An economic analysis of the funding of horseracing

A REPORT PREPARED FOR THE DEPARTMENT FOR CULTURE, MEDIA AND SPORT

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Executive Summary

Context

The horseracing and betting sectors in Great Britain are inextricably linked. Off-course betting was legalised in 1961, since when eligible bookmakers were subject to a Horserace Betting Levy, requiring a contribution for the benefit of horseracing. The Levy fund is transferred to the horseracing sector to compensate them for anticipated losses resulting from the reduced presence of on-course betting.

Much has changed since 1961, notably increased betting by British customers through remote bookmakers based offshore that are not currently subject to the Levy. Statutory Levy receipts have declined noticeably over the past few years from a peak of £117 million in 2007-08 to £60 million in 2014-15, though some betting operators have made non-statutory contributions, and the 2007-08 Levy yield is seen as an outlier as a result of large losses made by a small number of 'high rollers.'[1] In 2015, the Government announced it will introduce a new funding arrangement for British racing. This will apply to all gambling operators, wherever located, who take bets from British customers on British racing.

The Government has set out that the amount payable by gambling operators will reflect the degree of mutual interest between betting and racing. This is in line with the precedent set by the European Commission's 2013 decision about the French levy on online horserace betting. The French levy bases payments on common interest costs. Common interest in the French decision refers to six categories of costs that are incurred in relation to premium French horseraces:

1. incentives i.e. prize money (65% in the common interest);
2. organisation costs of parent companies (unknown %);
3. organisation costs of provincial companies (unknown %)
4. recording and broadcasting races (100%);
5. anti-doping measures (100%), seen as key to ensuring integrity; and
6. training and social welfare of horseracing staff (100%).

Where the French decision refers to common interest costs, these are defined as net costs: the revenues of horseracing companies that can be attributed to the relevant horseraces were deducted from the gross common interest costs.[2] The

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1 Levy income in 2007-08 represented a significant increase, from £99 million in 2006-07. See http://www.hblb.org.uk/documents/Finance/Bookmaker%20payment%20record%20since%202000_01.pdf.

2 The published decision does not specify exactly which revenues were netted off from common interest costs.

French model also puts in place mechanisms to ensure that the common interest costs reflect efficient costs, through measures including direct financial control of horse racing companies by the State, regulatory control of levy beneficiaries by the Court of Auditors, and an implementation report by the French authorities monitoring the trend in common interest costs.

Applicability of the French decision to British racing

The use of common interest in the decision about the French system is a useful starting point to consider a future British funding system. But there are important differences between the French and British sectors that mean a direct translation of the French decision is neither possible nor desirable. In Britain the horseracing and horserace betting markets are made up of individual private businesses making commercial payments, including an element of profit, to each other and via media companies that are separate from the existing Levy mechanism.

This is different from the French horseracing and betting sectors over the period for which common interest costs were estimated. Common interest costs in France were estimated on the basis of 2010 data. In May 2010, the online betting market in France was opened to competition. Before this, PMU (Pari Mutuel Urbain), a group formed by horseracing companies in France, held a monopoly on off-course horserace betting in France, and there was no levy mechanism. Recording and broadcasting of horseraces was undertaken by the horseracing sector. This means that separate media payments or other transfers from the betting to the racing sector outside a levy did not need to be explicitly accounted for in the French decision, which included recording and broadcasting costs within its estimate of common interest costs.

In the French decision there is also a clear distinction between premium and non-premium races, with gambling only being possible on premium races and common interest being restricted to premium races. Such a distinction does not exist within British racing as all horseraces hosted by British racecourses under the British Horseracing Authority's ("BHA's") jurisdiction can be bet upon.

Objectives of this study

Our report has been prepared to assist the Government in introducing a new funding arrangement for British racing in the context of the French precedent related to common interest. To do this, we estimate recent costs and revenues of the horseracing industry, develop an approach to identifying common interest costs, provide initial estimates of potential common interest costs, and assess future trends that could affect these common interest costs.

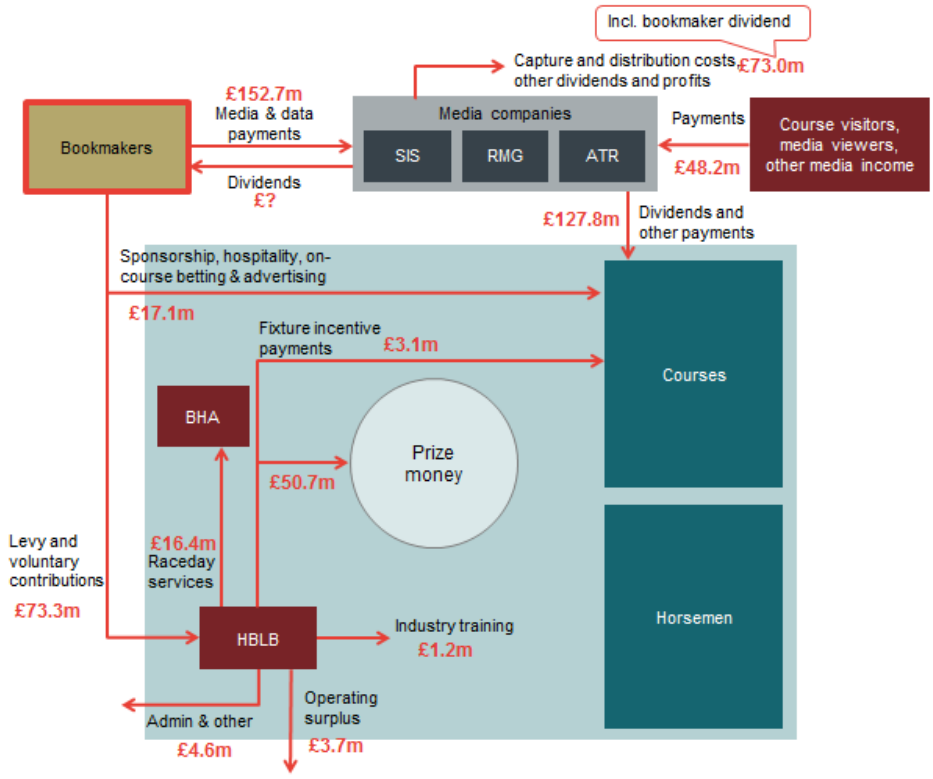
Executive Summary

Costs and revenues of British racing

A prerequisite to estimating common interest costs is an understanding of costs and revenues of the horseracing sector. We find that the costs to racecourses were £490 million and revenues were £549 million in 2014.[3] Both have been increasing in recent years. Of course revenues, £128 million accrues from the dividends and other payments associated with the sale of media rights.

There is a complex flow of funding into and around British racing (see **Figure 1**).

Figure 1. Monetary flows from betting to racing, 2014 estimates



Source: Frontier Economics analysis using data from bookmakers, media companies and HBLB. Notes: Data request to media companies included overall dividend payments but not broken down into those to bookmakers and those to other shareholders. HBLB income has been apportioned from fiscal year to calendar year, so the figure for HBLB income in 2014 is an estimate. The HBLB does report in its business plan that its expenditure has exceeded its income in recent years.

We do not break down costs and income of the horseracing supply chain (e.g. breeding or training). Our focus is on identifying funding flows into the

3 Analysis of BHA returns including raceday accounts, data provided by media companies, survey of bookmakers, Horserace Betting Levy Board (HBLB) published accounts. The HBLB is a statutory body that collects the Levy from the betting sector and distributes the funds to the horseracing sector. Our figures should not be used to estimate the profitability of British racing as they are obtained from a range of sources and come with caveats (e.g. we exclude costs of debt financing).

horseracing sector, which primarily enter the sector via racecourses, or through contributions made by racehorse owners. Our analysis therefore focuses on these parts of the sector. Racecourses are supported by a supply chain including horsemen – the term for racehorse owners, trainers, jockeys, stable staff and breeders – which we describe in the main report. Levy funding is spent in line with statutory purposes on a variety of areas including prize money, veterinary grants and industry training. A significant source of funding comes from betting. Key revenue streams include media payments, the current Levy, sponsorship, advertising and hospitality payments.

We find some differences in how costs and revenues break down by different types of fixture and course. In particular:

- The composition of costs (how they divide proportionally across categories) appears to be broadly similar across flat and jump racing on turf.
- Flat racing receives a slightly higher share of revenues from entrance fees and catering than jump racing; jump racing a slightly higher share from media rights and the HBLB.
- The composition of costs and revenues for All-Weather Tracks ("AWTs") is quite different. The cost base at AWTs is more heavily composed of prize money with a smaller share of costs around raceday and catering, reflecting the lower attendance at these fixtures. This also appears in AWT income, which is more heavily reliant on media rights and HBLB funding than either flat or jump racing on turf.
- Mid- and lower-quality courses (defined on the basis of industry rankings) have a very similar cost and revenue composition. Higher-quality courses, by contrast, have a higher share of costs devoted to catering and raceday costs and a smaller share devoted to prize money. Their revenue base is also more reliant on admission and catering revenue, and less reliant on media rights and HBLB income. Again this relates to attendance: higher quality courses attract larger visitor numbers.

Approach to common interest

The French decision considered that common interest costs comprised the costs of organising races that also benefit all online horserace betting operators. Our definition of the common interest builds on this by dividing horseracing activities into three broad categories, although any allocation of activities across these categories inevitably involves some degree of judgement.

Firstly there are those activities that would be significantly different in scale or quality if there were no off-course betting activity. These would be horseracing activities that, if a sudden hypothetical ruling meant that off-course betting was

no longer able to access racing, would no longer be undertaken or would be significantly rolled back. The racing sector is currently able to carry out those activities profitably because of the Levy contributions made by betting operators. We refer to these activities as Category 1.

Category 2 activities are those that would be undertaken at a similar scale and quality by the horseracing sector if there were no-off course betting activity, but from which the betting sector derives benefit and therefore would be prepared to pay to access in our hypothetical ruling.

We consider that both of these categories of activity are in the common interest.

Lastly there are those activities that would be undertaken at a similar scale and quality by the horseracing sector if there was no-off course betting activity but from which betting derives no benefit. These would be horseracing activities that, under our hypothetical ruling, would take place but that gambling operators would not be prepared to pay to access. We consider that these activities – which we refer to as Category 3 – are not in the common interest of both betting and racing.

It should be noted that where common interest costs are identified this does not automatically imply that the betting industry should reimburse 100% of these costs.

Estimates of common interest costs

Using the framework described above, we identify two scenarios as ways to establish common interest activities and their associated costs and related revenues. These are not meant to be definitive, but instead illustrate alternative viable ways to conceptualise those activities with an element of common interest to both betting and racing

- **Scenario A:** This scenario identifies racing on AWTs as an example of activities that would likely be significantly different in scale if there was no off-course betting activity (Category 1 activities). This is based on our understanding that a significant proportion of races on AWTs are put on primarily for the benefit of the betting sector, for example attracting lower attendance. As this scenario excludes many other types of racing activity that would also likely be significantly different in scale or quality if there was no off-course betting, it represents a lower end scenario for estimating costs of Category 1 common interest activities. While not included in this scenario, other activities that could be considered in this scenario include the provision of winter weekday afternoon fixtures or other poorly-attended, but nevertheless competitive, races.

- **Scenario B:** For this scenario, we identify races that are 'competitive', defined as races that are either a handicap or pattern race with a minimum field size. In practice, this scenario is likely to capture both Category 1 and Category 2 common interest activity. Some of these competitive races will be attractive to racegoers, and so go ahead in a similar way even without off-course betting (Category 2). Others will not, and so would not go ahead to a similar scale or quality (Category 1). We consider minimums of both 6 runners (55.6% of races) and 8 runners (38.8% of races) within this scenario as being in the common interest. This definition is based on evidence on the relationship between these characteristics and betting activity. We also assess two efficiency scenarios (for races with 6 runners) of running more fixtures per course each year – assuming a maximum of 20 and 25 fixtures per course respectively – therefore potentially avoiding some fixed costs.

Table 1 provides a summary of our estimates of the gross costs of these activities, the net costs once relevant revenues raised by racing (other than those already paid by betting) to support these activities are accounted for, and finally the net cost also subtracting estimates of relevant revenues from betting such as media payments and sponsorship revenue. We note that the scenarios are not additive: there may be some overlap between activities included in scenarios A and B if, for example, a number of races on AWTs would also meet the criteria of being competitive races.

Table 1. Summary of scenario estimates, net common interest costs, £ million, 2014

£ million	Gross cost	Net cost (netting non-betting racing commercial revenues)	Net cost (also netting media & sponsorship revenue from betting)
Scenario A: All Weather Tracks			
Main estimate	52.0	38.3	10.4
Scenario B: Competitive races			
Main estimate (6+ field size)	266.5	102.6	22.1
Efficiency scenario (20 fixtures)	263.4	99.5	18.9
Efficiency scenario (25 fixtures)	250.8	86.9	6.3
Larger field size (8+) scenario	185.9	71.6	15.4

Source: Frontier Economics.

A breakdown of the gross costs, and amounts netted off in the second and third columns for each of scenario can be found in the main report as follows:

- Scenario A – main estimate: see **Table 11**, **Table 12**, **Table 13** and **Table 14**;
- Scenario B – main estimate: see **Table 15**, **Table 16** and **Table 17**;
- Scenario B – efficiency scenario (20 fixtures): see **Table 18** and **Table 41.** Costs of handicap/pattern races with 6+ runners, 20 fixtures per course p.a.**Table 41**;
- Scenario B – efficiency scenario (25 fixtures): see **Table 19** and **Table 42**;
- Scenario B – larger field size: see **Table 20**, **Table 39** and **Table 40**.

