HORSERACE BETTING
HBLB
LEVY BOARD

2011/12 ANNUAL REPORT

The Horserace Betting Levy Board Annual Report and Accounts 2011/12

Report and Accounts presented to Parliament pursuant to Section 31 of the Betting, Gaming and Lotteries Act 1963.

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CHAIRMAN'S STATEMENT

I am delighted to report progress across various areas of Levy Board activity for the year ending 31st March 2012 – the 50th Levy Scheme year.

Levy and related receipts were up from £60.2m to £74.9m, approximately 25%, which is within the range envisaged by the Secretary of State in his Determination of the 50th Levy Scheme. Distributions were up by £5m in calendar year 2012 of which £4.2m went into prize money, and our reserves were significantly rebuilt, although this of course has only been made possible by a reduction in all headings of expenditure, an unwelcome result in itself to many. In addition the quality of the Bookmakers' Committee's forecasting has improved greatly arising from a greater sharing with us of the information from bookmakers.

Recent times have been challenging. I am particularly pleased with the high level of cooperation around the Levy Board table from all parties so that we have been able to respond sensibly to this environment. I express my sincere gratitude to all my fellow Board Members for this which is a considerable achievement by all parties.

The increase in total receipts for the 50th Levy year of £74.9m arose from significant changes to the 50th Levy Scheme as contrasted with the 49th, most particularly an increase in the headline rate from 10% to 10.75% and alterations to the threshold relief for small bookmakers. The voluntary contribution from Betfair of £6.7m was especially important both as to its size and the fact that the majority of this payment was made at the beginning of the year, thereby transforming our finances and ability to plan.

As a result we were able to take some positive action towards the objective to improve prize money with specifically targeted support particularly through the Quality Support Fund.

Over the last few years the Levy Board reserves were radically reduced by almost £45m arising principally from our wish to maintain levels of prize money notwithstanding a falling Levy. This policy could, as I have suggested previously, have been viewed as strategically flawed if it had not bridged the gap until other solutions were found. In the event the racecourses stepped up to the plate substantially increasing their contribution to prize money. This action prevented what would otherwise have been an extremely difficult time for racing. As a result total prize money decreased from £99m in 2010 to £94m in 2011. Whilst this represented a 5% decrease, the racecourses' and sponsors' contribution to prize money increased by some 50% from £30.3m to £45.2m.

We now operate a balanced budget and, as the aggregate receipts have been ahead of original budget, we have been able to begin to rebuild our reserves, so that at the year end they stand at £32m, due to increase to almost £40m during the current year. This gives us much greater confidence and a measure of stability for the future. It also means that we are considering the re-introduction of loans to racecourses for suitable projects at some stage in the future. This time, however, we will charge a small arrangement fee to cover our costs and an interest rate beneficial to racecourses on our loans.

At a Board meeting last October, the terms of the 51st Levy Scheme starting on 1st April 2012 were settled and the Levy Board approved the final proposal put forward by the Bookmakers' Committee, although this did not carry the support of Racing's appointees. This is disappointing although I appreciate Racing's appointees' desire for an even higher Levy. The proposition from the bookmakers when seen in the round was, I believe, an important step forward in the evolution of the Levy and delivered genuine and tangible benefits to Racing. Effectively the headline rate of Levy was unchanged but there were amendments to the threshold arrangements and a Flat Rate Rebate for Licensed Betting Offices was introduced. Additionally, outside the Levy Scheme itself, William Hill, Ladbrokes and Gala Coral guaranteed a sum amounting to £45m, and again Betfair undertook by Deed to make a significant voluntary contribution.

The combined impact of these changes added greater security to our financial position and enabled us to budget with greater confidence delivering enhanced levels of foreseeability in revenues as far as Racing is concerned, an advantage significantly valued by them.

I am very grateful to the bookmakers for allowing us to achieve this considerable progress.

Looking into the future to the possible era of commercial negotiations, or in the event that the Levy continues, it is clear that a fundamental shift of payments made by Betting to Racing has taken place. Payments made directly through the Levy may fall or remain broadly static for the reasons described on many occasions and payments made to racecourses for the sale of live pictures into Licensed Betting Offices, internationally and for streaming on the internet have increased substantially.

Much depends on the current negotiations for the future funding of British racing conducted by Racing and Betting. If the Levy Board were to continue, we would expect that, under the Public Bodies Act, Government will change the mechanism for determining the Levy by removing the role of the Secretary of State by a successor mechanism, for example an arbitration panel. I believe this would be an excellent step forward and further encourage Racing and Betting to come to an agreement around the Levy Board table.

At the Levy Board we work hard to seek to improve the relationships between Betting and Racing for the mutual benefit of both, built on trust, integrity and discretion. We will continue to seek to operate in this manner and to build upon the progress that has been made over the last year. The essential tasks for next year are to agree the 52nd Levy Scheme, to increase further our expenditure levels, particularly into prize money, and to support Government when required to do so in its attempt to find the best answer for the future Levy or its replacement.

British racing continues to thrive as a centre of excellence in an increasingly competitive world: we will do all we can to ensure that continues to be the case.

My personal thanks also go again to all those in Betting and Racing who have given me of their time and support as well as some memorable visits over the last year, whether they be in offices, small bookmakers' shops, trainers' yards, small country courses or fixtures of international significance.

Paul Lee
Chairman

CHIEF EXECUTIVE'S REVIEW

After some difficult years, the Levy Board has now reached a more balanced position with sensible strategies able to be carried forward.

The increase from £59.5m in the 49th Levy Scheme to £67.7m from the 50th Levy Scheme which, added to the voluntary contributions of £6.9m and other income, resulting in total revenues of £74.9m, was a welcome change. However, rightly, the decision had been taken in 2010 to have a balanced budget in 2012 and therefore expenditure fell in 2011/12 from £83.8m to £59.2m. This significant reduction in expenditure had an adverse effect on all our expenditure headings, especially prize money.

The good news was that, following the guarantee given by William Hill, Ladbrokes and Gala Coral and the voluntary contribution by Betfair to the 51st Levy Scheme, the Levy Board was able to increase its budgeted expenditure in 2012 by £5m on 2011, of which £4.2m went into prize money. This additional amount was primarily used for the Quality Support Fund to improve, in particular, middle-to-upper ranking races which had fallen behind in both number and value over the past year or so. The agreement about the allocation of this additional money was a good example of the work that goes on continuously to improve British horseracing with the Executives of the Levy Board, British Horseracing Authority, Racecourse Association, Horsemen's Group, Bookmakers' Committee and individual bookmakers agreeing the structure of the Fund together. The additional prize money has also been directed to two new areas: a £300,000 fund designed to boost weaker Saturdays so that there is a £50,000 handicap on every terrestrial TV broadcast and a £500,000 fund to be used for special initiatives agreed between the Levy Board, Racing and Betting.

This type of cooperation was also demonstrated by the revised terms of reference for the revamped Betting Patterns Working Party. Reporting to the Levy Board, and without prejudice to the rights of the British Horseracing Authority to determine the Fixture List and the programme of black type races, this grouping carries out detailed analysis of the Fixture List and makes 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. In addition, it produces specific recommendations regarding the Fixture List and the race programme, involving the use of funding where appropriate. It is able to achieve this by monitoring betting performance and data, taking account of horse population trends, overseeing the funding of new initiatives and implementing action plans to avoid gaps in the race programme.

This large group, comprised of seven Racing and seven Betting appointees, with Levy Board chairmanship and Executive support, meets 4 or 5 times a year, with, from early 2012, a new sub-group of key Executives from the Levy Board, Betting and Racing holding a weekly call and meeting monthly. The smaller group discusses recent fixtures and looks ahead to the following week's racing to identify any scheduling issues. The sub-group has played a role in the rescheduling of certain races and the addition of replacement fixtures, as well as having initiated the discussion which led to a reduction in the number of declarations which triggers a divided race, which will provide additional competitive betting opportunities. In time, its main function will be to consider analysis of the betting performance of races with a view to recommending mutually beneficial changes to the race programme, based on firm data, in a much shorter timescale than has been possible in the past.

During calendar year 2011, the split of the Levy Board's prize money expenditure remained broadly the same between flat and jump. Over the past few years it has fluctuated between 64% – 36% flat to jumps to 60% – 40% flat to jumps. In 2011 the figure was 61% – 39% and the budgeted allocation in 2012 is 62% – 38%.

The main items of prize money distribution were changed in 2011 to provide more transparency, incentivisation and effectiveness, following a thorough and collaborative review in 2010. This worked successfully and racecourses can now understand more accurately and more openly what they are getting and why. The Fixture Incentive Scheme was refocused to be targeted at where it was most needed, primarily to January and February with some incentives in March, April, October, November and December. The Levy Board also decided to change the way in which its Raceday Services (formerly called Regulation and Integrity) funding was based so that, rather than the Levy Board providing near-100% cost recovery for racecourses, a contribution was made which equated to about two-thirds of the previous level of Levy Board commitment.

The Levy Board produces a Policy Statement each year which was previously published in the Annual Report. A review of the Levy Board's Policy Statement has demonstrated that its strategic obligations and objectives have been successfully pursued. It continues to support, as cost-effectively as possible, the provision country-wide 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, although it has been clear from the past three years that recipients of funds benefit from certainty of funding even if it is lower than expected, rather than changes throughout the year. The Levy Board is keen to ensure that its financial support for the racing industry is cost-effective, value for money and carefully monitored and this also continues to be achieved, even with the reduction of funding compared with two years ago, and is arguably more stringently monitored for cost-effectiveness than when available sums were greater. It continues to support the principle that British horseracing is the best in the world but, as previously stated, this can be easier said than done when prize money levels fall in Britain in comparison with other major racing countries. Further, the Levy Board continues to apply funds for the improvement of breeds of horses and of veterinary science and education, although veterinary science and education has had two quiet years of funding which needs to be reinvigorated. Finally the Levy Board monitors its net assets and maintains adequate cash balances: the financial situation is now more stable.

Amongst other specific objectives in the past year, the Levy Board contributed, by means of grants to racecourses, to the costs of maintaining Channel 4 television's coverage of horseracing in 2012. This particular expenditure item has now come to an end. Racecourses have agreed a new deal with Channel 4 without the Levy Board's involvement with effect from 2013. The continued presence of racing on terrestrial television is welcomed, both for the promotion of the sport and because Levy yield benefits significantly as a result of the coverage, and therefore the Levy Board will examine some new funding options for racecourses from 2013.

Again, the Levy Board was unable in the past year to make any new loans to racecourses but, with an improved reserves' situation, it may be in a better position to consider re-starting them in the future. Meanwhile, the capital credits system works extremely well and is beneficial to racecourses: the Levy Board approved by way of capital credit grants £877,000 for racecourse improvement schemes.

