE BOOKMAKERS' COMMITTEE**

**1 EXECUTIVE SUMMARY**

- 1.1 Bookmakers' total contribution to racing does not justify the current levy.
- 1.2 Racing's income is rapidly moving to a commercial basis via its increasing charges for media rights and therefore cannot expect levy support to continue at its current level.
- 1.3 The Bookmakers Committee recommends to the Horserace Betting Levy Board a reduction in the levy for the 50<sup>th</sup> Levy Scheme.
- 1.4 This should be achieved by increasing the threshold at which Licensed Betting Offices (LBOs) pay the headline rate of 10% of gross profits to £123,000.<sup>1</sup>
- 1.5 The increase in threshold would be at a cost to the levy of approximately £8.5M. This amount equates to 25% of the additional cost to LBOs and 50% of the additional revenue received by racing each year as a result of increased media charges, FY07/08 to FY09/10.
- 1.6 We put this forward for three reasons:
- 1.7 First, the cost of levy and total TV costs now exceeds bookmakers' EBITDA on British horseracing. **(Figure 1)**

**Figure 1 Levy as a Share of Bookmakers' British Horserace Betting EBITDA.<sup>2</sup>**



<sup>1</sup> Derived from HBLB returns for the 48<sup>th</sup> Levy Scheme (Annex A).

<sup>2</sup> 50<sup>th</sup> Horserace Betting Levy Scheme 'Report for The Bookmakers' Committee', E&Y, 8<sup>th</sup> July 2010.

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- 1.8 Second, the capacity of bookmakers to pay has been reduced as a result of
- 1.8.1 accelerating decline amongst betting shop customers in betting on British horseracing, resulting in an absolute fall in bookmakers' revenue from betting on British horseracing from 2008 to 2009.
  - 1.8.2 the additional cost (since 1<sup>st</sup> January 2008) of providing TV pictures into LBOs, and the prospect of further substantial increases in cost from January 2011, before the start of the 50<sup>th</sup> levy year.
  - 1.8.3 economic conditions that are difficult currently and uncertain in the near future resulting in:
    - (a) reduced disposable income for the consumer.
    - (b) a budget that included VAT of 20% from 4<sup>th</sup> January 2011, further reducing disposable income but increasing bookmakers' costs (including media rights) that are subject to VAT.
- 1.9 The net effect of these factors is
- 1.9.1 turnover has reduced by 6.8%.<sup>3</sup>
  - 1.9.2 gross win has reduced by 18.6%.<sup>4</sup>
- 1.10 Third, British betting operators, and in particular LBO operators, now pay more in levy and media rights than ever before. The amount of bookmakers' horseracing revenue spent in this way has reached 27.5%. **(Figure 2)**

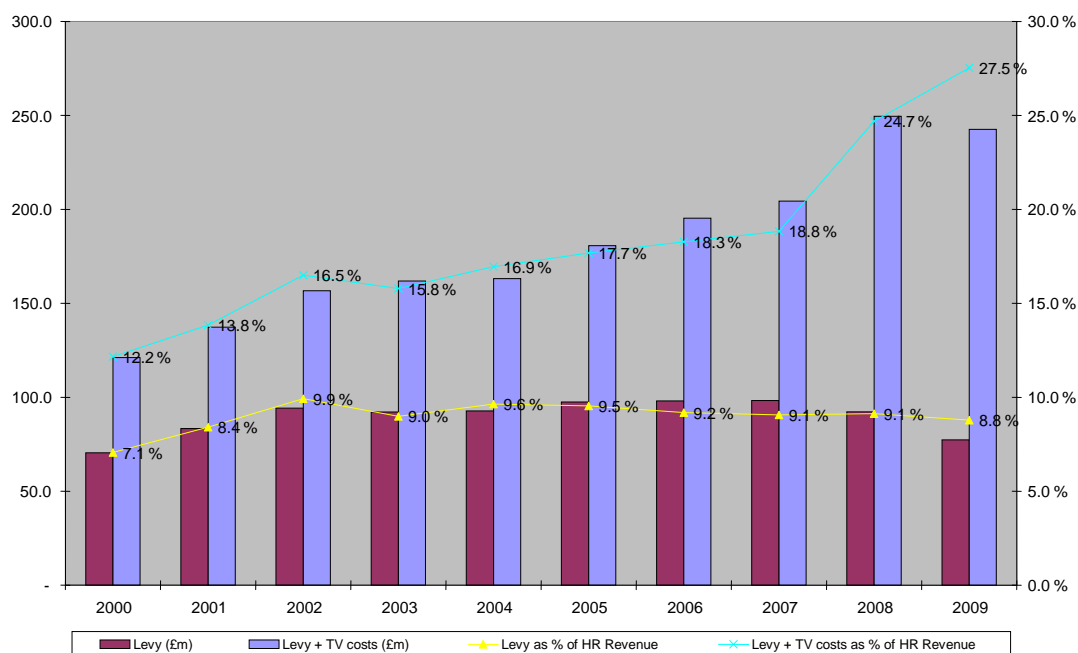
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<sup>3</sup> Memo to ABB Industry Model Steering Group, RS Business Modelling, 7<sup>th</sup> June 2010.