The second column shows estimates of net costs once the revenues that racecourses are able to raise themselves to support common interest activities are netted off the gross costs. These include revenues from admissions, catering, on-course betting, sponsorship and advertising (other than from the betting industry), hospitality, other raceday income and other fixed racing income. The final column also nets off estimates of commercial revenues from betting towards these activities: media rights and sponsorship revenue.

The reason for this 'two step' netting process is that the level of the common interest in these scenarios is dependent on how commercial payments from betting are reflected. First we estimate the costs if these payments are excluded. We then consider the costs if all of betting's commercial payments are netted off. Revenues from Levy funding are not netted at all, because the new funding model will replace this. We also do not net off revenues from 'other non-racing operating income', which does not directly relate to racing activity.

We describe our approach to netting off relevant revenues in more detail in the main report. However it is worth stressing that both the gross costs and associated revenues of the common interest activities in each scenario represent our best estimates based largely on apportioning aggregate costs and revenues.

We re-iterate that these are designed only as ways to conceptualise the Categories of common interest activities and there are other ways of doing so.

We also note that Scenario B excludes uncompetitive developmental races, which may nonetheless be required to ensure a viable long-term competitive horseracing and horserace betting product.

Similarly, to the extent that any common interest activities incur costs in the racing sector not funded by racecourse expenditure, these would not be reflected in our estimates of common interest costs and would require further analysis.

Future trends

Both the horseracing and betting industries are undergoing significant changes. These changes may alter common interest costs in future.

While there has been a decline in terrestrial horserace betting, it is not clear what the overall trend is in horserace betting activity or gross profit, given a lack of data on offshore remote (online) betting activity. This implies uncertainty over levy contributions in future. Using Gambling Commission data, we estimate that total betting on British horseracing in 2014-15 was around £9.3 billion (£5.4 billion terrestrial, £3.9 billion remote) measured by turnover. Total gross profit (gross gambling yield, GGY) associated with betting on British horseracing in 2014-15 was around £1.06 billion (£753 million terrestrial, £307 million remote).

Future media payments are also uncertain and may change significantly. In the near term, stakeholders expected changes in media payments from racing to betting, and reductions in the 'leakage' of media payments outside the horseracing sector. For example, the media companies RMG and SIS have agreed a five-year deal regarding provision of media to Licensed Betting Offices ("LBOs"), taking effect from 2018. This is expected to reduce media costs to LBOs, while increasing the amount received by racecourses and transferring risk such that, if LBO numbers fall below a certain threshold in future, payments to racecourses for media rights will reduce. Some stakeholders also anticipated a move towards more selective broadcasting of a subset of British horseraces in some LBOs.

1 Introduction

1.1 The scope of our work

Frontier Economics were commissioned by the Department for Culture, Media and Sport (DCMS) to undertake an independent economic analysis of the funding of horseracing in Great Britain. The objectives of the research were as follows:

- to present options for identifying costs that could be reasonably justified as falling under the common interest of horseracing and betting in Great Britain;
- to estimate common interest and other costs, and total income in the horseracing industry (including flows from betting to horseracing), from 2012 to 2014;
- to explore factors that may influence costs and revenues in the next three years; and
- to understand how costs and income may differ across different types of racecourse within the horseracing sector.

Our scope does not include assessing the most effective instrument to raise funding from the betting sector to contribute to common interest costs in the horseracing sector.

1.2 Our approach

Our analysis has drawn on three distinct sources of evidence.

- A detailed review of available literature, including past reports on the industry, relevant academic papers, international approaches to funding horseracing and the European Commission's 2013 decision about the French parafiscal levy on online horserace betting.[4]
- Interviews with over 20 betting and racing stakeholders exploring common interest, current funding, future trends and differences within the sector.
- Collection and analysis of detailed racecourse accounts, data on racecourse characteristics, data from betting operators, data from media companies and data from the Horserace Betting Levy Board ("HBLB").

[4] Parafiscal represents taxes and charges levied by arms-length or other government-related bodies, but not by central or local government.

This evidence has been used to develop a detailed understanding of the policy and industry context facing this sector and the funding flows within the horseracing sector and from outside the sector, with specific reference to the flows from betting. It has also provided the basis for our framework for understanding common interest costs and our initial scenarios attempting to quantify these costs.

We describe our approach in more detail in Annexe 1 and provide an overview of alternative international approaches to funding horseracing in Annexe 2.

The rest of this Section provides more details of the Levy funding and other industry context, which are critical for understanding the discussion and estimates of common interest that follow. Readers familiar with this context could skip to Section 2, where we discuss funding flows.

1.3 The Horseracing Betting Levy

Since the legalisation of off-course betting on British horseracing in 1961, a Horserace Betting Levy has been in place on off-course horserace betting. The Levy was originally introduced to compensate the horseracing sector for an anticipated loss of attendance resulting from legalisation of off-course betting.[5]

The Levy is administered by the HBLB. It is set annually, and applies to British-based bookmakers, whose liability is based on the gross profits of their British horserace betting business. The 2015-16 Levy was set at 10.75% of gross profit for eligible bookmakers,[6] and the rate has remained consistent in recent years. The Levy was historically based on the turnover of bets placed on British horseracing. This was amended in the 2002-03 government determination so that the Levy was based upon the gross profits of bets on British horseracing.[7]

The switch from turnover to gross profits followed a change in the structure of general betting duty which came into effect on 1 January 2002 (when betting duty was abolished and bookmakers taxed on gross profits instead of turnover).

The HBLB is required to apply Levy funding to:

- the improvement of breeds of horses;

5 HBLB, http://www.hblb.org.uk/page/1.

6 The rate applies to bookmakers operating over 100 betting offices, or with 100 or fewer betting offices but gross profits of £57,257 or more. Abated rates apply to smaller bookmakers.

7 http://www.wired-gov.net/wg/wg-news-1.nsf/54e6de9e0c383719802572b9005141ed/67cee958f00563ad802572ab004b5460?OpenDocument

- the advancement or encouragement of veterinary science or veterinary education;
- the improvement of horseracing.[8]

Much has changed since 1961, most notably the increase in betting by British customers through offshore remote gambling operators that are not currently subject to the Levy. Statutory Levy receipts have declined noticeably over the past few years from a peak of £117 million in 2007-08 to £60 million in 2014-15, though some betting operators have made non-statutory contributions, and the 2007-08 Levy yield is seen as an outlier as a result of large losses made by a small number of 'high rollers'.[9]

Recognising this, the Government in 2015 announced a new funding arrangement for British racing, which will apply to all gambling operators, wherever located, who take bets from British customers on British racing. The Government has set out that the amount payable by gambling operators will reflect the degree of mutual interest between betting and racing. This is in line with the precedent set by the European Commission's 2013 decision about the French parafiscal levy on online horserace betting[10] which is based on the concept of "common interest." Section 2 provides more detail about the French levy and its relevance to the British context.

1.4 Industry structure and recent trends

The horseracing sector in Great Britain is complex and incorporates many different actors. Funding flows within the sector are numerous and there are also a range of flows from outside the sector (most notably from the betting sector). As a route into understanding these multiple entities and the flows between them, **Figure 2** provides an overview of the sector.

The horseracing sector is shown by the light blue box and includes racecourses and horsemen – the term for racehorse owners, trainers, jockeys, stable staff and breeders – as well as the British Horseracing Association ("BHA") and the HBLB. Racecourses host fixtures (each of which consists of a number of races) and provide services such as hospitality and hosting of on-course betting. Racecourses are supported by a supply chain of horsemen. The BHA governs

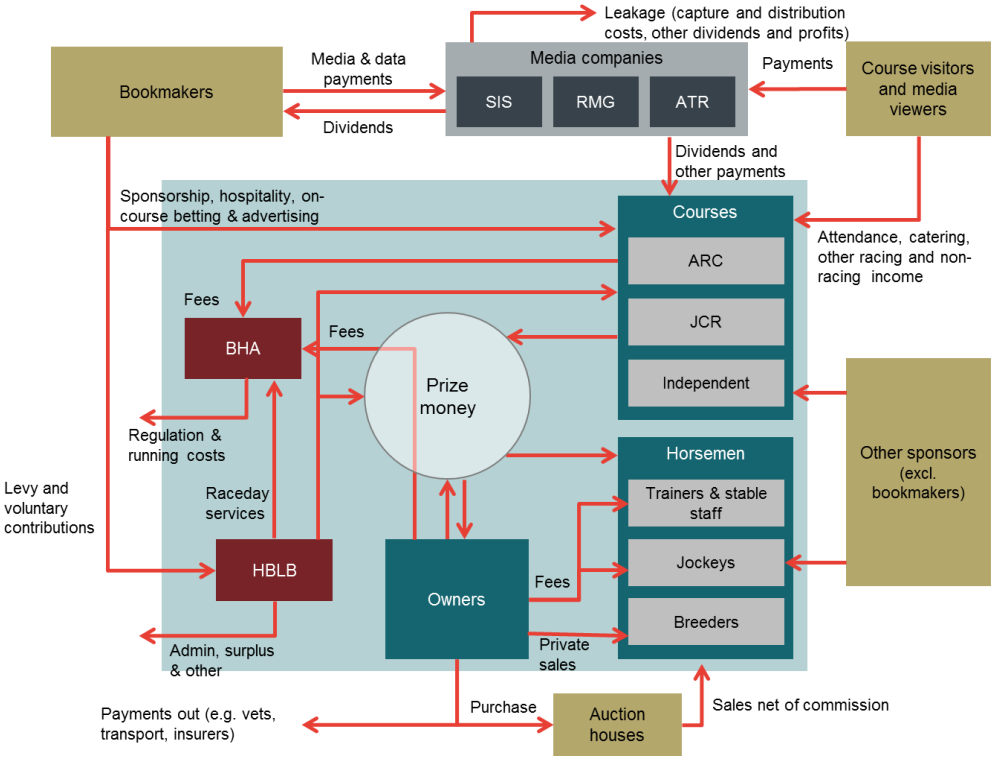
8 HBLB, 2015, Business Plan 2015/2016, available at: http://www.hblb.org.uk/documents/Executive/HBLB%20Business%20Plan%202015.pdf.

9 Levy income in 2007-08 represented a significant increase, from £99 million in 2006-07. See http://www.hblb.org.uk/documents/Finance/Bookmaker%20payment%20record%20since%202000_01.pdf.

10 http://europa.eu/rapid/press-release_IP-13-568_en.htm

and regulates the horseracing sector in Great Britain, setting the rules of horseracing, and providing integrity services at horseraces.

Figure 2. Overview of key funding flows into and around British racing



Source: Frontier Economics. Note: We do not include payments by bookmakers to horsemen e.g. sponsorship of jockeys, or payments to racing sector charities. This is because we do not have data on these flows, and they are expected to be small. This chart does not distinguish between flows to/from British racing that are domestic or international.

The betting sector is shown by the gold box in the top left corner. Its links to horseracing are multiple and include Statutory Levy payments and non-statutory and other voluntary payments – from bookmakers who are not required to contribute but choose to do so – to horseracing via the HBLB. It also includes links with media companies that provide horseracing coverage and data streaming, and direct payments to courses in the form of sponsorship deals, hospitality payments, on-course betting and advertising. Betting on horseracing consists of remote (betting using remote communication such as the internet or telephone) and non-remote (referred to variously as terrestrial, retail or Licensed Betting Office) betting. Retail betting takes place on-course and off-course.

The other notable entities in the sector are the media companies themselves and auction houses, responsible for auctioning race horses. The relationships between the media companies and the betting and horseracing sectors are complex; they are described in more detail in Annexe 6. Funding flows are completed by other

sponsors of races and horsemen, and contributions from those who attend races and view races at home (the latter through the media companies as a result of subscriptions to racing television channels and online video streams).

Section 2 provides a detailed description of the funding flows represented by the red arrows shown in **Figure 2** so we do not dwell on these flows here, but rather, by way of background, provide a description of some of the key trends affecting the industry in recent years.

Recent trends in horseracing

The recent popularity and sustainability of horseracing can be assessed by looking at trends in attendance at horseraces and horse ownership.

Attendance at horseraces, shown in Annexe 3, has been relatively stable around 5.5 million since 2002. Recent years have seen an increase in attendance to over 6 million in 2015, following a previous peak in 2011. The number of horseraces in Britain has steadily increased since the legislation of off-course betting in 1961. The first time that the number of races exceeded 6,000 in one year was in 1988, with the number of races rising to over 8,000 in 2003. In three of the four years from 2011 to 2014 the number of races exceeded 10,000.

In contrast to the upward trend in attendance and number of races, the average number of horses in training has declined year-on-year since its peak in 2008 of 15,349. In 2014 there were just under 13,500 horses in training; the lowest figure since 2003.

We also explored the trends around ownership of horses, to understand changes in funding into the sector, as spending by owners is one of the key sources of funding into horseracing. The main finding is the concentration of ownership within the sector towards owners with a larger number of horses. The 7,931 registered owners recorded in 2014 was the lowest recorded figure since the data series began, down 17% from the peak in 2007.

However, the total number of people with a stake in owning horses is probably much higher, given the growing use of the partnership or syndicate model. The Racehorse Owners Association estimates that around 35,000 people have some form of involvement in ownership once syndicates and racing clubs are accounted for. This reflects the changing nature of ownership: between 2007 and 2014, the number of sole owners fell by 25.1% whereas the number of people who only owned jointly fell by just 14.4%. The number of corporate sole owners fell by 20.9%. The smallest fall was among those who owned horses both solely and jointly, where numbers declined by 9.7%.

Taken together, the figures suggest that attending horseraces has remained popular, while races have been sustained with a lower horse population and increasingly concentrated racehorse ownership in recent years.