The Levy Board's fixture criteria for 2012 provided support for funded fixtures according a high priority to Levy-generation. This was achieved with some funding provided to all 1,456 fixtures bar the 42 fixtures funded entirely by racecourses.

The Levy Board continued to make appropriate grants to other heads of expenditure in pursuit of its statutory obligations.

The Executive continues to operate in a cost-effective manner with administrative costs remaining significantly lower than in the mid-2000s. Policies and procedures continue to be updated in line with changes to relevant legislation. Average staff numbers for both the Levy Board and Bookmakers' Committee were 16 for 2011/12 from 18 in 2010/11, whilst total remuneration was £1.3m compared with £1.7m in 2006/07.

The defined benefits retirement scheme commenced winding up on 1st October 2009. Following a long and arduous process it is currently estimated that this pension scheme will be closed by October 2012, at which point the Board will no longer have any obligations to this scheme. The costs to finalise the closure of the scheme are fully provided for in the Board's 2012/13 expenditure budget and are not expected to exceed £500,000.

As previously reported, the move offshore of certain internet and telephone betting operators has had a significant effect on Levy yield. The Levy Board itself is not directly involved in the discussions about the reform or replacement of the Levy system, but stands by to assist the Department for Culture, Media and Sport and any other organisations in providing information and assistance. Until such time as the Levy Board is directed otherwise, it is business as usual for the Executive which will continue to make recommendations to the Levy Board about how best to collect and distribute Levy and to serve all its members.

Douglas Erskine-Crum
Chief Executive

FINANCIAL SUMMARY

Income

The yield for the 50th Levy Scheme is £67.7m (49th Levy Scheme: £59.5m). This 14% increase is principally attributable to the revised terms of the 50th Levy Scheme and in particular an uplift in the headline rate from 10% to 10.75% and a reduction in Licensed Betting Offices' (LBOs) thresholds from £88,740 to £50,000.

The default percentage, which is used by those bookmakers who are unable to calculate their gross profits on British Horserace Betting Business, and/or who do not operate EPOS systems, is based on a survey of 6,170 LBOs which can identify the share. Expressed as a percentage of taxable gross win generated by all products, excluding machines, this figure is 41% for the 50th Levy Scheme, which compares with 39% for the 49th Levy Scheme.

During the year the Board received voluntary contributions totalling £6.9m from two bookmakers, Betfair and Sportingbet, which are based offshore. The steady migration of bookmakers offshore means that over 83% (2010/11: 75%) of the total Levy yield is now generated from LBOs, with other platforms accounting for the remaining 17% (2010/11: 25%).

Investment income in the year totalled £0.1m, which represents a 53% decline on the previous year, reflecting the significant reduction in cash balances held.

The total income for 2011/12 was £74.9m (2010/11: £60.2m).

Expenditure

During the year, total expenditure on the improvement of horseracing was £53.7m (2010/11: £77.2m) and other expenditure was £5.5m (2010/11: £6.6m). The reduction in expenditure reflects the Board's decision that it was unsustainable to continue to use accumulated reserves to maintain prize money and other spending commitments and instead, with the uncertainty around annual income, to plan on a prudent basis and produce, at the very least, a balanced budget.

As part of the emphasis on expenditure, we have looked closely at our own administration costs. Excluding legal and professional fees, since these account for one-off items such as the 2010/11 Determination by the Secretary of State and the betting exchanges' consultation, administrative efficiencies have resulted in our core administration expenditure reducing by £237,000 to £2.0m, being a decline of 11%.

Expenditure	2011/12 £'000	2010/11 £'000
Horsemen	33,736	48,963
Integrity Services	16,399	21,835
Racecourses	1,533	3,910
Administration	2,622	3,403
Improvement of breeds	691	1,245
Veterinary	907	1,009
Channel 4 racing	894	970
Training	910	892
Bookmakers' Committee	244	535
Other	1,073	454
Racing for Change	–	350
Point-to-point meetings	207	243
Total	**59,216**	**83,809**

Statement of Comprehensive Income

For the year ended 31st March 2012 the Board generated a surplus of £16.7m, compared with a deficit of £23.6m in 2010/11.

Since the Board adopts a calendar year budget to match that of the Racing industry, this significantly improved financial performance is largely attributable to the fact that the amount allocated for 2011 was agreed in November 2010, before both the outcome of the Secretary of State's Determination of the 50th Levy Scheme and the receipt of a £6.7m voluntary contribution from Betfair. Both these factors increased the actual income received significantly in excess of the original budget.

Statement of financial position

At 31st March 2012 the Board's reserves were £32.0m, which represents a significant improvement on 2010/11 when reserves only totalled £15.3m.

The Board did not approve any new loans to racecourses during 2011/12 and therefore the total net present value of loans reduced from £29.3m at 31st March 2011 to £18.8m at the year end. These loans are repayable between now and 2016/17.

The year-end closing cash balance of £23.9m will be used to discharge the net Levy refunds due to bookmakers and the successor company to the Tote of £2.8m. The majority of these refunds will be paid in May to July 2012.

PRIZE MONEY SCHEME

The Board agrees the vast majority of its expenditure allocation on a calendar year basis. The Board's allocation to Prize Money for 2012 was £38.2m (2011: £34.1m).

Prize Money 2012 Allocation	**£'000**
Betting Allocation	13,800
Divided Race Fund	1,100
Racing & Betting Special Incentive Fund	500
Additional Quality Support – Saturday Handicap Fund	300
Sub Total	15,700
FLAT ALLOCATION	
Basic Daily Rate – Racecourse Fixtures	8,300
Quality Support Fund	4,020
Blanket Period	1,122
BHA Fixtures (Twilights)	980
Sunday Appearance Money	275
British Champions Day	90
Ffos Las	37
Sub Total for Flat (rounded)	14,800
JUMP ALLOCATION	
Basic Daily Rate – Racecourse Fixtures	5,500
Winter Racing Payments	432
Quality Support Fund	825
Sunday Appearance Money	460
Ffos Las	299
Transitional Fund	200
Sub Total for Jump (rounded)	7,700
Total for Flat and Jump (rounded)	22,500
Grand total	**38,200**

The Board's Fixture Criteria for 2012

Full Basic Daily Rate (BDR) prize money funding and a grant to the racecourse to contribute to its Raceday Services costs are being provided in 2012 for fixtures which take place in slots within the Board's Fixture Criteria. BDR funding is provided at 65% for each of the two evening fixtures per day in the summer and 50% for non-Criteria Bank Holiday fixtures and for Saturday fixtures which do not reach the prize money threshold required for 100% BDR funding. Details of the Fixture Criteria slots are in the table on the next page.

HBLB Fixture Criteria 2012	Number of fixtures per session which receive a Raceday Services grant	Number of fixtures per session which also receive a Prize Money grant
"Racecourse" Fixtures		
Afternoons		
Monday – Friday (except Monday – Tuesday in June, July and August)	3	3
Monday – Tuesday in June, July and August	2	2
Saturdays	4	up to 4*
Bank Holidays	All	3 at 100%, remainder at 50%
Sundays	3	2
All weather fixtures between 26th-31st December	1	1
Evenings		
Monday – Saturday	2	2 (at 65% of afternoon funding level)
"Twilight" Fixtures		
	1	1 (£10,000 flat-rate)
"Leasehold" Fixtures		
Where situated in afternoon or evening Criteria slots	All	0

*100% grant for summer fixtures offering a minimum of £120,000 prize money and winter fixtures offering a minimum of £100,000 prize money. Others receive 50%.

The only change from the 2011 Criteria was to provide full prize money funding for three Bank Holiday fixtures rather than four, the rest of which receive 50%. For 2012, there is now a clear process for determining which racecourses on a particular day are awarded Criteria status: this is given to racecourses with the highest executive and sponsorship contribution as a proportion of total prize money from October 2010 to September 2011, with fixtures with Pattern races given Criteria status in any event.

Race by Race Betting Information

Developing the structure of the Fixture Criteria was given considerable assistance by the provision of confidential data from five bookmakers – Betfair, Betfred, Gala Coral, Ladbrokes and William Hill. This race-by-race information covering 2009/10 was provided to the General Secretary to the Bookmakers' Committee who was then able to circulate data, in the form of an indexed number per race, to a restricted number of individuals including certain Board executives. This enabled an analysis to be undertaken of the performance of each fixture slot, which in turn helped to inform proposals for the optimum fixture framework.

2011 and 2010 Contributions to Prize Money

	2011				2010			
	Flat	Jump	Total	%	Flat	Jump	Total	%
HBLB (main prize money pool)	19,703,499	12,685,538	32,389,037	34.5%	32,577,896	18,380,679	50,958,575	51.4%
HBLB Divided Race Fund	774,393	125,800	900,193	1.0%	984,750	194,650	1,179,400	1.2%
HBLB Total	**20,477,892**	**12,811,338**	**33,289,230**	**35.5%**	**33,562,646**	**18,575,329**	**52,137,975**	**52.6%**
Sponsors	10,519,600	8,188,040	18,707,640	19.9%	8,224,742	5,827,501	14,052,243	14.2%
Owners	12,023,491	3,336,429	15,359,920	16.4%	12,195,691	3,373,477	15,569,168	15.7%
Racecourses	19,392,214	7,143,919	26,536,133	28.3%	12,697,779	3,603,502	16,301,281	16.5%
Development Fund (BHA Contribution)	–	–	–	–	892,000	10,000	902,000	0.9%
Order of Merit	–	–	–	–	–	100,000	100,000	0.1%
Total	**62,413,197**	**31,479,726**	**93,892,923**	**100.0%**	**67,572,858**	**31,489,809**	**99,062,667**	**100.0%**

In addition to the Board's contribution through the main prize money pool and the Divided Race Fund, the Board also funded an Appearance Money Scheme, designed to provide an incentive to racehorse owners to run their horses on Sundays.

	2011				2010			
	2011 Flat	2011 Jump	2011 Total	*2011%	2010 Flat	2010 Jump	2010 Total	*2010%
HBLB Appearance Money Scheme	269,100	462,700	731,800	0.8%	450,060	681,585	1,131,645	1.1%

* Appearance Money Scheme as a percentage of total prize money.

Each racecourse's BDR, details of which are shown on the Board's website www.hblb.org.uk, comprise of two evenly split elements:

- An amount calculated by reference to the latest average daily amount of its executive and sponsorship contribution to prize money.
- The share of the amount (£13.8m in 2012) allocated by reference to its off-course betting turnover.

Further changes to the distribution methodology were made for 2012 to the way in which the above two BDR elements were treated. These were that:

- The 50% share based on a racecourse's own prize money contributions were averaged over the previous two years instead of the previous three years;
- The 50% share allocated by reference to off-course betting performance was based entirely on turnover, and on one year's figures, whereas previously this was a mixture of turnover and gross win averaged over two and three years respectively.