<sup>4</sup> Ibid.

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**Figure 2** Levy as a Share of Bookmakers' British Horseracing Betting Revenue.<sup>5</sup>



1.11 For the period 2006-9, racing received from bookmaking £565M excluding sponsorship.<sup>6</sup>

1.12 Racing's needs can and ought to be met from all income sources, not just levy.

1.13 We make this proposal because an increased threshold will

1.13.1 preserve employment in an industry employing over 40,000 people.<sup>7</sup>

1.13.2 limit the number of lower turnover shops likely to close. Media rights are fixed costs and thus affect medium and low turnover shops most.

1.13.3 help to maintain levy contributions by keeping shops open.

1.13.4 reduce the structural competitive advantage of those bookmakers not paying levy, and help arrest the decline of leviable betting on horseracing.

1.13.5 ameliorate the cost implications of those who directly fund the extra £56.1M now received by racing over and above the levy.<sup>8</sup>

1.13.6 maintain the incentive to both racing and LBOs to maximize the potential of British horserace betting.

1.13.7 maintain revenue streams to HMG through VAT, GPT and licence fees.

<sup>5</sup> 50<sup>th</sup> Horserace Betting Levy Scheme 'Report for The Bookmakers' Committee', E&Y, 8<sup>th</sup> July 2010.

<sup>6</sup> Satellite Information Services Ltd

<sup>7</sup> An Economic Impact of the British Betting Industry, Deloitte, January 2010.

<sup>8</sup> Satellite Information Services Ltd

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**RECOMMENDATIONS FOR THE 50<sup>TH</sup> LEVY SCHEME**

- 7.1 The Committee recommends that the levy should continue to be based on a percentage payment of bookmakers' gross profits on horseracing business conducted in Great Britain. For the purposes of the 50<sup>th</sup> Levy Scheme, this term shall mean the gross profit derived from horserace betting business conducted on horseracing taking place in England, Scotland and Wales only.
- 7.2 Rates: LBO/Telephone/Internet Bookmakers. Bookmakers making gross profit via betting on British horseracing on these channels should continue to pay 10% of gross profit as levy.
- 7.2.1 LBO Threshold. As in previous years, an increase in the threshold figure At which the headline rate of levy is payable by the LBO sector is recommended. The recommendation is that reduced charges should apply for all shops showing a relevant gross profit of less than £123,000. Shops with a gross profit of less than £123,000 will pay a rebated charge on a sliding scale related to the percentage by which their gross profit falls short of £123,000.
- 7.3 Rates: Bookmakers Engaged in Spread Betting. We recommend that bookmakers who derive their gross profit from spread betting businesses should pay levy at 2% of such gross profit, where it arises from British horseracing.
- 7.4 Rates: Betting Exchanges. We recommend that betting exchanges should continue to be assessed for levy on the basis of 10% of their gross profit on British horseracing business, where gross profit is defined as the commission deducted by the exchange from the amounts paid out by it to bettors and bet-takers.
- 7.5 Racecourse Bookmakers. We recommend that the previous annual fixed fee for racecourse bookmakers who stand at licensed racecourses should be retained, with the proposal that the fee should be set at £2103 <sup>32</sup> per annum.
- 7.6 Point-to-Point Only Bookmakers. In respect of bookmakers who stand only at point-to point events and/or at harness-racing and/or trotting events, the Committee would propose that their annual fixed contribution should be increased in line with RPI to £166 <sup>33</sup>. Bookmakers who otherwise pay levy under other clauses would be exempt from any additional payment under this sub-paragraph.
- 7.7 Default Percentage. The Committee recommends that bookmakers who are unable to measure their British horseracing gross profit be required to base their declarations for levy on the average percentage of gross profit attributable to British horseracing achieved by Ladbrokes plc, Gala-Coral Group, William Hill plc and Corbetts in their combined LBO estates during the calendar year 1<sup>st</sup> January – 31<sup>st</sup> December 2011. We will seek to expand the number of independents in the sample.

32 – Based on assumed RPI of 5% on 31<sup>st</sup> Jul 10

33 – Based on assumed RPI of 5% on 31<sup>st</sup> Jul 10.