Recent trends in horserace betting

Some sense of the recent popularity and sustainability of betting on horseracing can be gleaned from looking at recent trends in betting data.

The figures available are limited to less than one full year of data, but extrapolating from the figures suggests that in 2014-15, total betting quantity (turnover) on British racing was around £9.3 billion (£5.4 billion terrestrial, £3.9 billion remote) and total gross profit (gross gambling yield, GGY)[11] around £1.06 billion (£753 million terrestrial, £307 million remote). These estimates are based on official statistics on the betting turnover and GGY from British horseracing, provided by the Gambling Commission,[12] which collects data from all gambling operators licenced by them.

Comparable estimates of the total market are not available for previous years, so it is not possible to determine whether overall turnover or GGY on British racing are in decline or not. This is due to a lack of data for offshore remote (online) betting, which was not systematically collected until recently. Prior to November 2014 online gambling operators were only required to obtain a licence from the Gambling Commission if they had equipment based in Great Britain. In November 2014 the requirement for a licence changed from a 'point of supply' to a 'point of consumption' basis. Therefore data on offshore online betting turnover and GGY from British consumers are only available for the five months from November 2014 to March 2015. The estimates of the total market size above therefore take those figures and inflate them to full-year 2014-15 estimates.

Remote GGY as a share of turnover is around 7.9%, much lower than the 14.0% estimated share of turnover for terrestrial horserace betting, which we discuss further below. This is suggestive of the highly competitive nature of online gambling.[13] We note that this estimate is only based on five months' data, and may not hold over time. As a share of total remote betting, turnover on horseracing makes up around 30.5%, compared with 47.5% for terrestrial betting.

Data from terrestrial operators (high street bookmakers, on-course betting and pool-based betting) from 2008-09 to 2014-15 show a decline in total horseracing turnover and GGY of 16% and 21% over this period, respectively (see **Figure 3**). We note that since 2008-09 many remote operators moved their remote business offshore and were therefore outside the scope of the Gambling Commission's remit. As mentioned above, legislative changes in 2014 mean that

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11 This is gross betting turnover minus the amount paid to consumers as winnings, used as a measure of betting gross profit.

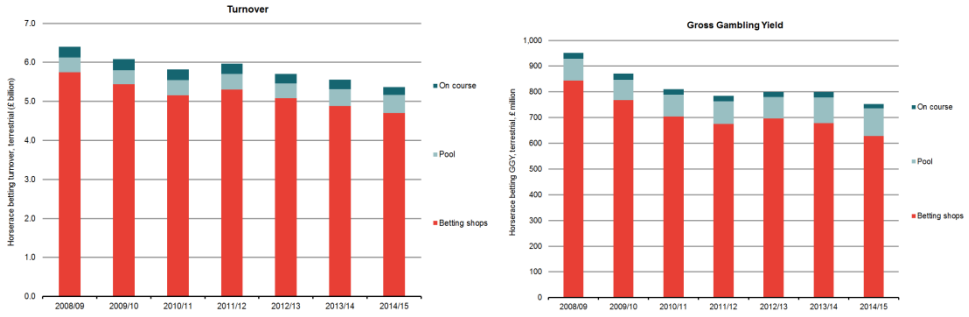
12 http://www.gamblingcommission.gov.uk/docs/Industry-Statistics-April-2008-to-March-2015.xlsx

13 A discussion of the strategies used by online gambling companies to recruit, retain and reactivate consumers which highlights the intensive competition is given in Frontier Economics (2014).

such operators now fall under the Gambling Commission's jurisdiction when they offer bets to customers in Britain. The share of total terrestrial betting turnover and GGY accounted for by horseracing has also fallen. Racing made up 59.6% of terrestrial betting turnover in 2008-09, compared with 55.9% in 2014-15. Racing made up 52.0% of terrestrial betting GGY in 2008-09, compared with 47.5% in 2014-15.

GGY as a proportion of turnover (a rough measure of the gross profitability of terrestrial horserace betting) fell slightly, from around 14.9% in 2008-09 to 14.0% in 2014-15 (and as low as 13.2% in 2011-12).

Figure 3. Horserace betting turnover and GGY, terrestrial, 2008-09 to 2014-15



Source: Frontier Economics based on Gambling Commission industry statistics data

As noted, it is hard to compare our estimates of total betting turnover and GGY in 2014-15 with earlier years given the lack of offshore remote data. Part of the decline in terrestrial betting on horseracing could represent channel shifting: people who were previously betting on the high street or on courses now betting online. But, the growth of online betting could also have opened up the market to new consumers who would not previously have bet on the high street.

To supplement the estimates above, we surveyed betting operators (see Annexe 4) and received data from 11 operators on their GGY relating to British racing in 2012, 2013 and 2014.[14] These estimates do not represent the whole market, as not all operators responded to the survey (and some small independent operators were not included). However, the reported GGY for 2014 (£726 million) is around three-quarters of the total estimated GGY for 2014-15 reported above suggesting that our survey return was relatively comprehensive.

14 We asked operators to provide data on a calendar year basis for 2012, 2013 and 2014. In practice, some operators reported data on a different basis (7 operators provided data on a calendar year basis, 3 on a financial year basis and 1 on a year to July basis). Given the relatively short, aggregated time series of data available, we have assumed that all data are on a calendar year basis which is reasonable if GGY and payments are roughly consistent throughout the year.

There is no clear trend in the GGY figures over time (see **Table 2**), though these can be affected not only by the quantity of gambling but also the results of individual races or special offers affecting operator margins in a given period. However there is a shift from terrestrial to remote. Among the operators in our sample, 82% of GGY was from terrestrial betting on racing in 2012, 80% in 2013 and 78% in 2014.

Table 2. GGY from British horseracing provided by operators, by year and type

Type	Number of operators	2012 (£m)	2013 (£m)	2014 (£m)
Terrestrial	8	513.1	515.3	458.5
Remote	8	226.9	263.8	267.9
ALL	**11**	**740.0**	**779.1**	**726.4**

Source: Frontier Economics analysis of bookmaker returns. Note: Five operators provided figures for both terrestrial and online betting, so the number of operators does not sum to the 'ALL' figure. Our sample comprises three online-only operators, three remote-only operators and five who have both.

We also carried out qualitative interviews with a number of betting operators and industry associations, and asked about perceptions in trends on the overall betting market for British horseracing. Some views expressed included:

- One large online operator felt that the volume of betting on racing online was falling, as was the associated gross margin;
- A smaller online operator was growing the volume and share associated with racing, but from a low base and with a view that, at least online, football betting would continue to dominate;
- A small terrestrial operator noted that there had been some migration to online betting on racing, but that this was slowing and suggested some move of younger consumers back to Licensed Betting Offices ("LBOs") as a social hub;
- A large operator with both online and terrestrial activity suggested that overall volume of betting on racing had been flat in recent years.

Taken together, the quantitative and qualitative evidence do not provide a certain picture on how overall demand for off-course horserace betting has changed over time. This is because a full year of data on remote betting will not be available from the Gambling Commission until later this year.

2 Costs and income associated with horseracing

Estimating the common interest costs between horseracing and betting relies on a clear understanding of the costs and revenues associated with horseracing and the funding that flows from betting into the sector. In this Section, we set out our estimates of costs and income in the horseracing sector for the period 2012 to 2014, focusing in particular on racecourses and racehorse owners. We specifically identify and estimate funding flows from the betting sector to the horseracing sector, and discuss differences in our estimates by racecourse type.

We do not break down costs and income of the horseracing supply chain (e.g. breeding or training). Our focus is on identifying funding flows into the horseracing sector, which primarily enter the sector via racecourses, or through contributions made by racehorse owners (see **Figure 2**).

Note that our estimates below should not be used to make inference about the overall profitability of racecourses in Britain. As we describe here and in Annexe 5, there is a degree of uncertainty attached to the figures which are based on data supplied by courses (not always on a consistent basis), supplemented with external aggregate estimates for some cost and revenue items. In addition, our cost figures do not include costs of debt servicing and capital depreciation.[15]

2.1 Estimate of racecourse costs

We estimate that racecourse costs have grown from £419.7 million in 2012 to £489.8 million in 2014 in nominal terms. Our estimates are shown in **Table 3**. See Annexe 5 for details of what is included in each of the categories in the table.

Raceday costs in this table are the variable costs associated with hosting fixtures. In 2014, the largest elements of raceday costs were fixture fee costs paid by racecourses to the BHA (£16.9 million),[16] raceday staff costs (£13.6 million), BHA officials required to uphold racing rules (£8.0 million), police and security (£7.7 million), and camera patrol and photo-finish costs (£5.6 million). The remaining costs are categorised by courses as non raceday costs, although in practice some cover both raceday and non raceday expenditure such as catering.

15 Figures supplied by Deloitte on the basis of statutory accounts of racecourse groups and a number of independent courses, scaled up to match the overall market, suggest total profitability before tax across all courses of around £3 million in 2014.

16 About £6m of the BHA's total income goes towards regulation and running costs (figure estimated by HBLB), and the remainder towards raceday services which are not funded by the HBLB. Raceday services provided by the BHA include regulation, integrity services, and medical services.

Table 3. Estimated costs of racecourses in Great Britain (£ million, nominal)

Category	2012	2013	2014
Prize money	£97.8	£114.2	£123.0
Raceday costs	£104.6	£110.5	£127.9
Other staff costs	£33.9	£35.7	£39.8
Catering	£77.0	£80.2	£82.2
Administrative costs	£41.7	£42.4	£42.6
Establishment costs	£51.4	£52.9	£60.2
Other	£13.4	£13.5	£14.1
Total	**£419.7**	**£449.4**	**£489.8**

Source: Frontier Economics estimates using BHA prize money data, BHA returns including raceday accounts and Deloitte (2013) estimates for catering uprated based on attendance, price and cost data.

Estimated prize money expenditure reported above includes the contribution from racecourses, as well as other sources. The biggest contributor to prize money is the HBLB, as shown in **Table 4**.

Table 4. Estimated prize money flows in 2014 (£ million)

Source	Contribution	Total prize money	Recipient	Amount
HBLB	£46.8		Owners	£97.9
Racecourses	£41.0		Trainers	£10.0
Owners	£20.0	→ £123.0 →	Jockeys	£8.8
Sponsors	£13.6		Stable staff	£6.3
Others	£1.6		Others	£2.1

Source: Frontier estimates. The estimated prize money accruing to 'others' is top-sliced from prize money according to BHA rules, flowing to the National Association of Stable Staff, the PJA Pension Fund, Industry training, Jockeys' Valets Attendance, and the Amateur Jockeys Association.

By updating previous analysis,[17] we estimate that the majority of prize money is received by racehorse owners, followed by trainers.

17 Deloitte (2013), *Economic Impact of British Racing 2013*

Some aspects of racecourse costs are not well captured in individual racecourse level accounts. These include:

- **Catering** – individual racecourse accounts underestimate overall catering costs and income. This is because catering activity is done at the group level for many racecourses, including both Arena Racing Company ("ARC") and Jockey Club Racecourses ("JCR"), so that racecourses benefit from economies of scale in their catering activity. We therefore use estimated catering costs and income across racecourses in 2012, uprating the estimates for 2013 and 2014 based on growth in other racecourse income and costs.[18] Full details are given in Annexe 5.

- **Finances** – racecourses suggested that there are substantial differences within the sector in business models used to finance investment. In recent years, a number of courses have been investing heavily in facilities for visitors as a way to help racing compete in a wider leisure market in attracting people to attend racedays. Interest paid, financing, dividends and share purchases do not appear to be well captured in the accounts submitted to the BHA. 2012 racecourse cost estimates found that these items amounted to the following:[19]
  - Interest paid: £26 million;
  - Financing costs: £14 million; and
  - Dividends / share purchases: £7 million.

- **Capital expenditure** – related to the above, capital expenditure on racecourses (e.g. in new spectator stands, or on all-weather tracks) appears to be poorly captured in the individual racecourse accounts which we have analysed. This could be explained by capital expenditure often being financed at the racecourse group level. Capital expenditure across British racecourses in 2012 has been estimated at £20 million.[20]

2.2 Estimate of racecourse income

We estimate that racecourse income has grown from £459.7 million in 2012 to £549.1 million in 2014, in nominal terms. Within this, trends have differed – for example media, sponsorship and advertising income have grown more rapidly

18 Deloitte (2013), *Economic Impact of British Racing 2013*

19 Deloitte (2013), *Economic Impact of British Racing 2013*. Correspondence from Deloitte has estimated interest charges of £27.7 million in 2014 and depreciation costs of £36.5 million.

20 Deloitte (2013), *Economic Impact of British Racing 2013*

than other income areas. Media income varies by racecourse, with payments based on the number of fixtures, and the attractiveness of the racecourse's races to consumers. Our estimates of racecourse income are shown in **Table 5**. See Annexe 5 for details of what items are included in each of the categories.