These further amendments to the distribution system provide an even more direct and faster link between a racecourse's performance and the contribution from the Board, further increasing responsiveness in the incentive/reward system.

The Board also continued to pay supplementary sums from its Transitional Fund and the Winter Jump Payment Scheme. The former was introduced for 2011 to ensure that, as the amount available for distribution in prize money had fallen overall by an average of 38%, no racecourse was more than 10 percentage points (i.e. 48%) worse off than in 2010. For 2012 the Transitional Fund continues, but is restricted to racecourses at 20 percentage points worse off (58%) than in 2010. This recognises that racecourses have had a further year to adjust to the new distribution methodology but still provides some protection. The Winter Jump Payments are awarded to racecourses staging Jump fixtures in midweek winter slots, as there is relatively limited scope to generate additional revenue streams from racegoer-related sources at that time of year.

IMPROVEMENT OF HORSERACING

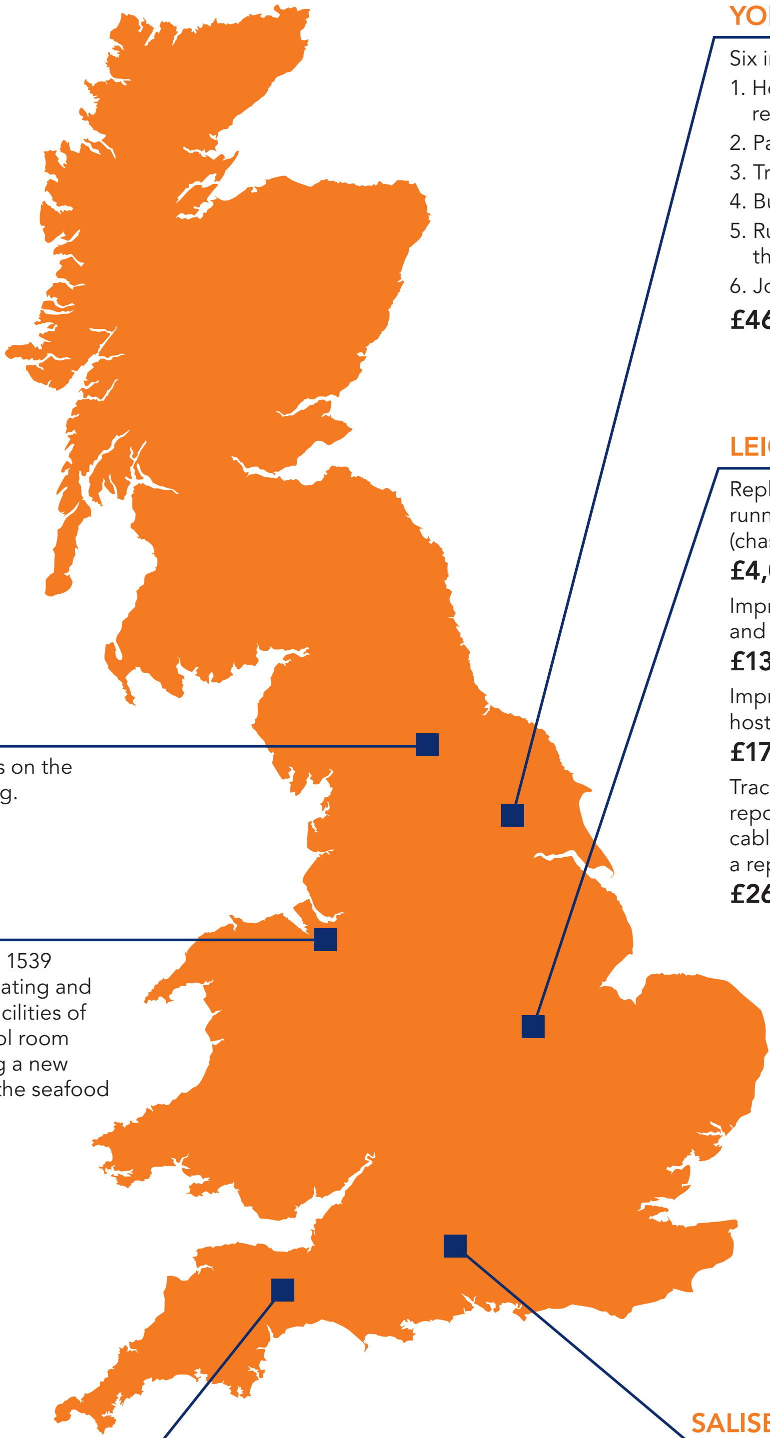
Racecourse modernisation

During 2011/12, the Board approved, by way of Capital Credit grants, £876,604 (2010/11: £2.3m) for use in racecourse improvement schemes. These are shown on the next page.

The Board continued to take the view that it would not make any new loans to racecouses in 2012, but would look to reintroduce loans when able to do so. This is not expected to be before 2013 at the earliest. The principles of the lending policy will be reviewed in 2012.

Integrity of Racing

Maintaining high standards of integrity in British racing remained one of the Board's priorities within that part of its expenditure devoted to the improvement of horseracing. For 2012 the Board continues to make a grant towards racecourses' raceday services costs per fixture, with the total allocation of £16.4m at the same level as 2011. The Board also continues to pay a supplementary sum of £2,000 in respect of each midweek Jump Racecourse fixture in January and February, reflecting that such fixtures are among the least attractive for racecourses to stage. The Raceday Services grant received by racecourses contributes towards the cost of licensed officials, security and veterinary raceday officials, raceday services head office costs and drug testing and drug research services.



YORK

Six individual projects:

1. Head lads' building refurbishment
2. Parade ring
3. Track safety rail
4. Bustardthorpe fence line
5. Rubberised walkways at the stable complex
6. Jockeys sauna

£466,210

CATTERICK

Additional works on the Paddock Building.

£34,715

LEICESTER

Replacement of the running rail on the jumps (chase) track.

£4,036

Improving the Owners' and Trainers' car park.

£13,850

Improving the stable hostel facilities.

£17,426

Track improvements, repositioning of TV cabling and purchasing a replacement tractor.

£26,447

CHESTER

Extension of the 1539 restaurant, relocating and improving the facilities of the police control room and constructing a new canopy roof on the seafood restaurant.

£294,445

SALISBURY

Installing replacement fencing and a new access gate around the Owners' and Trainers' entrance and Paddock car park.

£9,110

TAUNTON

Dismantling and removing the existing northern entrance and in its place constructing a new brick wall and galvanised swing gates.

£10,365

Fixture Incentive Scheme

The Fixture Incentive Scheme is designed to encourage racecourses, by way of grants, to race in certain Levy-generative slots which would otherwise be less attractive to stage. The provision for the Scheme was increased in 2012 to £2.8m (2011: £2.1m), of which £300,000 was allocated specifically for Leasehold fixtures (excluding those in Twilight slots). The Board took the view that, although Leasehold fixtures would not receive prize money funding from the Board, the fixtures in winter months contribute to meeting the Board's Fixture Criteria. The majority of the remaining £400,000 was applied to Jump fixtures in January and February.

Additional Fixtures and Transfer of Races

Adverse winter weather and an unusually wet start to spring led to a considerable number of abandonments (47 in total) between January and April 2012. February suffered the greatest loss of fixtures with 29 called off, just over double the five-year average for that month. To protect Levy income and to ensure important racing opportunities at a critical time of year for Jump racing, the Board moved quickly to provide some £300,000 in additional prize money and payments towards racecourse costs to convert four all weather track (AWT) fixtures to afternoons from their existing twilight slot; programme six additional fixtures and transfer Newbury's 'Super Saturday' fixture, including the Grade 1 Betfair Novices' Steeple Chase (registered as the Scilly Isles Novices' Chase). The Board estimates that, overall, the fixture rearrangements have been of net benefit to the Levy. The swift action taken by all parties concerned was welcomed by Racing and Betting.

Twilight Fixtures

The success in 2010 of generating additional Levy by way of switching some midweek winter evening fixtures to a twilight slot (late afternoon/early evening) saw the creation of 96 twilight fixtures in 2011. They were continued to be regarded as positive and a total of 98 twilight fixtures were programmed for 2012 with BDR funding of £10,000 per fixture.

Appearance Money Scheme

For 2012 the total value of the Scheme has been maintained at the same level as 2011 (£735,000). The Scheme ensures payments of £100 per runner on Sundays.

Point-to-Point meetings

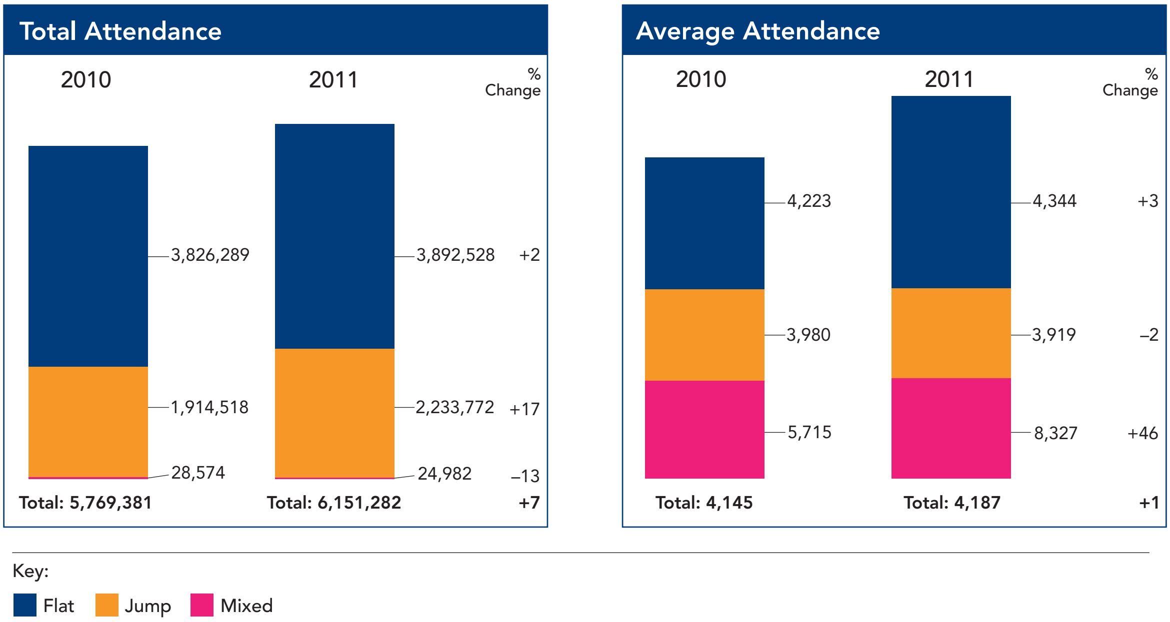
The Board's support for Point-to-Points in 2012 is £200,000 (2011: £200,000). The funding ensures that the provision of veterinary, medical and security services, as well as racecourse maintenance, remains of a high standard.