Table 5. Estimated income of racecourses in Great Britain (£ million, nominal)

Category	2012	2013	2014
General admission	£88.7	£92.2	£98.3
Catering	£100.0	£104.7	£109.8
On-course betting	£13.7	£11.6	£12.2
Media rights	£89.9	£116.1	£127.8
Sponsorship and advertising	£24.0	£31.0	£36.1
Hospitality	£6.6	£6.1	£5.9
HBLB funding	£57.5	£69.6	£70.3
Other raceday income	£30.4	£29.8	£25.7
Other fixed racing income	£18.8	£21.3	£23.9
Other non-racing operating income	£30.2	£34.8	£39.2
Total	**£459.7**	**£517.1**	**£549.1**

Source: Frontier Economics estimates using BHA returns including raceday accounts, data provided by media companies, our survey to bookmakers, and HBLB published accounts

As above, we estimated catering income using previous 2012 estimates and uprating these for 2013 and 2014, due to underreporting at the racecourse level. We used survey data provided by betting companies, to scale up the estimates of sponsorship and advertising income, to account for underreporting by racecourses. This included an adjustment to account for the estimated share of this income represented by betting compared to other sources.[21]

[21] We uses data from the Racecourse Association ("RCA") to estimate the proportion of sponsored horseraces where betting was the sponsor. Averaged over 2012 to 2014, this proportion was 47%. We use this proportion against our estimate of total racecourse sponsorship and advertising revenue to split between betting and other sources. This is used in our later Scenario analysis (see Section 4.2) to assess net common interest costs include and excluding estimates of the commercial contributions already made by betting.

Racecourses categorised a large proportion of their income – both raceday and fixed – as 'other.' The three 'other' categories shown above consist of:

- **Other raceday income –** this is race-card income, and 'other' raceday income, which includes for example car parks, share of sales from races where the winning horse is sold, trade stands income, and miscellaneous income. Occasionally courses categorise elements such as hospitality (e.g. box income) as 'other.'
- **Other fixed racing income** – this includes fixed club membership income and 'other' fixed racing-related income, for example including merchandise, membership, box income, and miscellaneous income.
- **Other non-racing operating income** – including other operating income, for example conference, golf course, and caravan site income; and investment income.

2.3 Funding flows into the horseracing sector

Funding flows into the horseracing sector (represented by the light blue box in **Figure 2** above) include the following.

- Contributions from bookmakers. This includes direct payments, for example sponsorship, hospitality, on-course betting and advertising. It also includes funding via intermediaries, for example through betting companies making Levy payments, voluntary contributions to the HBLB, or payments to media companies. These are considered in more detail below.
- Contributions by owners. While owners are part of the horseracing sector, they provide a funding injection into the sector by investing in horses (flowing via auction houses), and paying for their running costs, generating fees for horsemen. These are considered in more detail below.
- Direct contributions from racecourse visitors and media viewers. Racecourse attendees generate both racing related (e.g. admission fees) and non-racing related (e.g. hotel) income for racecourses. Media viewers generate income via payments to media companies, for example by paying to subscribe to the Racing UK digital TV channel.[22]

Other contributors to the sector include non-bookmaker sponsors of horseracing, and terrestrial TV broadcasters (currently Channel 4).

We now describe these flows in more detail.

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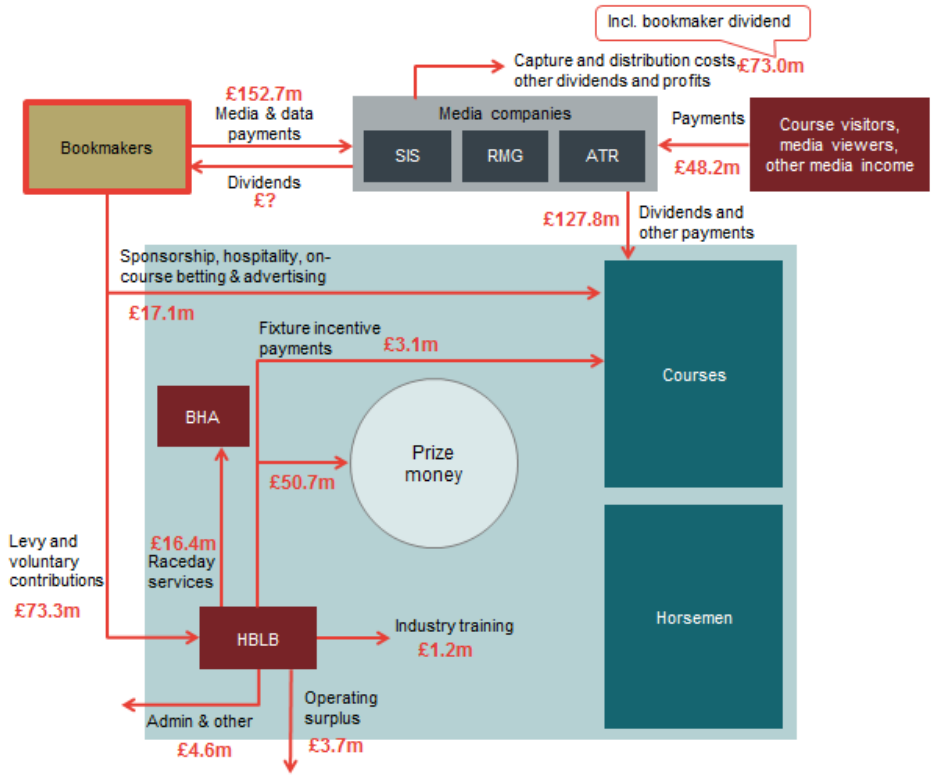
22 We note that media content is also frequently provided free of charge, for example to consumers betting online above a minimum stake. This would be captured through the estimated funding from bookmakers.

Contributions from betting to horseracing

A summary of the estimated flows from betting to racing is given in **Figure 4**.

Figure 4. Monetary flows from betting to racing



Source: Frontier Economics analysis using data from media companies and HBLB. Note: The estimate of HBLB income from bookmakers in the figure above differs from the estimate of total HBLB income of £72.3 million in 2014-15 reported elsewhere. This is because the estimate above is apportioned to represent the calendar year 2014, and excludes interest receivable. We do not have data on dividends from media companies to bookmakers, as this was not requested separately from wider dividends.

It shows that expenditure by betting does not all flow into the racing sector: in particular, some costs of intermediaries (media companies and the HBLB) do not remain within the racing industry. Some of our estimates of betting sector contributions are informed by a survey of operators. A description of the survey and its results is in Annexe 4.

We estimate racecourse income (that part of betting outgoings which remains in the racing industry) from the betting sector in **Table 6**. This shows that the largest contribution is through media rights, which have grown significantly over time. This is followed by levy funding and voluntary contributions to the HBLB.

Note that in this table, we attribute all of the £127.8 million flowing from media companies to courses as coming 'from betting'. As shown above, around 24% of media income comes from sources other than bookmakers taking bets on GB

Costs and income associated with horseracing

racing from GB consumers. Although we did not get a full breakdown of other revenue sources, these are likely to include viewers who pay for a racing subscription channel, revenues from bookmakers not serving GB customers and other sources. If we assume that around 76% of the revenue flowing to courses comes from bookmakers, then the figure for 2014 would be reduced to around £97 million.

Table 6. Estimated direct and indirect income received by racecourses from betting (£ million, nominal)

Category	2012	2013	2014
On-course betting	£13.7	£11.6	£12.2
Sponsorship and advertising	£11.4	£14.7	£17.1
Media rights	£89.9	£116.1	£127.8
HBLB funding	£57.5	£69.6	£70.3
Other	Contributions to grass roots, hospitality, and integrity services.		

Source: Frontier estimates. Notes: we estimate the share of sponsorship and advertising income from betting using the estimated proportion of races sponsored by the betting sector (published by the RCA). We do not estimate the £ contribution from betting to hospitality, as we do not have an estimate of the share of racecourse hospitality income represented by betting. Media rights income is an overestimate, as some racecourse media income is attributable to consumers directly (e.g. pay TV subscriptions).

We describe the main flows of funding (monetary and in-kind) in more detail below.

Statutory levy payments and voluntary contributions

Betting operators currently make a substantial contribution to the horseracing sector via the HBLB, as follows.

- **Statutory levy payments.** In 2014-15, HBLB data show total HBLB income was £72.3 million, of which £60.1 million was statutory Levy income. The difference is accounted for by voluntary contributions (see below), and interest receivable, which amounted to £0.6 million. The 2015-16 Levy was set at 10.75% of gross profit for eligible bookmakers.[23] Levy

[23] The rate applies to bookmakers operating over 100 betting offices, or with 100 or fewer betting offices but gross profits of £57,257 or more. Abated rates apply to smaller bookmakers.

yields have fallen over time, offset to some extent by increases in voluntary payments. Reasons for falling Levy income over time include:

- bookmakers moving remote betting operations offshore, resulting in no longer being liable to make Levy payments; and
- an increase in the number of LBOs that fall below the threshold at which the full Levy of 10.75% is paid.[24]

- **Voluntary contributions.** As statutory levy payments have fallen, a number of betting operators have made additional payments – including Betfair, Bet365, William Hill, Ladbrokes, Coral and Betfred.[25] These amounted to £11.6 million in 2014-15.

- **Authorised Betting Partner model.** As of 2016, an 'Authorised Betting Partner' model has been developed through which remote betting operators agree to make financial contributions to horseracing in return for specified commercial benefits. This represents a move from voluntary contributions to commercial arrangements. Operators including Betfair, bet365, 32red, Sky Bet and BetVictor have reached agreements to become ABPs.[26]

Media payments

Media payments are a major financial flow from betting to horseracing, and have increased substantially in recent years. Betting operators pay media providers for media services, including the data required to offer bets, rather than directly buying these services from racecourses. This content enables betting operators to offer live broadcast or streaming of races, as well as providing them with the data required to be able to offer bets.

As a result of betting operators buying services from media providers rather than racecourses themselves, the amount paid by betting operators (and others, not shown on **Table 7**) for media services is greater than the total amount received by racecourses for these services. The difference between what betting operators pay and what the racing sector receives (termed 'leakage') reflects profit by media companies not distributed to the racing sector, and costs incurred to provide media, for example the costs of capturing and distributing media content.

We estimate the payments to media companies by betting companies taking bets on horseracing made by British consumers, and the outflow to racecourses for media services, in **Table 7** above. Media companies also generate income for

24 DCMS, 2014, Extending the Horserace Betting Levy, A consultation on implementation.

25 See: http://www.hblb.org.uk/release/630.

26 http://www.britishhorseracing.com/bha/authorised-betting-partners/abps-of-british-racing/

British racing media from betting operators serving consumers outside Britain, which the payments to racecourses also reflect.

Table 7. Media services income and payments in relation to British based betting consumers and British horseracing (£ million)

Description	2012	2013	2014
Total media services income from betting operators serving GB-based consumers	£125.8	£144.8	£152.7
Total payments to GB racecourses for media	£89.9	£116.1	£127.8

Source: Data provided by horseracing media companies. Figures rounded to nearest £100,000.

Media-related payments flow from broadcasters, viewers and bookmakers to racecourses, via media providers. The types of media provision include:

- **Terrestrial television** – currently Channel 4 is the sole terrestrial broadcaster of British racing. ITV will become the sole provider from 1st January 2017. Terrestrial broadcasters pay licence fees to racecourses through media companies, though we do not have details on how this flows back to individual courses.
- **Media feeds in LBOs** – currently provided by SIS and TurfTV.
- **Digital racing channels** – Racing UK and At The Races. Racing UK is a subscription-based channel, and has both residential and commercial (mainly pubs) subscribers. At The Races is a free channel.
- **Online streaming** – typically made available to consumers who place a bet on the horserace online, often subject to a minimum bet. Streaming is provided primarily by At The Races and RMG.

In its current structure, there are complex inter-linkages between horseracing media companies, the betting sector, and racecourses. This reflects their ownership structures and current contracts for media services. We provide further detail in Annexe 6.

Currently, betting companies that serve consumers in Britain purchase bundled media services from British racecourses, rather than selecting individual fixtures or races. The structures of payments to individual racecourses for media differ between the media providers. For example, depending on the racecourse and media provider, racecourses may receive a fixed amount per fixture, or the payment they receive can vary based on the popularity of the fixture (e.g. number of views of the media feed online). We note in **Table 32** that media revenue is greatest amongst racecourses categorised as low quality.

Media arrangements are currently changing, so trends in media payments to date may not continue in future. For example, RMG and SIS have agreed a five-year deal regarding provision of media to LBOs, taking effect from 2018. This is expected to reduce media costs to LBOs, while at the same time increasing the amount received by racecourses.[27]

Other contributions

- **Sponsorship.** A further significant financial flow from the betting sector to horseracing is sponsorship. This includes:
  - **Sponsorship deals with racecourses.** Sponsorship packages may include a number of different elements, for example the racecourse displaying the betting operator's logo on the racecourse, naming racedays or prizes after the sponsor, and provision of hospitality services for the sponsor.
  - **Sponsorship of individuals.** Betting operators also enter sponsorship deals with organisations or individuals in other parts of the racing sector. For example, Betfair is supporting Victoria Pendleton in training to become a qualified amateur jockey, which includes publishing a regular column on their website.[28]

- **Hospitality.** In addition to purchase of sponsorship packages which may include some provision of hospitality, betting firms contribute to the horseracing sector financially through buying hospitality services directly, e.g. corporate events with their clients.

- **Marketing and advertising.** Spending on marketing and advertising of horserace betting by operators (e.g. advertising certain fixtures in shop windows, or online) can benefit the horseracing sector through increasing the exposure of horseracing to consumers. Evidence is not available on the size of any impacts on demand. One operator noted that online marketing of horserace betting was relatively small, reflecting its share of the online betting and gambling market.

- **Contributions to the grassroots of racing.** Betting companies also contribute to the horseracing sector through supporting campaigns and making direct contributions to grassroots racing organisations and charities.

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27 http://www.racecoursemediagroup.com/news/rmg-and-sis-agree-new-five-year-deal-for-pictures-and-data-for-bookmakers/

28 https://betting.betfair.com/horse-racing/pendleton/switching-saddles-victoria-pendleton-announces-shes-training-to-become-a-jockey-040315-6.html.

For example, Betfair launched an annual 'National Jockey Day' in 2014 in partnership with the Injured Jockeys Fund and Haydock Park Racecourse, promoting educational content on jockeys, as well as making charity donations to the Injured Jockeys Fund.[29]

- **Integrity services.** Betting companies contribute to maintaining the integrity of British horseracing through the following:
  - **Licence fees.** Operators provide indirect financial support for integrity services through their payment of licence fees to the Gambling Commission.[30] This is because licence fees fund the Gambling Commission's Sports Betting Intelligence Unit, which provides intelligence services and undertakes targeted monitoring of betting on specific events by specific individuals.[31]
  - **In-kind support.** One betting company noted that it provides an in-kind contribution to horseracing integrity through its team working to identify integrity issues in betting, which had pioneered information sharing (e.g. with the BHA), and presented at court cases on integrity issues.

Within all of the funding flows, some contributions were seen by stakeholders as more central to ensuring a good quality horserace betting product. For example, the ability to stream races for consumers betting online was seen by most stakeholders as central. While broadcasting horseraces in LBOs was seen as important (e.g. in driving footfall), there were mixed views on how far other products (e.g. horseracing in other countries) could be a substitute, and on whether it was essential to broadcast all Great Britain racing. Areas seen as less central included grass roots contributions, or some elements of sponsorship.

One stakeholder also emphasised the importance to betting operators of financial flows to horseracing from betting being predictable to betting operators, as this helps to reduce the risk associated with focusing on horserace betting products.

Contributions from racehorse owners

Racehorse owners are estimated to be the single largest source of revenue into the British racing industry. While some of this revenue flows directly to courses

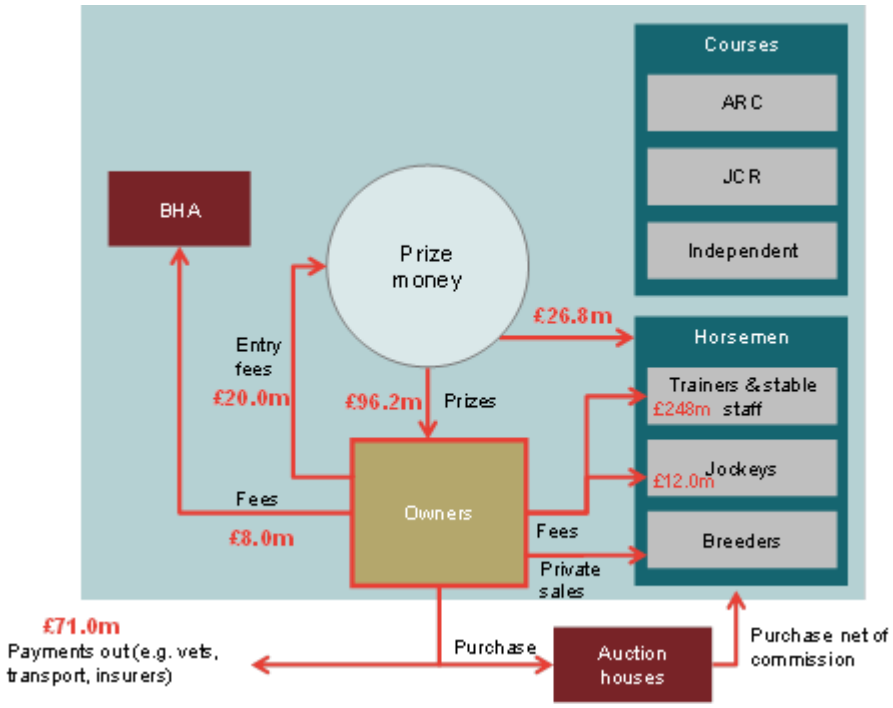
29 http://corporate.betfair.com/corporate-responsibility/national-jockey-day.aspx

30 The Gambling Commission is an independent non-departmental public body, funded by license fees set by DCMS, and a grant from the National Lottery Distribution Fund. See: http://www.gamblingcommission.gov.uk/pdf/Who-we-are-and-what-we-do.pdf

31 See Gambling Commission, 2015, Sports betting intelligence unit terms of reference, available at: http://www.gamblingcommission.gov.uk/pdf/sports-betting-intelligence-unit-terms-of-reference.pdf.

through race entry, much of the money flows into the wider 'supply chain', to breeders, trainers, veterinarians, jockeys and so on. Owner contributions stem in part from the ongoing costs of running horses, partly offset by returns from prize money. We summarise estimates for 2014 of these key flows in **Figure 5**.

Figure 5. Key flows from owners into British racing, 2014 estimates



Source: Frontier Economics

Owner contributions also come from the costs of purchasing horses, some of which is done through intermediaries (auction houses) and some of which is done through direct private sales. These costs will be partly offset by the sale value of some horses either to other racehorse owners or for other purposes at the end of their racing lives.

We describe below how estimates of the costs of running and purchasing horses have been made in more detail.

Costs of running horses

Estimates of the total cost of owning horses have been made through owner surveys conducted by the ROA. The last survey was conducted in 2012 and covered data for 2010. Estimates from the survey have then been updated based

on assumed cost uplifts and known industry trends by Deloitte (2013)[32] for calendar year 2012 to provide total estimates of the (gross) running costs paid by owners to the British racing industry.

No updates to the figures have been made since 2012. Drawing on stakeholder advice and a range of industry and official data sources, we have attempted to adjust the owner contribution to provide estimates for 2013 and 2014. Our results are shown in **Table 8** below.

Table 8. Estimated total owner contributions through running costs, 2012 to 2014

£ million	2012	2013	2014
Basic training fees inc. gallops	246.0	250.0	248.0
Vets, medical and farriers	33.0	34.0	33.0
Transport and racing expenses	28.0	29.0	28.0
Registration fees	8.0	8.0	8.0
Jockey fees	11.0	12.0	12.0
Race entry	16.0	18.0	20.0
Insurance	10.0	10.0	10.0
Keep costs	17.0	17.0	17.0
TOTAL	**369.0**	**378.0**	**375.0**

Source: 2012 figures from Deloitte (2013). 2013 and 2014 figures are Frontier estimates based on figures from BHA and ONS applied to the Deloitte figures. See Annexe 5 for detailed calculations. Figures are rounded to the nearest £ million so may not sum precisely.

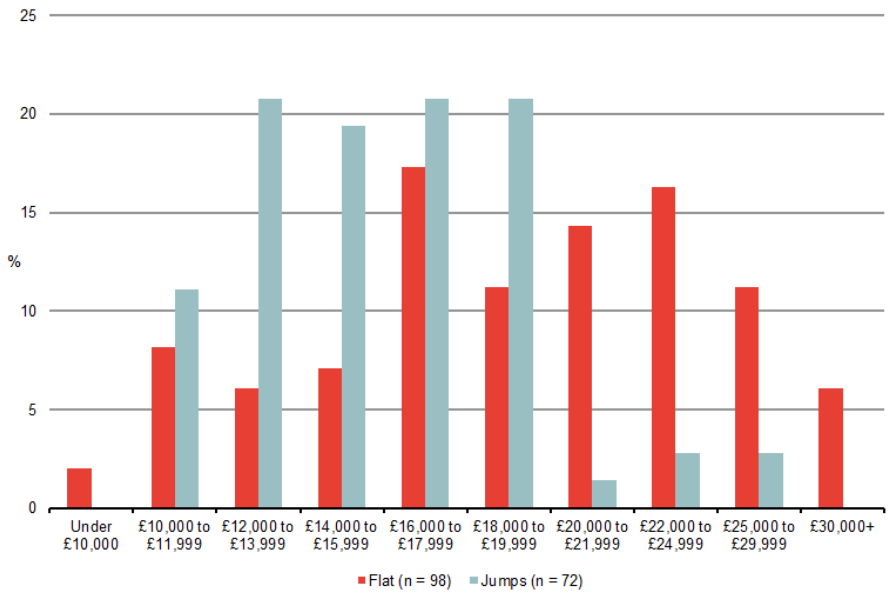
Our figures suggest that overall contributions from owners in the form of running costs have been relatively stable at around £370 million to £380 million per year over the period. Most of this flows into and around the racing industry, though some (vet fees, transport costs, insurance costs) will flow to groups who are not part of the direct industry but are clearly part of the wider supply chain. In 2014, such costs are estimated at around £71 million, almost 19% of the total. The largest share of owner costs, around £248 million in 2014 (66%), is training fees which are assumed to flow largely to trainers. Our assumptions and approach are detailed in Annexe 4.

[32] Deloitte (2013), *Economic Impact of British Racing 2013* (http://www.britishhorseracing.com/wp-content/uploads/2014/03/EconomicImpactStudy2013.pdf)

The total figures mask variation in running costs across horses and owners. This was reflected in our conversations with individual owners, where estimated current full training and running costs per horse ranged from around £19,000 to around £30,000 at the high end of the sport. Clearly there are significant differences between flat and jump horses (largely related to lower training costs and fewer race entries, partly offset by higher keep costs), but owners we spoke with also identified variation in costs by geography (with costs higher in the South) and by quality of trainer. Costs of managing syndicates were also identified as quite variable across different syndicates.

Quantitative estimates of the variation in owner costs for 2010 were made by the ROA as part of a survey of owners. The distribution for flat and jump horses is shown in **Figure 6**. The higher average cost for flat horses is clearly evident. It is also striking that there is much less variation in the cost of running and training jump horses, where costs in 2010 were more clustered around £12,000 to £20,000 per year.

Figure 6. Variation in costs of owning horses, by type, 2010



Source: Frontier analysis of ROA survey data

Costs of purchasing horses

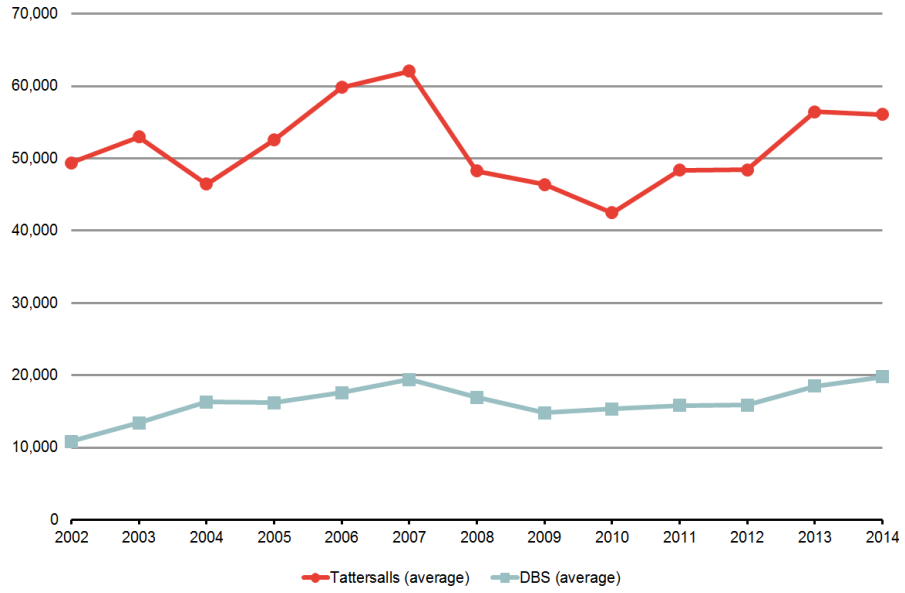
There is less evidence on the (gross) financial contribution to racing made by owners through horse purchases. Qualitative interviews with a range of owners found agreement that on average the cost of purchasing good quality horses had increased. This is borne out by changes in average sales prices for horses in

recent years at the two largest auction houses in Britain, Tattersalls and Doncaster Bloodstock Sales (DBS), shown in **Figure 7**.

However, there is evidence of cyclicality, with prices falling between 2007 and 2010 before recovering in more recent years. Trends between 2002 and 2014, adjusted for average price inflation, are shown in **Figure 7**. Over the whole period, there is no clear trend in the real average purchase price, though it should be noted these figures include only sales through these auction houses and do not include any private sales, where no data are available.

Net of estimated commission (5% at Tattersalls and 6% at DBS), the total inflation-adjusted value of sales at both houses was £244 million in 2012, £279 million in 2013 and £296 million in 2014.

Figure 7. Real average sale price, Tattersalls and DBS, 2002 to 2014 (2014 prices)



Source: Frontier analysis of data from Tattersalls and DBS. Note: figures expressed in 2014 prices based on all-items CPI inflation data from ONS. Tattersalls raw data converted from Guineas to £ at a rate of 1 guinea = £1.05.

The total value of sales does not equate to total 'capital investment' by owners into British racing, for two main reasons. First, some owners purchase from other auction houses in the UK or internationally, or through private sales. Second, some of the sales at auction will go to owners racing outside Britain.