Divided Race Fund

The Board's allocation to the 2012 Divided Race Fund, which provides prize money for additional races, is £1.1m (2011: £900,000). The Board increased its allocation in order to ensure that each division of a race is run at the originally advertised prize money value rather than, as has been the case historically, for a lesser amount unless the racecourse makes up the difference. Creating parity of value in the divisions benefits the connections of horses running and reduces any disincentive for a racecourse in considering the implication of staging two divisions of a race.

Racecourse Attendance

Racecourse attendance reached its highest level in recent years, with the number of people going racing across the country rising again for the third consecutive year. Total attendance reached 6.15 million visits, an increase of 7% from 2010. Average daily attendances saw a rise of 1%.



ADVANCING VETERINARY SCIENCE AND EDUCATION

In 2011/12, £1.2m (2010/11: £920,000) was allocated to activities recommended by the Board's Veterinary Advisory Committee (VAC) to improve the health and welfare of the racing and breeding thoroughbred.

Disease control continued to be a priority area for the racing and breeding industries, with over one-third of the total annual expenditure devoted to it. The VAC commissioned the Animal Health Trust to provide a new two-year programme for equine influenza. Among other activities, the programme monitors the prevalence of, and changes in, different strains of the equine influenza virus. This is important for the efficacy of vaccines and for promoting international standards and contingency plans to minimise the spread of infection both nationally and internationally. The Board maintained its financial contribution to the infectious disease programme, which is also supported with funding from thoroughbred owners and breeders. Hosted at the Animal Health Trust, the programme provides surveillance, testing, advice and expertise into equine infectious disease. An online version of the Codes of Practice (http://codes.hblb.org.uk) was launched on a dedicated website, widening access to the latest protocols for equine disease prevention and control.

Expenditure on veterinary education provided two three-year research scholarships, for training leading to a PhD, in the fields of study of equine locomotor biomechanics and equine arthritis. A four-year clinical scholarship was also awarded, for high-level clinical training in equine internal medicine and infectious diseases.

Nine other scholarships were ongoing during 2011 which continued the training and education of a core of expert equine clinicians and researchers for the future.

No new research project grants were made but funding continued to support 16 ongoing projects awarded in previous years.

Veterinary Advisory Committee 2011

Professor Willie Donachie BSc PhD CBiol FIBiol (*Chairman*)

Professor Celia Marr BVMS MVM PhD DEIM DipECEIM MRCVS

Professor Peter O'Shaughnessy BSc PhD

Mr Rob Pilsworth BSc MA VetMB CertVR MRCVS

Professor Stuart Ralston MB ChB FRCP MD FMedSci FRSE

Mr Chris Rea BVM&S MRCVS

Professor Tim Skerry BVetMed PhD CertSAO FRCVS (*Deputy Chairman*)

Dr Geraldine Taylor BSc PhD

BREEDS

Breeders' Prizes Scheme

The Breeders' Prizes Scheme, funded by the Board and administered by the Thoroughbred Breeders' Association (TBA), reaches its 20th year in 2012. Its aim is to improve the quality of the British thoroughbred racehorse. The Board's allocation grant to Breeders' Prizes for 2012 was again £700,000, the same as in 2011 but a reduction of some 50% on the allocation in earlier recent years.

Following a review by the Board and the TBA of its objectives, the Scheme was refocused in 2011 on higher-class races while continuing to ensure diversity in the reward structure for both Flat and National Hunt (Jump) racing. These principles continued to underpin the Scheme in 2012.

Prizes on the Flat are awarded to qualifying two year-old, three year-old and four year-old winners of all Class 1-3 and Class 4 Maiden and Novice races with payments rates for fillies and mares generally double those for colts and geldings.

Prizes for National Hunt (NH) racing are payable to qualifying winners of all Class 1, 2 and Class 3 Maiden and Novice Steeple Chase and Hurdle races and Grade 1, 2 and Listed NH Flat races.

The Scheme also awards a second tier NH breeders' prize at a lesser percentage (50% of the prize) to those winners who were foaled on or after 1st January 2000 but which were previously excluded by one or more of the following criteria:

- The progeny of a stallion based overseas;
- Had its first run on the flat;
- Was sold as a foal outside Great Britain.

Grants to Breed Societies

Funding for grants to rare horse and pony breed societies in 2011 was reduced from £141,630 to £100,000, an allocation subsequently maintained for 2012. The reduction was applied on a sliding scale, correlating with Rare Breed Survival Trust Watchlist categories. Grant values were reduced by between 20% for category 1 (critical) and up to 35% for category 4 (at risk). Only native breeds listed in categories 1 to 4 on the Rare Breed Survival Trust are eligible to receive Board funding.

Societies must also contribute at least 20% of the value of the grant from their own resources. Each society utilises the grant in the most appropriate way for its unique breed improvement programme, such as awarding stallion, mare and foal premiums and subsidies for registration fees, mare travel to premium stallions, animal inspection costs and breed show support. Eleven societies received funding totalling £100,000 (2010: £141,630).

Society	**Grant 2011 £**
Cleveland Bay Horse Society	11,600
Clydesdale Horse Society	8,730
Hackney Horse Society	12,330
Shire Horse Society	25,000
Suffolk Horse Society	16,400
Dales Pony Society	6,050
Dartmoor Pony Society	4,760
Exmoor Pony Society	4,650
Fell Pony Society	3,820
Highland Pony Society	2,480
Welsh Pony and Cob Society (feral Group A only)	4,180
Total	**100,000**

OTHER ACTIVITIES

Industry Training and Education

For 2012 the Board continues its commitment to training and education programmes in the racing and breeding industry by way of grants totalling £900,000 (2011: £900,000). This allocation supports schemes administered by the British Horseracing Education and Standards Trust (BHEST), the National Stud and the TBA.

BHEST

The grant to BHEST was £600,000 (2011: £600,000). It supports BHEST's core awarding body activities, providing an extensive suite of nationally recognised National Vocational Qualifications for stable and stud staff as well as other BHEST activities including Jockey Training and BHEST's Life Skills Programme.

The grant also supports the BHEST Education Programme, which organises 'Racing To School' education days which opens horseracing to a new, young audience through the use of informative education activities based on the National Curriculum. BHEST organised 117 education days between January and June 2011 providing educational activities in a racing context for 5,676 schoolchildren at 45 racecourses across England and Scotland.

The National Stud

The National Stud provides specialist training for careers in the thoroughbred breeding industry through the internationally renowned Diploma Course, the Apprenticeship Programme and the Stud Secretaries' course. The Stud also provides short term work experience for school pupils, college students, veterinary undergraduates and breeders. The Board supported the courses provided by the National Stud for the ninth consecutive year with a grant of £200,000 (2011: £200,000).

TBA Education and Employment Scheme

The Board also supported the TBA Education and Employment Scheme in 2012 with a grant for £60,000 (2011: £70,000). The Scheme will focus on the following key areas: providing employer support, promotion of recruitment and careers within the racing and breeding industry, continuation of the Stud Farming Course, industry specific National Vocational Qualifications and outreach activities through the TBA's Next Generation Club.

The BHA Graduate Programme

The Board has been a sponsor of the increasingly popular and industry renowned BHA Graduate Programme since its inception 20 years ago. The programme, intended for graduates or final year degree students, provides an invaluable insight into the many organisations and functions in racing, breeding and betting. The Board again took on a student on placement as part of the programme.

THE 51ST LEVY SCHEME

The 51st Levy Scheme (1st April 2012 to 31st March 2013) was agreed by the Board in October 2011 following approval of the recommendations from the Bookmakers' Committee by a majority vote.

The 51st Levy Scheme will in most respects continue the terms of the 50th Levy Scheme with a bookmaker's 2012/13 Levy liability being calculated by reference to the gross profit on British Horserace Betting Business (BHBB).

For off-course betting through Licensed Betting Offices (LBOs) each LBO will pay 10.75% of its gross profits on BHBB. Operators with more than 100 LBOs will pay at the full 10.75% rate on each outlet. For an operator with 100 or fewer LBOs, an abated rate will apply to those of its LBOs (up to a maximum of 30) which have gross profits on BHBB of less than £52,500. This abated rate, or 'threshold', will be calculated in a similar manner to previous years. A Flat Rate Rebate of £400 for the first 30 LBOs in any chain and £185 for all other LBOs will be applied. This will be a sum deducted from the bookmaker's 51st Levy Scheme liability during the year end reconciliation (50th Levy Scheme: 10.75%; threshold £50,000, applicable to all LBOs with no restriction per operator; Flat Rate Rebate, no equivalent). Internet and telephone platforms pay Levy at a flat percentage charge of 10.75% of their gross profit (50th Levy Scheme: 10.75%). The Levy for on-course betting is charged at a flat fee of £220 (50th Levy Scheme: £210). The Levy payable by bet-brokers including betting exchanges is charged on a basis equivalent to 10.75% (50th Levy Scheme: 10.75%) of their gross profits, defined as gross commission on BHBB deducted from the winnings paid out to bettors and bet-takers. Spread betting business is levied at 2.15% (50th Levy Scheme: 2.15%) of gross profits. Bookmakers who conducted BHBB only on Point-to-Point and/or harness racing and/or trotting events paid a fixed contribution of £175 (50th Levy Scheme: £166).

Contributions by the Successor Company to the Horserace Totalisator Board (Betfred)

Following the sale of the Tote, the Betting, Gaming and Lotteries Act 1963, the Horserace Betting Levy Act 1969 and the Horserace Betting and Olympic Lottery Act 2004 were amended. The effect of these changes is that the Board separately negotiates the contributions due by Betfred in respect of its pool betting operations, and Betfred is not subject to the Levy Scheme in respect of these operations. In October 2011 the Levy Board agreed that, in respect of its pool betting operations, Betfred will contribute for the 51st Levy Scheme at 10.75% of gross profit on BHBB as if it were a bookmaker, which is the same rate that was agreed with the Tote for the 50th Levy period.

THE BOOKMAKERS' COMMITTEE

The main function of the Bookmakers' Committee (the Committee) is to recommend annually to the Board the categories, rates, conditions and definitions of the Levy Scheme for the following year and, if appropriate, to consider revising such recommendations in light of the observations of the Board. The Committee therefore was under remit to agree with the Board, by the statutory deadline of 31st October 2011, the terms of the 51st Levy Scheme.

The Committee's Recommendations, submitted to the Board in October 2011, were mindful of the terms of the Secretary of State for Culture, Olympics, Media and Sport's Determination of the 50th Levy Scheme.