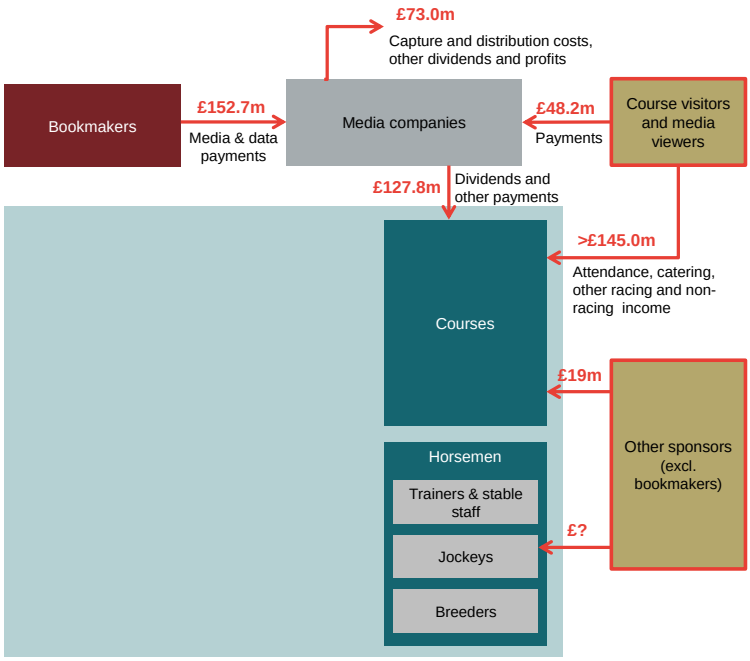
It is hard to be precise on the (gross) flow from purchase of horses by owners into the racing industry. A recent estimate by PwC (2014) looked at British

breeder revenues, surveying the breeding industry.[33] Their figures, which appear to relate to 2012, suggest that around 64% of breeder revenues came from the sale of unraced stock. Total revenues were estimated at around £237 million, suggesting that around £152 million came from horse sales. Some of this will have come from British-based owners, and some from foreign owners buying horses to race overseas. Uprating that figure on the basis of the weighted average change in auction house prices (see **Figure 7**) gives estimated revenue from horse sales of £182 million in 2013 and £184 million in 2014.[34]

Other contributions

There are a number of other contributors to the racing industry, the most significant of which are illustrated in **Figure 8**.

Figure 8. Monetary flows from other contributors to the racing industry, 2014



Source: Frontier analysis using data from media companies, courses, RCA and bookmakers. Note: We do not have data on sponsors' payments to horsemen, so this is included as £?.

Significant contributions to racecourses are made by course visitors through admission fees and on-course spending, making up over £145m in 2014. Some

[33] PwC (2014), *The British Thoroughbred Breeding Industry: Economic Contribution and Opportunities* (http://www.thetba.co.uk/wp-content/uploads/2014/10/Economic-Impact-Study.pdf)

[34] The quantity of British foals in 2013 and 2014 was similar to that in 2012, suggesting no specific change needs to be made for quantity as well as price. See http://www.britishhorseracing.com/wp-content/uploads/2014/08/Racing-stats-2014.pdf, pA1.

payments by media viewers to media companies also flow back to courses in the form of dividends to courses with shareholdings in media companies. Sponsors (other than bookmakers) made contributions estimated at £19 million to courses in 2014, as well as further payments for sponsorship of jockeys which we were not able to quantify.

2.4 Cost and income variation across course type

Costs and income differ by racecourse type. We explored differences using two ways of disaggregating the Britain-wide data, by:

- whether the races held are on jumps turf courses, flat turf, or All Weather Tracks ("AWTs");
- the quality of the racecourse, using published rankings that measure quality based on prize money spending per fixture.

Looking at data for 2014, we found the following.

- The composition of costs appears to be broadly similar across flat and jump turf racing (**Figure 9**). Flat racing receives a slightly higher share of revenues from entrance fees and catering than jump racing; jump racing a slightly higher share from media rights and the HBLB (**Figure 10**).

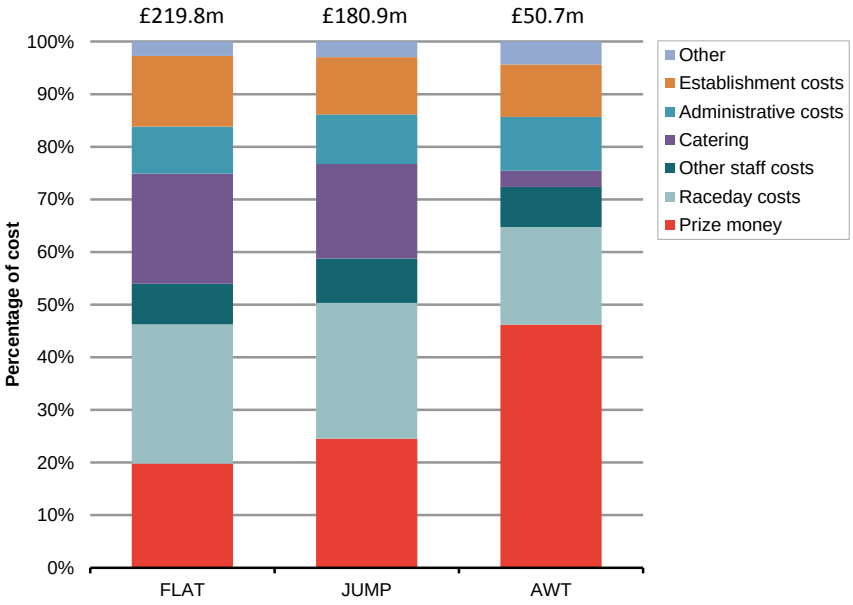
- The structure of costs and revenues for AWTs is quite different. The cost base at AWTs is more heavily composed of prize money with a smaller share of costs around raceday and catering (**Figure 9**), reflecting the lower attendance at these fixtures. This also appears in AWT income, which is more heavily reliant on media rights and HBLB funding than either flat or jump racing on turf (**Figure 10**). These differences explain one of the scenarios we use in our calculations of common interest costs (Section 4.2).

- Mid- and lower-quality courses have a very similar cost (**Figure 11**) and revenue (**Figure 12**) structure. Higher-quality courses, by contrast, have a higher share of costs devoted to catering and raceday costs and a smaller share devoted to prize money (**Figure 11**). Their revenue base is also more reliant on admission and catering revenue, and less reliant on media rights and HBLB income (**Figure 12**). Again this relates to attendance: higher quality courses attract larger visitor numbers.

Data for earlier years and an explanation of how the breakdowns were derived can be found in Annexe 5.

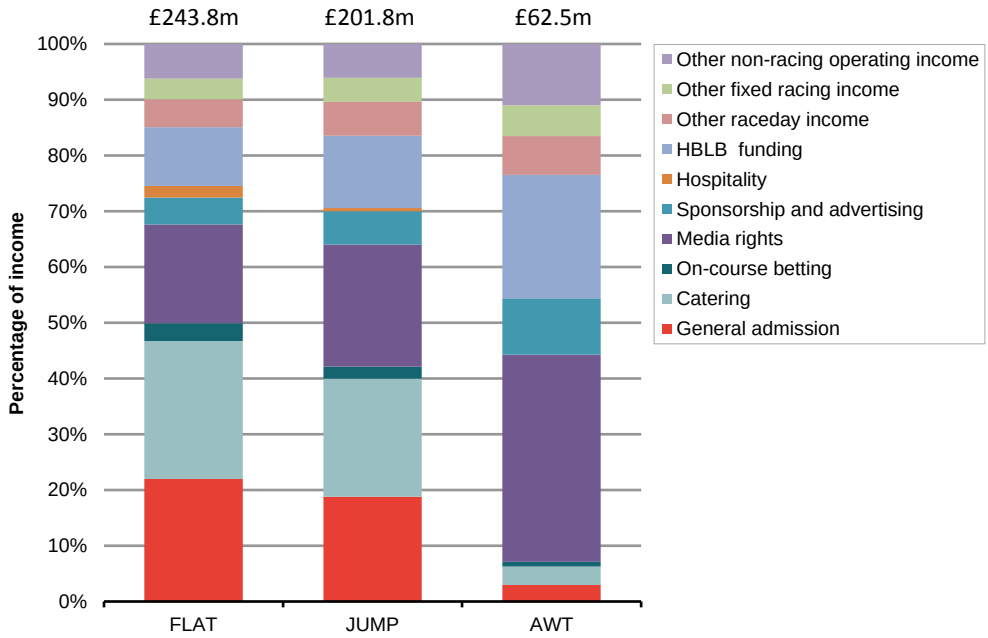
Variation by fixture type

Figure 9. Racecourse costs by fixture type



Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources

Figure 10. Racecourse revenues by fixture type

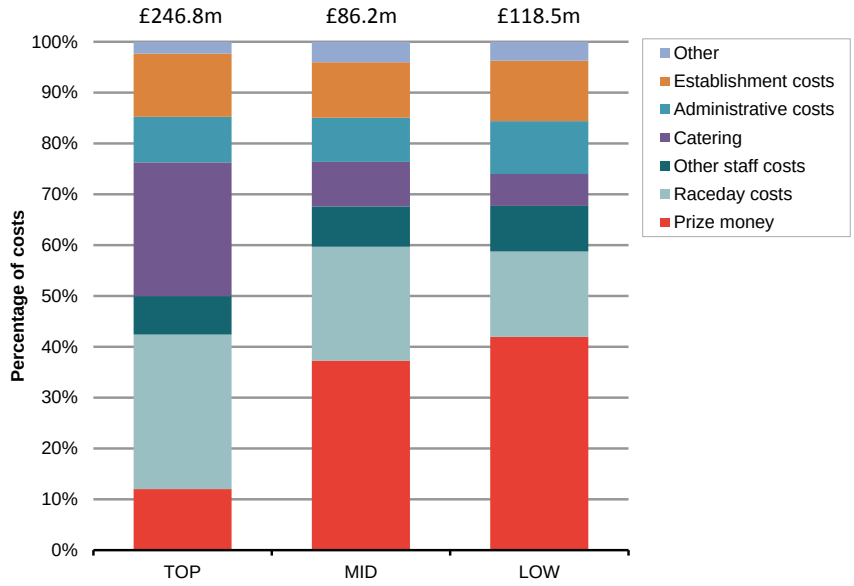


Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources

Costs and income associated with horseracing

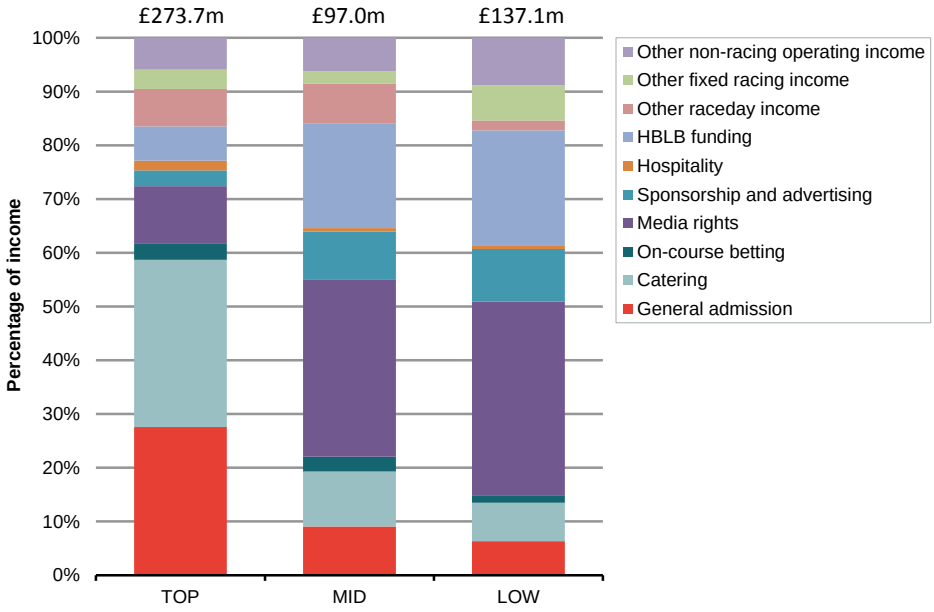
Breakdown by course quality

Figure 11. Racecourse costs by course quality



Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources

Figure 12. Racecourse revenues by course quality



Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources

3 A framework for considering the common interest between horseracing and betting

The horseracing and betting sectors in Great Britain are inextricably linked, with eligible bookmakers subject to a Horserace Betting Levy since the legalisation of off-course betting in 1961.

In 2015, the Government announced it will introduce a new funding arrangement for British racing, which will apply to all gambling operators, wherever located, who take bets from British customers on British racing. The Government has set out that the amount payable will reflect the degree of mutual interest between betting and racing. This is in line with the precedent set by the European Commission's 2013 decision about the French parafiscal levy on online horserace betting.

The EC decision about the French system is a useful starting point to consider the activities which could be in the common interest. However, there are important differences between the French and British sectors that mean a direct translation of the French decision is neither possible nor desirable. We therefore return to economic theory to provide a framework for thinking about the common interest between horseracing and betting. Our framework tells us that common interest activities have two components – those racing activities that would not occur in the absence of off-course betting and those that would still occur but from which betting derives some benefit that they would be willing to pay to access (in a different state of the world).

The rest of this Section explains in more detail how we reach this definition. Section 4 sets out the practical application of this framework to derive an estimated range for common interest costs.

3.1 The French levy

The application of common interest in the EU decision

The French levy bases payments on common interest costs, estimated using 2010 data. Common interest in the French decision refers to six categories of horseracing costs that are incurred in relation to 'premium' French horseraces (those which attract betting activity). The proportion paid as set out below relates to the element of the total cost which concerns premium races:

1. incentives i.e. prize money (65% in the common interest);
2. organisation costs of parent companies (unknown % common interest);
3. organisation costs of provincial companies (unknown % common interest);
4. recording and broadcasting races (100% in the common interest);
5. anti-doping measures (100% in the common interest); and

6. training and social welfare (100% in the common interest).

The calculation of the French levy is based on 2010 costs which were at least in part incurred prior to the opening up of the off-course horserace betting market to competition in May 2010. As a result, the estimate of common interest costs is partly based on a context during which all off-course betting on horseracing was through PMU (Pari Mutuel Urbain), an organisation established by horseracing sector companies. Before the online betting market was opened to competition, a levy on off-course betting would therefore have represented a transfer within the horseracing sector itself, given the ownership structure of PMU. This is substantially different from the GB context.

In **Table 9** we map the six cost areas identified by the European Commission in the French racing sector to the corresponding British horseracing cost areas. This helps us understand how applicable the cost areas considered in the French horseracing sector are to horseracing in GB. The analysis shows that recording and broadcasting costs, part of the common interest in the French sector, do not appear to be well identified in British racecourse accounts. This is likely to reflect that many of these costs are in fact incurred by separate media companies.

Where the French decision refers to common interest costs these costs are defined as net costs. This is because to calculate the size of the levy in France, the Commission deducted the revenues of horseracing companies that can be attributed to the relevant horseraces.[35] This is important in avoiding creating incentives for inefficiency in the horseracing sector, and informs the approach we use to estimating potential common interest costs.

The French system also puts in place mechanisms to ensure that the common interest costs reflect efficient costs, through measures including direct financial control of horse racing companies by the State, regulatory control of levy beneficiaries by the Court of Auditors, and an implementation report by the French authorities monitoring the trend in common interest costs. The published decision does not consider the specific mechanisms within these measures that will ensure common interest costs are not escalated inappropriately over time. We explore how efficiency could be accounted for in our estimates of common interest costs.

35 The published decision does not specify exactly which revenues were netted off from common interest costs.

Table 9. Common interest costs identified in France and mapping to our analysis

Cost category	Decision on common interest	Description of cost category in the French decision	Mapping to British racecourse cost categories that we analyse
Incentives	65% common interest Quantum in 2010: EUR 493m (redacted in all other cost areas)	Premiums and allowances to breeders, owners and jockeys	These costs are likely to be similar to the role played by prize money, as well as smaller racecourse costs such as appearance money payments.
Organisation costs of the parent companies	Unknown % common interest Some costs are excluded (e.g. marketing costs) as they are considered to benefit the horseracing company only. Other costs are apportioned based on the premium races organised.	Head office running costs, staff and marketing costs, running costs and staff costs of racecourses, depreciation costs associated with race courses	This maps to many of the cost items we consider, including: • Racecourse group level costs. In addition to the costs described in the French decision, group level spending could include finance costs, capital expenditure, and catering. • Racecourse costs. Running and staff costs of racecourses included elements of raceday spending (e.g. on race-cards or officials), as well as catering, administrative, establishment, and other spending. Not all of the above may be in the common interest. While apportioning costs by premium/non-premium racing is not applicable, apportioning by horseracing vs. non horseracing activity of racecourses may be relevant.
Organisation costs of the provincial companies	Unknown % common interest	Only costs connected with premium races organised by 49 provincial racing companies are included as common interest	As noted above, the premium and non-premium distinction does not apply in Great Britain. The mapping from parent company costs to British racecourse costs applies in this category too.

Recording and broadcasting races	Recording video feeds of premium races is included as 100% common interest. Other costs of promoting racing, including through TV, are excluded from the common interest.	Video feeds of only premium races	Recording and broadcasting costs do not appear to be well identified in racecourse raceday expenditure estimates. These costs could map to raceday camera patrol and photo finish costs recorded by racecourses. Some recording/ broadcasting costs may be incurred by others (e.g. broadcasters themselves). In addition, some of these costs are likely to be incurred by racing media companies.
The fight against doping	100% common interest	Concerning premium races only	These costs are likely to be captured by raceday spending on integrity fees. Anti-doping costs could potentially also sit within raceday police and security costs (e.g. CCTV of stables), and medical costs.
Training and social welfare	100% common interest	Training staff to work in horseracing (jockeys, stable staff, and so on). The proportion of premium races is used to estimate the share of training costs that can be considered in the common interest.	These costs are likely to be reflected in the costs incurred by horsemen, rather than racecourses. Our estimates of racehorse owner running costs (including training fees, jockey fees, etc.) are likely to reflect a proportion of training costs, but data were not available to identify training costs separately.

Source: Commission decision (2013) and Frontier Economics analysis

Relevance of French decision to GB context

The use of common interest in the decision about the French system is a useful starting point for consideration of the future British funding system. But there are important differences between the French and British sectors that mean a direct translation of the French decision is neither possible nor desirable. In Britain the horseracing and horserace betting markets are made up of individual private businesses and these businesses make payments, including an element of profit, to each other and via media companies that are separate from the existing Levy mechanism.

This is different from the French horseracing and betting sectors over the period for which common interest costs were estimated. Prior to the online betting market in France being opened to competition the PMU held a monopoly on off-course horserace betting in France, and there was no levy mechanism. Recording and broadcasting of horseraces was undertaken by the horseracing

A framework for considering the common interest between horseracing and betting

sector. This means that separate media payments or other transfers from the betting to the racing sector outside a levy did not need to be explicitly accounted for in the French decision, which included recording and broadcasting costs within its estimate of common interest costs.

In the French decision there is also a clear distinction between premium and non-premium races, with gambling only being possible on premium races and common interest being restricted to premium races. Such a clear distinction does not exist within British racing as all horseraces hosted by British racecourses under the BHA's jurisdiction can be bet upon.

3.2 An economic framework for common interest

Definition of common interest activities, costs and revenues

The differences set out above mean that our definition and estimates of common interest costs draw on the French precedent but depart from it in some key elements.

The common interest between the racing and betting sectors arises from horseracing activities providing benefits to the betting sector by creating betting opportunities.[36,37] Our definition of the common interest builds on the French decision, dividing horseracing activities into three separate categories, although any allocation of activities across these categories inevitably involves some degree of judgement. The first two categories are in the common interest and the third category is not. We later use two different scenarios to explore the costs associated with each type of common interest activity.

Firstly there are those activities that would be significantly different in scale or quality if there were no off-course betting activity. These would be horseracing activities that, if a sudden hypothetical ruling meant that off-course betting was no longer able to access racing, would no longer be undertaken or would be significantly rolled back. The racing sector is currently able to carry out those activities profitably because of the Levy contributions made by betting operators. We refer to these activities as Category 1.

Category 2 activities are those that would be undertaken at a similar scale and quality by the horseracing sector if there were no-off course betting activity, but

36 In economic theory, this is termed a 'positive externality.' A positive externality occurs where production or consumption benefits a third party, who is 'external' to the production or consumption decision.

37 Lyons (2009), *The Orders and Rules of British Horseracing: anticompetitive agreements or good governance of a multi-sided sport?* Available at: http://core.ac.uk/download/files/124/2775067.pdf.

from which the betting sector derives benefit and therefore would be prepared to pay to access in our hypothetical ruling.

We consider that both of these categories of activity are in the common interest.

Lastly there are those activities that would be undertaken at a similar scale and quality by the horseracing sector if there was no-off course betting activity but from which betting derives no benefit. These would be horseracing activities that, under our hypothetical ruling, would take place but that gambling operators would not be prepared to pay to access We consider that these activities – which we refer to as Category 3 - are not in the common interest of both betting and racing.

Considerations for translating common interest costs to an amount payable by betting

The fact that categories 1 and 2 are defined as being common interest costs does not automatically imply that the betting industry should reimburse 100% of these costs. Costs that fall into category 1 are those that imply a change in the activities that the racing industry would undertake relative to a situation with no off-course betting. But, whilst the racing industry would not to choose to undertake these activities in the absence of off-course betting, they nevertheless may derive some revenue from these activities.

There is a slightly different argument for costs that fall into category 2. These activities would be undertaken by racing at a similar scale in the absence of off-course betting, for example putting on The Epsom Derby. Betting derives some benefit from the provision of these races and in a scenario without the levy mechanism they would be willing to pay for access to these races.

A framework for considering the common interest between horseracing and betting

4 Common interest cost estimates

The framework from Section 3 tells us that common interest activities have two components: those racing activities that would not occur in the absence of off-course betting, and those that would still occur but from which betting derives some benefit that they would, in principle, be willing to pay to access (in a different state of the world).

Practical application of this framework for understanding common interest requires making a number of assumptions about the costs and revenues as they relate to specific racing activities. We have undertaken modelling work based on a number of alternative scenarios for common interest activities (and hence their costs and revenues) undertaken by horseracing.

To frame this analysis and guide our scenarios, we have used interviews with both industries to provide an overview of what makes a good product from both horseracing and betting perspectives.

4.1 Framing the common interest from a practical perspective

To identify the common interest activities in our framework requires an understanding of those horseracing activities that are largely for the benefit of betting and those in which racing and betting have a mutual interest. Understanding what makes a good horseracing product, where that is aligned with what makes a good betting product and where there may be a divergence, provides a starting point for our estimates.

Factors that influence a good horseracing product

There are a number of areas broadly seen by the racing industry as being central to achieving a good quality horseracing product for on-course attendees. These including achieving:

- competitive races;
- sufficient prize money;
- high quality horses;
- integrity and welfare; and
- good quality hospitality services.

We provide more detail on each of these factors in the sections that follow.

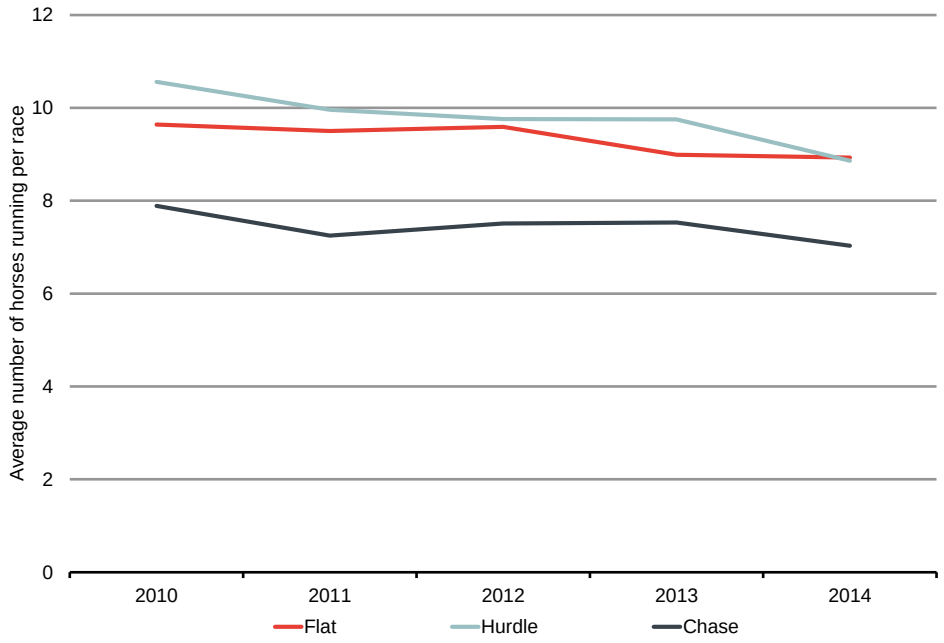
Competitive races

Competitive horseracing requires sufficiently large 'field sizes' (the number of horses running in a given race) and closely matched horses. This affects the

attractiveness of the sport to race-goers (and also for off-course bettors and viewers of televised races in LBOs or at home).

Field sizes have recently seen a significant decline: the average field size in British horse races fell from 11 to 9 between 2005 and 2013.[38] Recent data shows that this applies across different types of horseracing, as shown in **Figure 13** below.

Figure 13. Average field sizes over time by horseracing type



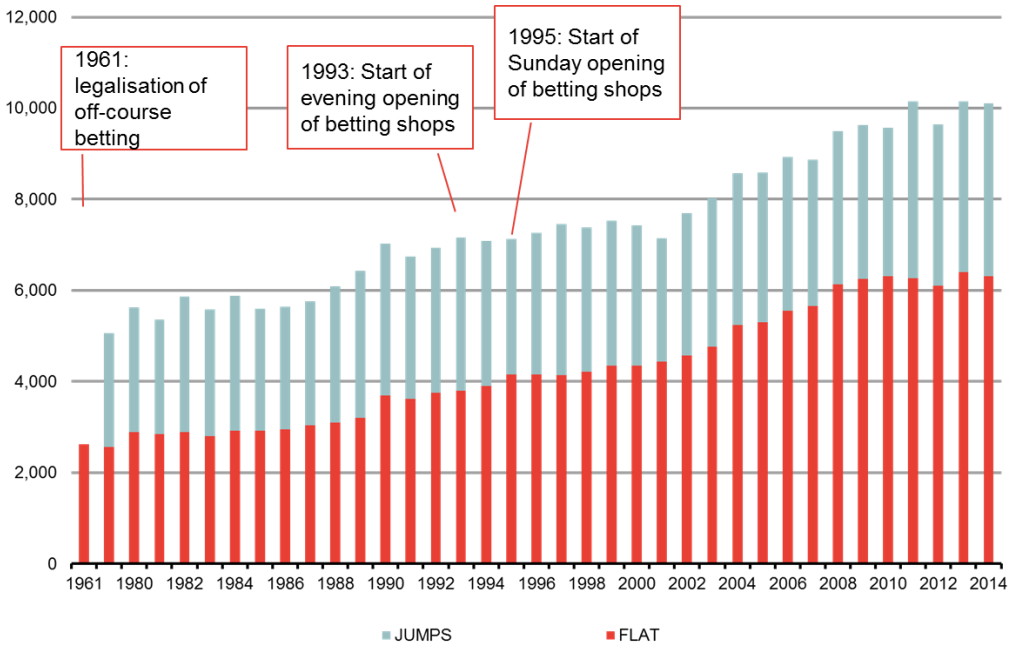
Source: BHA, 2015

Reasons for this decline include an increase in the number of races run (shown in **Figure 14** below) and a decline in the racehorse population, with a 19% fall in the number of thoroughbred foals bred in 2015 relative to 2006.[39]

38 BHA (2015) Fixture List Consultation

39 BHA, 2014, 2014 Racing Stats, available at: http://www.britishhorseracing.com/resource-centre/reports-and-statistics/statistics/.