In the knowledge that a second (consecutive) Determination was considered to be unhelpful for the betting and racing industries, the Committee's Recommendations drew upon two key principles highlighted by the Secretary of State. First, that the Levy would continue to be payable only in respect of profits arising from bets placed in relation to British horseracing and, second, that payment for televised pictures of live British horseracing represent indirect payments from bookmakers to Racing which would be taken into account in determining both Racing's reasonable needs and what it is reasonable for bookmakers to have to pay. In addition, the Committee considered it essential that the additional TV picture rights revenue received by Racing (effective 1st January 2012) from bookmakers during the period of the 51st Levy Scheme be taken into account.

The Committee's Recommendations, put forward on the understanding that the Board and the Committee would use reasonable endeavours to achieve a minimum of 1,450 criteria fixtures, an improvement in the average number of runners per race across all codes and afford bookmaking representatives greater influence in respect of the fixture programme, incorporated three significant changes to previous Schemes.

LBO Flat Rate Rebate

The Recommendations introduced for the first time a Flat Rate Rebate applicable to every LBO, which has the advantages of being fair in application, easy to calculate and easy to administer.

Guarantee

To provide the Board with additional certainty, the Recommendations were accompanied by a guarantee from four firms. Gala Coral, Ladbrokes and William Hill agreed to guarantee that their combined contribution in the 51st Levy Scheme period would be not less than £45m. In addition, Betfair undertook to provide £6.5m as a voluntary contribution.

LBO Threshold

A threshold was retained only for chains of 100 LBOs or fewer, to be applied as described in the section above "The 51st Levy Scheme".

On 31st October 2011 the Board approved the Committee's Recommendations.

Bookmakers' Committee's Costs

The costs of the Committee, which in 2011/12 amounted to £244,000 (2010/11: £535,000), were met by the Board.

MEMBERS OF THE BOOKMAKERS' COMMITTEE	
Will Roseff Chairman	ABB
Thomas Murphy Vice Chairman	William Hill plc
Warwick Bartlett	ABB
Howard Chisholm	ABB
Michael Corbett	ABB
Martin Cruddace	The Sporting Exchange
Richard Glynn (until September 2011)	Ladbrokes plc
Neil Goulden	Gala Coral Group
Keith Johnson	NAB
Richard Lang	Gala Coral Group
Mike O'Kane (from September 2011)	Ladbrokes plc
Nick Rust	Ladbrokes plc
Ralph Topping	William Hill plc
Andrew Watson	NAB
General Secretary: Stu McInroy	

Notes:
ABB: Appointed by the Association of British Bookmakers
NAB: Appointed by the National Association of Bookmakers

BOARD RESPONSIBILITIES AND FUNCTIONS

Board Members

Paul Lee*
Chairman

Paul Darling QC*

Paul Bolt*

Paul Roy**
Chairman, British Horseracing Authority

Ian Barlow**
Chairman, Racecourse Association

Paul Dixon**
Chairman, Horsemen's Group

Will Roseff
Chairman, Bookmakers' Committee

* Appointed by the Secretary of State
** In accordance with legislation, formally appointed by the Jockey Club

Observer

Thomas Murphy
Bookmakers' Committee

Board Executives

Douglas Erskine-Crum
Chief Executive & Accounting Officer

Rob Skeggs
Finance Director

Alan Delmonte
Operations Director

Statement of Responsibilities of Members and the Accounting Officer of the Horserace Betting Levy Board

The Members and Accounting Officer are responsible for preparing the annual report and the accounts in accordance with applicable law and International Financial Reporting Standards.

The Betting, Gaming and Lotteries Act 1963 (as amended) requires the Horserace Betting Levy Board to prepare accounts in respect of each Levy period. In preparing these accounts, the Members and Accounting Officer are required to:

- Observe the Accounts Direction issued by the Secretary of State for Culture, Olympics, Media and Sport, including the relevant accounting and disclosure requirements, and apply them on a consistent basis.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the accounts.
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the Board will continue its activities.

The Members and Accounting Officer are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Board and enable them to ensure that the accounts comply with the Betting, Gaming and Lotteries Act 1963 (as amended). They are also responsible for safeguarding the assets of the Board and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The above statement should be read in conjunction with the statement of auditors' responsibilities set out in the auditors' report on page 29.

Functions of the Board

The Horserace Betting Levy Board is a corporate body, operating in accordance with the provisions of the Betting, Gaming and Lotteries Act 1963 (as amended).

The Board is charged with the duty of assessing and collecting monetary contributions from bookmakers and, while the exclusive licence under section 8 of the Horserace Betting and Olympic Lottery Act 2004 has effect, the successor company to the Horserace Totalisator Board, and to apply them for purposes conducive to any one or more of:

- The improvement of breeds of horses.
- The advancement or encouragement of veterinary science or veterinary education.
- The improvement of horseracing.

GOVERNANCE STATEMENT

As Accounting Officer for the Horserace Betting Levy Board, I am responsible for ensuring that an appropriate corporate governance framework is in place that supports the achievement of the Board's policies, aims and objectives, which are in accordance with the Betting, Gaming and Lotteries Act 1963 (as amended). This governance statement provides guidance as to how these duties have been carried out in 2011/12.

Corporate Governance Code

The Board has adopted a Code of Practice designed to ensure a high standard of corporate governance incorporating those main provisions of HM Treasury's recommended Corporate Governance Code, including 'Managing Public Money', that are deemed relevant to the Board.

The Governance Framework

As Accounting Officer, I acknowledge my overall responsibility for safeguarding the public funds and Board's assets and ensuring that the Board is committed to high standards of corporate governance, including the effective management of risk throughout the Board. The governance framework implemented by the Board comprises the following key elements.

The Board

As at 31st March 2012, the Board comprised the Chairman and the other two Government Appointed Members appointed by the Secretary of State for Culture, Olympics, Media and Sport, three Board Members appointed by the Jockey Club and one Board Member appointed by the Bookmakers' Committee. Appointments by the Secretary of State are on fixed term contracts for a period of four years in the case of the Chairman and three years for the other two Government Appointed Members and may be renewed for a further term. The terms of appointment of other Board Members are as proposed by their appointing bodies.

The Board approves the annual Levy Scheme and is responsible for corporate governance.

Papers for Board meetings are circulated in advance of the relevant meeting and, when a Board member is unable to attend, he or she continues to be provided with a full copy of the papers and has the opportunity to comment on the matters discussed. The Board Members who are appointed by the Jockey Club and the Bookmakers' Committee are permitted to appoint an alternate in the event that they are unable to attend a Board meeting, whilst a Government Appointed Member may give another Government Appointed Member his proxy to vote on his behalf.

In 2011/12 the Board met ten times as follows:

Board member	Appointed by	Meetings attended	Represented by alternate
Paul Lee – Chairman	Secretary of State for Culture, Olympics, Media and Sport	10/10	n/a
Paul Darling QC	Secretary of State for Culture, Olympics, Media and Sport	8/10	n/a
Paul Bolt (from 3/10/11)	Secretary of State for Culture, Olympics, Media and Sport	4/5	n/a
Penny Boys (until 29/06/11)	Secretary of State for Culture, Olympics, Media and Sport	3/3	n/a
Paul Roy	Jockey Club	9/10	1/10
Paul Dixon	Jockey Club	10/10	–
Ian Barlow	Jockey Club	9/10	1/10
Will Roseff	Bookmakers' Committee	10/10	–
Mike Smith (until 12/07/11)	Horserace Totalisator Board	3/4	1/4

The Members of the Board have made a declaration of their personal interests relevant to their responsibilities as Members of the Board. The register of Members' interests, which may be viewed at the Board's offices on request, is also available on the Board's website, www.hblb.org.uk.

Audit Committee

The Audit Committee is established by the Board primarily to oversee the accounting, financial reporting, internal controls and risk management processes of the Board. During the year the Audit Committee engaged in the following activities:

- The Audit Committee approved the scope of the audit work proposed by the external auditors (Grant Thornton), reviewed the year-end financial results and considered the key issues memorandum presented by the external auditors and the management's response.
- The Audit Committee approved the scope of work proposed by the internal auditors (Grant Thornton) and reviewed their findings.
- Continual monitoring of the effectiveness of the Board's internal control systems including the Board's risk controls and strategic risk register.
- Reviewed Members' register of interests and advised on any conflicts.
- Reviewed the Board's banking and investment arrangements and monitored the rolling cash flow forecasts and financial projections.
- Undertook an annual review of the Board's Financial Regulations, which are in place to ensure that the financial control system is not compromised.

The Chairman of the Audit Committee reports to the Board after each Audit Committee meeting. The Audit Committee met three times in 2011/12, and the detail of attendance is set out in the table below.

Audit Committee member	Meetings attended
Penny Boys (until 28/06/11) – Chairman	1/1
Paul Bolt (from 3/10/11) – Chairman	1/2
Ian Barlow	3/3
Will Roseff	3/3

Executives

Executive managers within the individual departments have responsibility for the development and maintenance of the internal control framework.

Remuneration Committee

The Remuneration Committee met once in 2011/12. The duties of the Remuneration Committee are:

- To determine Executive and staff remuneration on an annual basis;
- To oversee the training requirements of the organisation and ensure that adequate and appropriate training is offered to staff at all levels;
- To make recommendations to the Board on organisational and remuneration policies that affect the directors of the organisation;
- To monitor the Bribery Act 2010 and the Board's anti-bribery systems as they affect Members, Executive and staff of the Board;
- To review the Internal and External Gifts and Hospitality registers twice a year;
- To consider any other matters when requested to do so by the Board.

For the year ended 31st March 2012, the Members of the Remuneration Committee were as follows:

Remuneration Committee member	Meetings attended
Paul Darling (Chairman)	1/1
Paul Lee	1/1
Will Roseff	1/1

Internal Control, Risk Management and Review of Effectiveness

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process to identify the principal risks to the achievement of the Board's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31st March 2012 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance. No significant failings or weaknesses were identified as a result of the review of the effectiveness of the Board's internal control.

A strategic risk register is maintained which is regularly updated following detailed review by the Audit Committee at every meeting, to ensure effective monitoring of risks. The strategic risk register is considered and approved by the Board at least three times a year. During the year, the Board and the Audit Committee agreed ten principal risk categories, which were continually monitored. Each principal risk has an impact analysis and a risk evaluation. Early warning indicators of the risk materialising have been identified and all of the risks are assigned Risk Owners, i.e. someone with sufficient authority to ensure the risk is addressed. No new risks were identified in the year.

The Board is assisted by the work of the annual internal audit assurance visit, undertaken by external advisors, which reports on the internal control and the assurance framework in line with the agreed three-year audit plan. No significant control issues were identified by their work for the year ended 31st March 2012.

There is nothing of which I am aware that leads me to believe that the Board's systems of control are not adequate.

Remuneration

Full details of the remuneration of the Board Members and the Chief Executive, including their terms of appointment, are shown on page 39 in note 5 to the accounts.

Information Given to Auditors

The Accounting Officer and each of the Members of the Board have confirmed that so far as they are aware, there is no relevant information of which the Board's auditors are unaware and that they have taken all the steps that they ought to have taken in order to make themselves aware of any relevant information and to establish that the Board's auditors are aware of that information.

The Board's Performance

The Board's performance, including its effectiveness, has been assessed. Bearing in mind the representative nature of the Board, the Board has performed effectively.

The Chairman meets the other two Government Appointed Members regularly allowing him to make clear what is specifically expected of them and to assess their performance.

Information Management

The Board has suffered no protected personal data incidents during the year ended 31st March 2012 or prior years, and has made no reports to the Information Commissioner's office.

Sickness Absence

Average sickness absence per person employed by the Board during the year ended 31st March 2012 was 1.9 days (2010/11: 1.9 days).

Freedom of Information

The Board has continued to meet the requirements of the Freedom of Information Act 2000. The Board's website www.hblb.org.uk contains full details of information published by the Board and how to make a request under the Act.

Equality

The Board continues to operate, in all areas of its activity, in line with the Equality Act 2010 and its own Equal Opportunity Policy, and continues to monitor recruitment and employment. There continues to be full equality of access to promotion, training and other features of employment, regardless of race, within the Board. Control measures are in place to ensure that all of the Board's obligations under equality, diversity and human rights legislation are complied with.

Douglas Erskine-Crum
Chief Executive and Accounting Officer

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF THE HORSERACE BETTING LEVY BOARD

We have audited the accounts of the Horserace Betting Levy Board ("the Board") for the year ended 31st March 2012 which comprise the statement of comprehensive income, the statement of financial position, the cash flow statement, the statement of changes in reserves and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Board's Members, as a body, in accordance with section 31(1) of the Betting, Gaming and Lotteries Act 1963 (as amended). 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 auditors' 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 Board's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Members, Accounting Officer and auditors

As explained more fully in the Statement of Responsibilities of Members and Accounting Officer set out on page 23, the Members and Accounting Officer are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the accounts 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 (APB's) Ethical Standards for Auditors.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Accounts Direction issued by the Secretary of State for Culture, Olympics, Media and Sport and whether in all material respects the income and expenditure have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. We also report to you whether in our opinion the information given in the Management Commentary in the Annual Report is consistent with the accounts. This other information comprises only the Chairman's Statement, the Chief Executive's Review, Financial Summary, Prize Money Scheme, Improvement of Horseracing, Advancing Veterinary Science and Education, Breeds, Other Activities, 51st Levy Scheme, the Bookmakers' Committee, Board Responsibilities and Functions, and Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

In addition, we report to you if, in our opinion, the Board has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding the Members and Accounting Officer's remuneration and other transactions is not disclosed.

Scope of the audit of the accounts

A description of the scope of an audit of accounts is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on accounts

In our opinion the accounts:

- Give a true and fair view of the state of the Board's affairs as at 31st March 2012 and of its surplus for the year ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union;
- Have been properly prepared in accordance with the Accounts Direction issued by the Secretary of State for Culture, Olympics, Media and Sport;
- The information given in the Management Commentary in the Annual Report for the financial year for which the accounts are prepared is consistent with the accounts; and
- In all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Mark Henshaw
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditors, Chartered Accountants
London

14th June 2012

Statement of comprehensive income for the year ended 31st March 2012

	Notes	2012 £000	2011 £000
Revenue			
Levy income receivable for:			
50th Levy Scheme (comparative is 49th Levy Scheme)	2a	67,715	59,530
Previous years' Schemes	2a	174	237
		67,889	**59,767**
Other income	2a	6,866	219
Interest receivable	2a	119	251
Total revenue		**74,874**	**60,237**
Expenditure			
Improvement of horseracing	3a	(53,699)	(77,168)
Other expenditure	3b	(4,471)	(6,287)
Pension finance costs	17c	(1,044)	(227)
Net loss on available-for-sale financial assets	12	(2)	(127)
Total expenditure		**(59,216)**	**(83,809)**
Operating surplus/(deficit)		**15,658**	**(23,572)**
Income tax	7	–	–
Surplus/(deficit) for the year		**15,658**	**(23,572)**
Other comprehensive income:			
Actuarial gain/(loss) on the defined benefit pension scheme	17g	1,067	(22)
Total comprehensive income for the year		**16,725**	**(23,594)**

The surplus for the year arose from continuing operations.

The notes on pages 35 to 49 form part of these accounts.

Statement of financial position as at 31st March 2012

	Notes	2012 £000	2011 £000
Assets			
Non-current assets			
Property, plant and equipment	8	53	126
Loans	10	10,378	17,938
Total non-current assets		**10,431**	**18,064**
Current assets			
Trade and other receivables	9	4,930	142
Loans due within one year	10	8,429	11,403
Financial assets	12	–	3,253
Cash and cash equivalents	13a	23,863	9,923
Total current assets		**37,222**	**24,721**
Total assets		**47,653**	**42,785**
Current liabilities			
Trade and other payables	14	(14,799)	(25,906)
Provisions	15	(502)	(601)
Total current liabilities		**(15,301)**	**(26,507)**
Total assets less total current liabilities		**32,352**	**16,278**
Non-current liabilities			
Provisions	15	(120)	(598)
Pension liability	17b	(233)	(406)
Total non-current liabilities		**(353)**	**(1,004)**
Total net assets		**31,999**	**15,274**
Reserves	18	**31,999**	**15,274**

These accounts were approved and authorised for issue by the Board on 14th June 2012 and were signed on its behalf by:

Paul Lee
Chairman

Douglas Erskine-Crum
Chief Executive and Accounting Officer

The notes on pages 35 to 49 form part of these accounts.

Cash flow statement for the year to 31st March 2012

	Notes	2012 £000	2011 £000
Cash flow from operating activities			
Operating surplus/(deficit) for the year		15,658	(23,572)
Adjustments for:			
Depreciation		74	78
Interest receivable		(119)	(251)
Fair value adjustment for loans receivable	3, 10	(1,009)	(628)
Net pension finance charge		1,044	227
Pension contributions paid		(150)	(255)
(Increase)/decrease in trade and other receivables		(4,788)	204
(Decrease)/increase in trade and other payables		(11,107)	6,852
Decrease in provisions		(577)	(459)
Cash consumed by operations		**(974)**	**(17,804)**
Unrealised gain on financial assets	12	(2)	(14)
Income tax		–	–
Net cash flow from operating activities		**(976)**	**(17,818)**
Cash flow from investing activities			
Purchase of property, plant and equipment		(1)	(6)
Net loans repaid by racecourses	10	11,543	10,361
Interest and investment earnings		119	251
Net cash flow from investing activities		**11,661**	**10,606**
Cash flow from financing activities			
Amounts transferred from financial assets		3,255	9,242
Net cash flow from financing activities		**3,255**	**9,242**
Net increase in cash and cash equivalents		**13,940**	**2,030**
Cash and cash equivalents at 1st April		**9,923**	**7,893**
Cash and cash equivalents at 31st March		**23,863**	**9,923**

The notes on pages 35 to 49 form part of these accounts.

Statement of changes in reserves for the year ended 31st March 2012

	Reserves £000
At 1st April 2011	15,274
Changes in reserves 2011/2012	
Retained surplus for the year	15,658
Actuarial gain on the defined benefit pension scheme	1,067
Total comprehensive income for 2011/2012	**16,725**
Balance at 31st March 2012	**31,999**

The notes on pages 35 to 49 form part of these accounts.

NOTES TO THE ACCOUNTS

1. Basis of preparation
The accounts have been prepared on the going concern basis. The accounts are prepared under the historical cost convention, except available-for-sale financial assets, provisions and loans receivable that are stated at fair value.

The accounts have been prepared in a form as directed by the Secretary of State for Culture, Olympics, Media and Sport and meet the disclosure and measurement requirements, in so far as it is applicable, of the 2011 – 2012 Government Financial Reporting Manual (FReM) issued by HM Treasury.

The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Board for the purposes of giving a true and fair view has been selected. The preparation of accounts in conformity with the FReM requires the use of estimation and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of income and expense during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of the FReM that have a significant effect on the accounts and estimates with a significant risk of material adjustment in the next year are discussed below.

Betting, Gaming and Lotteries Act 1963
The statement of comprehensive income is in accordance with the provisions of the above Act (as amended). The Levy income receivable from bookmakers and the contributions from the successor company to the Horserace Totalisator Board are governed by sections 27 and 30 of the above Act, as amended, respectively.

Specific applications of revenue relate to the following sections of Part 1 of the Act.

Section:	
24(1)(a) and 25(2)(d)	Improvement of breeds of horses
24(1)(b) and 25(2)(d)	Advancement or encouragement of veterinary science or veterinary education
24(1)(c) and 25 (2)(d)	Improvement of horseracing
24(2)(a) and 24(6)	Administration
25(2)(c)	Charitable payments
25(2)(d)	Loans granted and investments made

2. Accounting policies
A summary of the Board's accounting policies that are material in the context of the accounts is set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

a) Revenue

Levy income

Receivable from bookmakers, Levy income represents the total amount which it is estimated will be collected in respect of the Levy Scheme for the 50th Scheme (for the year ended 31st March 2012). The Levy income is derived from the actual Forms of Declaration received from bookmakers by the date of approval of the accounts and an estimate in respect of the Levy income attributable to the Forms of Declaration yet to be submitted. For the year ended 31st March 2012, the estimated Levy income represented less than 2% of the total Levy income. In addition Levy income includes an amount in respect of adjustments to estimates made in previous years.

Other income

Other income principally comprises voluntary contributions received from bookmakers.

Interest receivable

Interest income represents interest receivable during the financial year on the financial assets held and on cash.

b) Leases

Payments made under leases are charged to the statement of comprehensive income on a straight line basis over the lease term.

c) Improvement of horseracing and veterinary grants

Grants payable in respect of the improvement of horseracing and advancements of veterinary science and education can cover a period of more than one year. These are charged to the statement of comprehensive income in the year in which the unconditional commitment to make payment falls except where they are performance related in which case they are charged over the period covered by the grant.

d) Property, plant and equipment

Items of property and equipment are initially recognised at cost. Depreciation is provided on all items of property and equipment to write off the cost, less residual value, by equal monthly instalments over their estimated useful economic lives. The Board consider that the historic depreciated cost is a sufficiently accurate estimate of the fair value of these assets to be used for reporting purposes.

Estimated useful economic lives are as follows:

Short leasehold premises	over the period of the lease
Furniture and equipment	24 to 120 months

e) Trade and other receivables

Trade receivables are reflected net of an estimated provision for doubtful accounts. This provision is based primarily on a review of all outstanding accounts and considers the past payment history and creditworthiness of each account and the length of time that the debt has remained unpaid.

The actual amounts of debts that ultimately prove irrecoverable could vary from the actual provision made. Trade and other receivables are detailed in note 9.

f) Cost of capital

Where financial assets or liabilities are required to be presented at amortised cost, the Board has had to estimate an appropriate cost of capital to use in determining discount rates. As the Board does not have any borrowings, the estimated cost of capital has been based on HM Treasury bond rates as at 31st March 2012 for bonds with the same term as the racecourse loans (see note 10), i.e. 5 years.

g) Financial assets

The Board classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Board's accounting policy for each category is as follows:

Loans: These assets are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of loans to racecourses. They are measured initially at fair value and then carried forward at amortised cost less any provision for impairment. Any gains or losses are recognised in the statement of comprehensive income under Improvement of Horseracing.

Available-for-sale investments: Non derivative financial assets not included in the above category are classified as available-for-sale investments. These investments comprise high quality corporate or government bonds. They are recorded at fair value and updated on a quarterly basis. Any realised or unrealised gains or losses are recognised in the statement of comprehensive income.

h) Provisions

A provision is recognised in the statement of financial position when the Board has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

i) Pension schemes

The Board operates a defined contribution pension scheme. The cost of the defined contribution scheme is charged to the Board's comprehensive income account in the year to which it relates.

Previously, the Board also operated a defined benefit pension scheme, which was closed on 30th September 2009 and is now in the process of being wound up. For the defined benefit scheme any increase in the present value of the liabilities of the scheme expected to arise from the current service of employees in the year is charged to the Board's comprehensive income account. The expected return on the defined benefit scheme's assets and the expected increase during the year in the present value of the defined benefit scheme's liabilities are included as pension finance income or costs as appropriate. Actuarial gains and losses are recognised in the statement of comprehensive income account. Pension schemes assets, to the extent they are considered recoverable, and pension scheme liabilities, are recognised in the statement of financial position and represent the difference between the market value of scheme assets and the present value of scheme liabilities.

Pension scheme liabilities are determined on an actuarial basis using the projected unit method and are discounted at a rate using the current rate of return on a 15-year iBoxx AA-rated corporate bond index, considered to be of equivalent term and currency to the liability. The actuarial valuations include assumptions such as discount rates, return on assets, salary progression and mortality rates. These assumptions vary from time to time according to prevailing economic and social conditions. Details of assumptions used are provided in note 17.

3. Expenditure costs

3a. Improvement of horseracing

	2012 £000	2011 £000
Horsemen		
Prize money	32,093	46,445
Prize money for divided races	937	1,136
Appearance money scheme	706	1,043
Development fund	–	339
	33,736	**48,963**
Racecourses		
Abandoned fixtures	–	710
Fixture incentive scheme	2,542	3,828
Fair value adjustment to racecourse loans	(1,009)	(628)
	1,533	**3,910**
Raceday services		
Raceday services	16,984	22,405
BHA pension scheme – future provision	(585)	(570)
	16,399	**21,835**
Training		
Industry training	910	892
	910	**892**
Other		
Point-to-point meetings	207	243
Channel 4 racing	894	970
Racing for change	–	350
Miscellaneous	20	5
	1,121	**1,568**
	53,699	**77,168**

3b. Other expenditure

	2012 £000	2011 £000
Improvement of breeds:		
Breeders' prizes scheme	591	1,145
Breed societies	100	100
Advancement of veterinary science and education	907	1,009
Administration costs	2,622	3,403
Bookmakers' Committee costs	244	535
Investment management fees	6	38
Charitable payments	1	57
	4,471	**6,287**

4. Surplus

	2012 £000	2011 £000
This has been arrived at after charging:		
Remuneration of Board Members and Chief Executive	353	363
Depreciation	74	78
Operating lease rentals	266	254
Auditors' remuneration:		
– External audit	44	46
– Internal audit and other services	18	14

5. Remuneration of Board Members and Chief Executive

The Chairman and the other two Government Appointed Members are appointed by the Secretary of State, three Board Members are appointed by the Jockey Club and the Bookmakers' Committee appoints one Board Member. Board Members' remuneration follows the guidance issued by the Civil Service Senior Salaries Review Body and no Board Members other than those set out below have received any remuneration during the year.

Under s.24(7) of the Betting, Gaming and Lotteries Act 1963 (as amended), the Levy Board has the power to appoint officers, servants and agents on such terms as to remuneration, pensions or otherwise as the Board may determine. All staff appointments are on open-ended contracts. The Remuneration Committee determines staff remuneration, including that of the Chief Executive, and makes recommendation to the Board on issues of remuneration, pension and allowances policy. No members of staff are eligible to receive a bonus.

More information on staff remuneration, including a detailed organagram, can be found at http://reference.data.gov.uk/.

	2012				2011			
	Board salaries £	Benefits £	Pension benefit £	Total £	Board salaries £	Benefits £	Pension benefit £	Total £
Board Members								
Paul Lee – Chairman	63,020	–	–	**63,020**	63,020	–	–	63,020
Paul Bolt (appointed 3/10/2011)	9,685	–	–	**9,685**	–	–	–	–
Penny Boys (until 29/6/2011)	6,473	–	–	**6,473**	25,890	–	–	25,890
Paul Darling	19,470	–	–	**19,470**	19,470	–	–	19,470
Will Roseff – Chairman of the Bookmakers' Committee	19,470	–	–	**19,470**	19,470	–	–	19,470
Chief Executive and Accounting Officer								
Douglas Erskine-Crum	230,000	5,243	–	**235,243**	230,000	5,252	–	235,252
	348,118	**5,243**	**–**	**353,361**	357,850	5,252	–	363,102

Following the Hutton Fair Pay Review, reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The remuneration of the Chief Executive and Accounting Officer in HBLB in 2012 was £235,243 (2011: £235,252). This was 5.25 times (2011: 5.26) the median remuneration of the workforce, which was £44,774 (2011: £44,774). No employees (2011: nil) received remuneration in excess of the Chief Executive and Accounting Officer.

Total remuneration includes salary, benefits-in-kind and severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

	2012 **£**	**2011** **£**
Highest Earner's total remuneration	**235,243**	235,252
Median total remuneration	**44,774**	44,774
Ratio	**5.25**	5.26

6. Staff numbers and costs

The average number of persons (excluding Board Members) employed by the Board in the year was as follows:

	2012	**2011**
Administration	16	18
	16	**18**

The aggregate payroll costs of these persons were:

	2012 **£000**	**2011** **£000**
Wages and salaries	923	970
Social security	112	115
Pension costs	198	163
Redundancy payments	19	8
Other staff costs	74	113
	1,326	**1,369**

Agreement was reached with two employees (2011: three employees) to terminate their contract of employment with the Board during the year, each of whom received an exit package of less than £15,000.

The Board operates a pension scheme providing benefits based on final pensionable salary ('Scheme'). The Scheme is a multi-employer to which The National Stud (withdrew on 17th April 2008) and The National Joint Pitch Council (withdrew on 13th June 2008) contributed. The Scheme was closed to new members on 31st March 2003. The Scheme ceased to accrue on 30th September 2009, when it commenced winding up. A group personal pension plan was set up on 1st April 2003.

Further details are shown in note 17.

7. Taxation

The charge for corporation tax represents tax charged in the accounts of the Board in respect of interest received less certain deductions. Other revenue and expenditure of the Board is not taxable or tax deductible. There was no tax payable or refundable in the year (2011: £nil).

Factors affecting the tax charge for the year

The tax assessed for the year is lower than would be expected by multiplying the deficit before taxation by the standard rate of corporation tax in the UK of 26% (28% in 2011). The differences are explained below:

	2012 £000	2011 £000
Surplus/(deficit) for the year before tax	16,725	(23,572)
Surplus/(deficit) for the year multiplied by the standard rate of corporation tax	4,349	(6,600)
Effects of:		
Amounts not subject to taxation	(4,349)	6,600
Current tax charge for the year	**–**	**–**

8. Property, plant and equipment

	Leasehold improvements £000	Furniture and equipment £000	Total £000
Cost:			
At 1st April 2011	118	786	904
Additions	–	1	1
Disposals	–	(516)	(516)
At 31st March 2012	**118**	**271**	**389**
Depreciation:			
At 1st April 2011	48	730	778
Charge for the year	24	50	74
Disposals	-	(516)	(516)
At 31st March 2012	**72**	**264**	**336**
Net book value:			
At 31st March 2011	70	56	126
At 31st March 2012	**46**	**7**	**53**

Disposals totalling £516,000 made during the year reflect the fact that during the year the Board has developed a new updated racecourse system and, in so doing, replaced the previous racecourse system, which had been in operation for many years and had been fully depreciated.

In accordance with IAS 38, the cost of internally developing the new racecourse system has been expensed (rather than capitalised), as the future economic benefits of the system are not measurable. The costs of developing the new system were expensed in the year ended 31st March 2011 and therefore there was no IT development expenditure during the year ended 31st March 2012 (2011: £111,000).

9. Trade and other receivables

	2012 £000	2011 £000
Trade and other receivables	146	50
Amounts due from bookmakers in respect of Levy income	3,867	–
Amounts due from bookmakers in respect of contributions	737	–
Prepayments and accrued income	180	92
	4,930	**142**

All the above amounts are due within one year.

10. Loans

	2012 £000	2011 £000
Secured:		
Repayable within five years	18,824	30,009
Repayable after more than five years	–	175
Unsecured:		
Repayable within five years	256	439
Total loans at historic cost	**19,080**	**30,623**
Fair value adjustment	(273)	(1,282)
Total loans at net present value	**18,807**	**29,341**
Loans included above due within one year	(8,429)	(11,403)
Loans due in more than one year	**10,378**	**17,938**

All of the loans granted are interest free. As at 31st March 2012, £18,824,000 of the loan balance (2011: £30,184,000) was secured against the assets of the racecourses to which the loans had been made.

11. Financial instruments

The Board is exposed through its operations to one or more of the following financial risks.

Market risk

The principal market risk associated with the Board's activities is the risk that changes in interest rates will affect the Board's income or the value of its assets. However the risk is low as a high proportion of investments are fixed rate deposits. The Board does not have any debt and as such is not exposed to fluctuations in interest rates in this regard. The Board is not directly exposed to any foreign currency risk.

Liquidity risk
Liquidity risk is the risk that the Board fails to meet its financial obligations as and when they fall due. The management of operational liquidity risk aims primarily to ensure that the Board always has sufficient liquidity to meet its short-term working capital requirements. Medium-term and long-term cash requirements are managed having regard to the Board's forecast operating cash flows.

Credit risk
The Board invests surplus cash in term deposits and cash. The Board does not engage in speculative financial transactions and there are strict internal guidelines agreed by the Audit Committee that govern the investment of funds which ensure that funds are only invested in organisations that carry a minimum rating of A- (Standard and Poor's) and or A3 (Moody's).

The Board also grants interest-free loans to racecourses, usually repayable over 5 years. Almost all these loans are secured by a fixed legal charge against the assets of the borrower.

The credit risk associated with the risk of default by a bookmaker failing to meet the obligations under a particular Levy Scheme is not considered material, and this is evidenced by the fact that losses with regard to these trade receivables are historically low as non-payment of a Levy debt can lead to the Gambling Commission revoking the bookmaker's operating licence.

12. Financial assets

Financial assets comprise investments in bonds or money market instruments, which are managed on the Board's behalf by UBS. These assets are considered to be available for sale. In line with the requirements of IAS 39 ('Financial Instruments: Presentation') the investments are recognised at fair value at 31st March 2012 of £nil (2011: £3,253,000). Fair values have been updated on a quarterly basis and any realised or unrealised gains or losses recognised in the statement of comprehensive income.

	2012 £000	2011 £000
Realised loss on financial assets	(2)	(141)
Unrealised gain on financial assets	–	14
Net loss on available-for-sale financial assets	**(2)**	**(127)**

13. Cash and cash equivalents: Movement in the year

	2012 £000	2011 £000
Balance at 1st April	9,923	7,893
Net change in cash and cash equivalent balances	13,940	2,030
Balance at 31st March	**23,863**	**9,923**

13. Cash and cash equivalents *continued*

13a. Cash and cash equivalents

	2012 £000	2011 £000
The following balances at 31st March were held at:		
Clearing banks and cash in hand	16,863	9,707
Money market deposits maturing in less than three months	–	216
Term deposits maturing in more than three months	7,000	–
	23,863	**9,923**

14. Current liabilities: Trade and other payables

	2012 £000	2011 £000
Capital grants	4,215	4,721
Accruals	2,829	3,176
Amounts due to bookmakers and the successor company to the Tote in respect of Levy income	7,392	17,905
Trade and other creditors	325	67
Social security	38	37
	14,799	**25,906**

15. Provisions

The BHA Pension Scheme Provision represents the commitment given by the Board in the year ended 31st March 2008 to meet 70% of the annual deficit repair cost of the BHA pension scheme.

BHA Pension Scheme Provision	2012 £000	2011 £000
At 1st April	1,087	1,658
Provision utilised in the year	(609)	(609)
Unwinding of discount	24	38
At 31st March	**502**	**1,087**

In addition, a provision has been created during the year to provide for the costs the Board will incur in respect of premises dilapidations when existing leasehold property is vacated. The estimated cost of work required, discounted in accordance with IAS 37, is £120,000 (2011: £112,000).

The provisions have been discounted at a rate of 1.06% (2011: 2.63%) and are analysed as current and non-current as follows:

	2012 £000	2011 £000
Current	502	601
Non-current	120	598
	622	**1,199**

16. Commitments under leases

Commitments under operating leases to pay rentals are given in the table below, analysed according to the period in which the lease expires.

	2012 £000	2011 £000
Obligations under operating leases comprise:		
Buildings:		
Expiry within 1 year	259	259
Expiry after 1 year but not more than 5 years	234	493
	493	**752**

17. Defined benefits retirement scheme

The Board operates a pension scheme providing defined benefits based on final pensionable salary. The Scheme is a multi-employer scheme to which The National Stud (withdrew on 17th April 2008) and The National Joint Pitch Council (withdrew on 13th June 2008) contributed. The Scheme was closed to new members on 31st March 2003 and a group personal pension plan was set up on 1st April 2003.

In 2004, liabilities in respect of members drawing pensions at that time were secured through the purchase of an annuity policy in the name of the Trustees.

In 2005 the Trustees purchased a buyout with an insurance company which insured estimated benefits for active and deferred members based on a termination date of September 2009. The Trustees purchased the buyout policy with the objective of eliminating risks arising from investment returns and longevity and obtaining greater certainty over contributions required for the pension scheme up to 30th September 2009.

With effect from 1st October 2009, when the Scheme commenced winding up, defined benefit accrual ceased in the Scheme and all members who were accruing additional service immediately before 1st October 2009 became deferred members. The impact of the closure of the Scheme is that the employer no longer makes any regular contributions to the Scheme and instead is only responsible for paying additional contributions to finance the deficit that currently exists, paying for the ongoing expenses of running the Scheme and, if applicable, paying for any augmentations during the year. Regular employer contributions to the Scheme in 2012 are estimated to be zero.

On the current projections the Scheme will be fully wound up and closed by October 2012, at which point the employer will no longer have any obligations or liabilities to meet. The costs to finalise the closure of the Scheme are fully provided for in the Board's 2012/13 expenditure budget and are not expected to exceed £500,000.

The valuation used for IAS 19 disclosures has been based on a full assessment of the liabilities of the Scheme as at 30th June 2011. The present values of the defined benefit obligation were measured using the projected unit credit method.

Actuarial gains and losses have been recognised in the period in which they occur through the Statement of Comprehensive Income.

17. Defined benefits retirement scheme *continued*

The principal assumptions used by the independent qualified actuaries to calculate the liabilities under IAS 19 are set out below:

	2012	2011
Rate of general long-term increase in salaries	**n/a**	n/a
Rate of increase in pensions in payment		
– Pre 1st April 1990 service	**5.0%**	5.0%
– Post 1st April 1990 service	**3.3%**	3.5%
Inflation rate	**3.5%**	3.7%
Discount rate for Scheme liabilities	**4.8%**	5.6%
Expected rate of return on assets	**4.8%**	5.6%

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member who retired in 2012 at age 60 will live on average for a further 27.9 years if they are male and for a further 30.1 years if they are female.

17a. Expected return on assets

	2012		2011	
	Market value £000	Long-term rate of expected return	Market value £000	Long-term rate of expected return
Structured Buyout	24,556	4.8%	25,227	5.6%
Pensioner Annuities	22,414	4.8%	16,557	5.6%
Other	42	1.7%	276	1.5%
Combined	**47,012**	**4.8%**	**42,060**	**5.6%**

As the majority of the Scheme's assets are insured, the expected return on this insured asset is set equal to the discount rate. Other than the insured asset, there is a small amount of cash which is assumed to achieve returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Scheme at the 31st March 2012.

17b. Reconciliation of funded status to Statement of Financial Position

	2012 £000	2011 £000
Fair value of assets	47,012	42,060
Present value of funded defined benefit obligations	(47,245)	(42,466)
Liability recognised on the Statement of Financial Position	**(233)**	**(406)**

17. Defined benefits retirement scheme *continued*

17c. Analysis of the amount charged to expenditure

	2012 £000	2011 £000
Past service cost	409	–
Interest cost	2,299	2,316
Expected return on assets	(1,664)	(2,089)
Expense recognised in Statement of Comprehensive Income	**1,044**	**227**

17d. Changes to the present value of the defined benefit obligation

	2012 £000	2011 £000
Opening defined benefit obligation	42,466	42,017
Interest cost	2,299	2,316
Actuarial losses/(gains) on liabilities*	5,164	(539)
Net benefits paid out	(3,093)	(1,328)
Past service cost	409	–
Closing defined benefit obligation	**47,245**	**42,466**

** Includes changes to the actuarial assumptions.*

17e. Changes to the fair value of scheme assets

	2012 £000	2011 £000
Opening fair value of assets	42,060	41,605
Expected return on assets	1,664	2,089
Actuarial gains/(losses) on assets	6,231	(561)
Contributions by the employer	150	255
Net benefits paid out	(3,093)	(1,328)
Closing fair value of assets	**47,012**	**42,060**

17f. Actual return on assets

	2012 £000	2011 £000
Expected return on assets	1,664	2,089
Actuarial gains/(losses) on assets	6,231	(561)
Actual return on assets	**7,895**	**1,528**

17. Defined benefits retirement scheme *continued*

17g. Analysis of amounts recognised in Statement of Comprehensive Income

	2012 £000	2011 £000
Total actuarial gains/(losses)	1,067	(22)
Total gain/(loss) in Statement of Comprehensive Income	**1,067**	**(22)**
Cumulative amount of gains/(losses) recognised	**718**	**(349)**

17h. History of asset values, defined benefit obligation and surplus/deficit in the Scheme*

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Fair value of assets	47,012	42,060	41,605	34,262	28,927
Defined benefit obligation	(47,245)	(42,466)	(42,017)	(34,139)	(31,650)
(Deficit)/surplus in Scheme	**(233)**	**(406)**	**(412)**	**123**	**(2,723)**

17i. History of experience gains and losses

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Experience gains/(losses) on assets	6,231	(561)	6,822	1,723	(9,467)
Experience gains/(losses) on liabilities*	2,406	(226)	178	(36)	1,020

** This item consists of gains/(losses) in respect of liability experience only, and excludes any change in liabilities in respect of changes to the actuarial assumptions used.*

18. Reserves

Reserves represent the cumulative undistributed historic surpluses of the Board.

19. Related parties

The Horserace Betting Levy Board is a Non-Departmental Public Body operating in accordance with the provisions of the Betting, Gaming and Lotteries Act 1963 (as amended). The Department for Culture, Media and Sport (DCMS) is the Board's controlling Government Department and is therefore a related party.

During the year none of the Board Members, members of key management staff, or other related parties, have undertaken any material transactions with the Horserace Betting Levy Board.

20. Contingent liability

On 30th July 2007 the Board entered into an agreement with the British Horseracing Authority (BHA), the Jockey Club and Trustees of the Jockey Club Pension Fund and Life Assurance Scheme, now known as the BHA Pension Scheme (the Scheme), to guarantee the payment by the BHA of certain contributions to the Scheme. Following an actuarial valuation of the Scheme as at 31st December 2008, the terms of the original agreement between the Board and the BHA were changed by a deed of amendment dated 30th October 2009.

Accordingly, based on the updated actuarial assumptions agreed in 2008, the Board currently contributes £609,000 per annum to the Scheme in respect of its share of deficit contributions over a period (currently projected at no greater than six years) commencing on 1st August 2007. This contribution remains unchanged after the updated actuarial valuation.

In addition, the Board has a contingent liability in the likelihood of the BHA becoming unable to meet its obligations, and has agreed if such circumstances arise to:

(a) Meet the entire annual deficit contributions of £985,000 (*old agreement: £870,000 per annum*);

(b) Pay the BHA's future service contributions to the Scheme up to a maximum of 7% per annum (*old agreement: 6.4% per annum*) of pensionable salaries;

(c) Guarantee for 12 years (*old agreement: 10 years*) from 1st August 2007 the full Scheme wind-up liabilities; up to a maximum of £30.3m (*old agreement: £32.5m*) in total, payable in five equal annual instalments, only in the event that the Scheme is wound up by its trustees as a result of the BHA becoming unable to maintain contributions, or terminates its participation in the Scheme, without substituting an alternative Principal Employer (Rule 66 of the Scheme). This guarantee does not apply if the Scheme is wound up for any other reason.

OFFICES AND ADVISERS

Offices

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