Figure 14. Number of horseraces over time and relevant legislative changes that may have influenced these trends



Source: BHA. Note: The first two bars represent 1961 and 1970, after which data is annual. Jumps data is not available for 1961.

Measures have been taken to ensure competitiveness, and the BHA compiles the horseracing Fixture List, aiming to create good competition by: [40]

- having horses of comparable ability competing against each other;
- running developmental races to build up to championship races; and
- using a handicapping system to improve competition in those races below championship level.

There is less clear evidence on recent changes in the competitiveness of races measured as the extent to which runners are closely matched.

Sufficient prize money

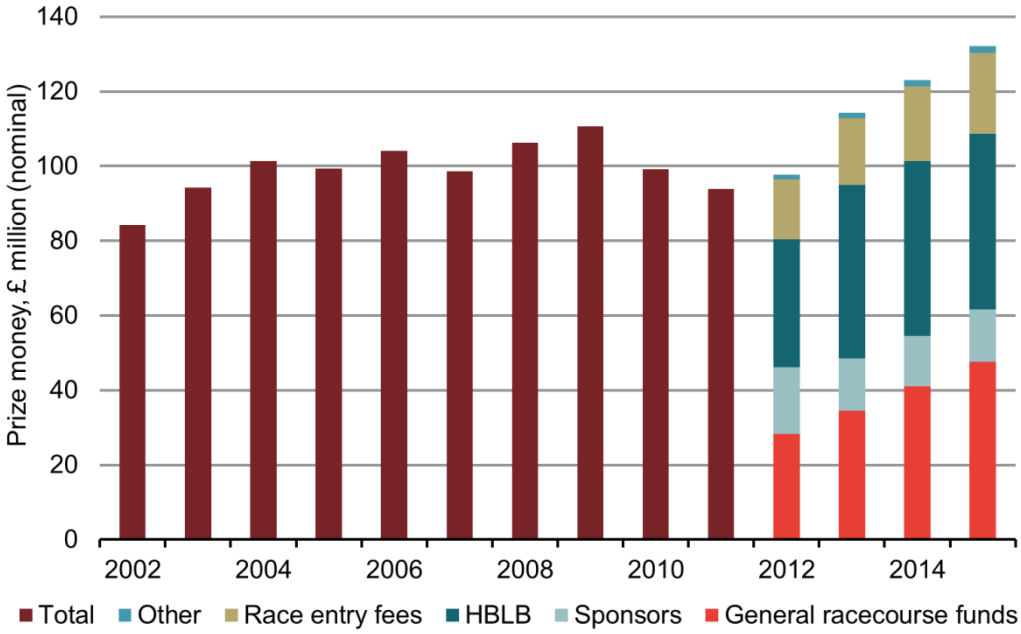
Prize money is a factor incentivising owners to participate in the sport and enter their horses into races (see Annexe 7), in turn affecting both field sizes and the overall number of races that can be put on. As well as incentivising owners, fixtures including higher prize money races typically attract higher attendance,

40 BHA (2015) Fixture List Consultation

although it is likely that this is also driven by other factors such as the prestige of the races.

Prize money is important in ensuring competitive races as it incentivises owners to enter their horses to compete. In nominal terms, prize money has increased from a recent low of £94 million in 2011 to £123 million in 2014.[41] Prize money flows through racecourses, with some racecourse income specifically hypothecated to prize money (e.g. race entry fees paid by owners, or HBLB prize money funding).

Figure 15. Horseracing prize money in Great Britain over time (£ million, nominal)



Source: BHA, 2015

Notes: 2015 estimates are provisional. Prize money funding flows through racecourses – where a breakdown is given, this indicates the ultimate source of the prize money contribution.

As **Figure 15** shows, the two biggest sources of prize money are general funds from racecourses, and HBLB prize money funding. Each contributed just over one-third of total prize money in 2015. The remaining third is largely split between contributions from racehorse owners (race entry fees) and sponsors, with very small contributions from the BHA and the Divided Race Fund (which is ultimately funded by the HBLB).

41 BHA, 2015.

Common interest cost estimates

High quality horses and races

As well as being closely matched within a horserace, the ability of horses (their speed and skill) is important to race-goers. This requires a range of races for horses at all levels, including developmental races so that horses can gain experience and progress to higher level races. To sustain a programme of high quality racing in the long-run therefore requires opportunities for horses to develop. This is reflected in decisions about race programming, for example in putting on Maiden and Novice races which provide opportunities for horses to run, and allow them to receive an Official Rating which is used for handicapping. Typically racehorses are required to run three or more times before they can be rated to run in handicap races. See Annexe 8 for a description of race types.

Another aspect of race quality is whether races take place on turf or AWTs. Unlike turf tracks, AWT fixtures do not have to be cancelled in bad weather conditions, meaning that there is less risk of lost fixtures. This means that they can help deliver a more reliable schedule of racing, ensuring that there is a consistent horseracing product available across the year.

However, there is a perception that races on turf are preferred by race-goers (as well as off-course bettors). This suggests that AWT races may be considered as Category 1 common interest activities according to our definition of the common interest, i.e. that they would be significantly different in scale or quality if there were no off-course betting activity. This is reflected in lower attendance at AWT races, given their current use in slots chosen to benefit off-course betting.[42]

Perceptions and attendance at AWT races are changing over time as more well-known winners are produced on AWTs, given investment in redevelopment of and new AWTs (Chelmsford City, Newcastle), and in more prestigious AWT races with higher prize money (e.g. during the All-Weather Championships). This suggests that, in future, some AWT races may move towards being considered as Category 2 common interest activities according to our definition above.

Integrity and welfare

Integrity determines confidence that horseracing results are fair and is seen as central to ensuring a good quality horseracing product. Similarly, many view the welfare of both racehorses and jockeys as important in determining race-goers' enjoyment of horseracing. The BHA is central to setting and enforcing standards in the horseracing sector, with its work on integrity including:

- intelligence gathering and monitoring, including through the RaceStraight service for sharing concerns anonymously;

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42 Deloitte (2013) Economic Impact of British Racing

- provision of raceday services, such as doping tests, and stewarding races to ensure that rules are met and adjudicate their outcomes; and
- investigations and enforcement where required, for example interviewing registered horsemen and disqualifying individuals where integrity breaches are found.

The BHA also works to ensure high horse welfare standards through its regulatory standards (e.g. to ensure racecourses are in a suitable condition to not prejudice the welfare of racehorses), and enforcement of these regulations (e.g. stewards policing whip use). Its Medical Department sets and upholds medical standards for jockeys and other racing participants. Welfare of participants and racehorses is also supported by charities, for example Retraining of Racehorses, Racing Welfare, and the Injured Jockeys Fund. Activities to uphold integrity and welfare in horseracing were seen as essential to ensuring trust in horseracing and therefore enabling a good horseracing product.

Quality of hospitality services

Hospitality available at racecourses also affects the quality of experience for race-goers. In recent years, some racecourses have made significant investments in improving their facilities, to compete with other leisure options available to race-goers. Many courses have also started offering a wider range of racedays, with some focusing solely on horseracing, while others include concerts alongside evening races.

Factors that influence a good betting product

There are a number of areas broadly seen by the betting sector as determining the quality of horserace betting products. These include achieving:

- competitive races;
- high quality horses;
- integrity and welfare; and
- race schedules that meet bettor demand.

This is in line with econometric evidence, which suggests that betting volume on a given race increases, all else equal, with television coverage, racing on a British racecourse, larger field sizes, high prize money (thus higher quality of racing), turf rather than all-weather tracks, and Handicap races (resulting in a more uniform spread of odds).[43]

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43 Evidence cited in Lyons (2009), who refers to unpublished econometric estimates which makes it hard to validate the quality of the underlying evidence. For example, it is unclear whether the increase in betting volume with respect to television coverage refers to terrestrial broadcasts only.

Common interest cost estimates

Other determinants of the quality of the betting product for consumers include the type of betting products available. The current range of horserace betting products is limited compared to sports such as football, driven by factors including the relatively short duration of races, and the more limited number of events within a race.[44] A number of betting operators we spoke to highlighted the difficulty of such 'in-play' betting as a drawback for racing.

Competitive races

A strong positive correlation has been found between the number of runners in a race and the betting turnover generated.[45] Betting turnover has been found to drop significantly for races with fewer than six horses running. Above six runners, increases in GGY and turnover as field sizes increase are more gradual, and there are even some dips (for example between eight and nine runners) suggesting that six or eight runners are critical points relating to betting activity. Similarly, races without clear favourites (no horse odds-on) tend to generate substantially more betting turnover and GGY. This is because these races are more attractive to spectators and bettors.

Quality of racehorses

There were mixed views amongst stakeholders on how essential it is to have high quality racehorses to ensure a good quality betting product. Some stakeholders viewed this as important in driving betting activity, while others noted that the competitiveness of the race (rather than the overall speed of the race) was more important. High profile, and/or high quality races (such as the Epsom Derby) are associated with the highest off-course betting activity. However, some betting stakeholders noted that this activity can be associated with large number of occasional consumers, who are less important than more regular consumers as a source of overall GGY from racing. Some betting stakeholders suggested that the betting competitiveness of high-profile race meetings made them relatively unattractive, though they were seen as opportunities to attract new people to betting on racing more regularly.

Integrity and welfare

As with race-goers, integrity also determines confidence of off-course bettors in horseracing results. Upholding integrity, both of horseracing and betting, is seen as essential to ensuring a good quality horserace betting product. Stakeholders had mixed views on the importance of welfare standards to off-course bettors. Some viewed this as less central. Others noted that media attention related to

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44 Deloitte (2013) Economic Impact of British Racing

45 Results of HBLB analysis, provided by the HBLB.

welfare issues (e.g. around horse deaths at high profile races) could have a negative impact on confidence in betting on horseracing, similar to integrity concerns, and was therefore important in determining the popularity of horserace betting.

Scheduling of races

The timing of races is associated with significant differences in off-course betting activity. Over time, the number and timing of horseraces has changed in response to changes in regulation of off-course betting (e.g. changes to opening hours permitted for LBOs). Analysis of betting patterns by Deloitte shows the following[46]

- **Betting turnover varies greatly through the week.** Other than major festivals, betting levels are stable from Monday to Thursday, then increase from Friday to Saturday. Up to 50% more betting turnover can be generated on a Saturday than a weekday. Sunday generates the least betting turnover, overall and per race, in 2014.

- **Betting turnover varies by time of day.** Three different race sessions are run: afternoon, twilight and evening. On average, evening fixtures generate 30-40% less betting turnover than afternoon fixtures.

- **Fixture frequency as a feature.** Betting operators value a product that they can take bets on throughout the year and at regular intervals through the day. This means that bettors can place bets on several races in one sitting. Regular horseracing bettors also value being able to follow the sport throughout the year and building up knowledge of horses' form, jockey performance, and so on. Increased use of All Weather Tracks has helped in providing a more consistent year-round betting product, with fewer fixtures cancelled due to bad weather. Some stakeholders noted that frequency of horseraces is also important as horserace betting can drive cross-selling, for example by contributing to footfall into LBOs.

Areas of overlap and implications for common interest activities

The discussion above highlights that there are many overlaps between the factors that influence a good horseracing product and those that influence a good horserace betting product. Where there are overlaps between factors determining the quality of horseracing and betting products, this suggests that the underlying activities determining these factors fall within Category 2 of our definition of the

46 Deloitte (2013) Economic Impact of British Racing

Common interest cost estimates

common interest. Such factors include competitiveness of races, integrity, and, to differing degrees, the quality of racehorses and welfare.

The discussion also highlights that there are activities that influence the quality of off-course horserace betting as a product but are less central to the quality of horseracing for racecourse visitors. A key factor here is the scheduling of races, where for bettors it is important to avoid gaps and clashes between fixtures, but this is less central for racecourses. The activities underlying these factors fall within category 1 of our definition of the common interest. They include activities undertaken to limit gaps in racing schedules, for example fixtures on All Weather Tracks or on turf tracks at unpopular times of the day and in winter months, and activities designed to reduce fixture clashes.

Finally, there are factors that influence the quality of horseracing as a product but do not influence the quality of off-course horserace betting, for example the quality of hospitality services on racecourses. These could be considered as outside the common interest, Category 3 activities as we defined them in our framework in Section 3.

4.2 Scenario analysis of common interest costs

Using the framework described above, we identify two scenarios as ways to establish common interest activities and their associated costs and related revenues. In an ideal world, we would be able to analyse the costs and revenues (from horseracing and betting perspectives) associated with specific racing activities that are in the common interest but these scenarios have been developed given the absence of such data to the study team.

Our estimates are not definitive 'bounds' on possible net common interest costs, but instead illustrate alternative viable ways to conceptualise the framework identified in Section 3.

It should be noted that amounts defined as being common interest costs does not automatically imply that the betting industry should reimburse 100% of these costs, as described above.

- **Scenario A:** this scenario identifies racing on AWTs as an example of activities that would likely be significantly different in scale if there was no off-course betting activity (Category 1 activities). This is based on our understanding that a significant proportion of races on AWTs are put on primarily for the benefit of the betting sector, for example attracting lower attendance. As this scenario excludes many other types of racing activity that would also likely be significantly different in scale or quality if there was no off-course betting, it represents a lower end scenario for estimating costs of Category 1 common interest activities. While not included in this scenario, other activities that could be considered in this scenario include the

provision of winter weekday afternoon fixtures or other poorly-attended, but nevertheless competitive, races.

- **Scenario B:** For this scenario, we identify races that are 'competitive', defined as races that are either a handicap or pattern race with a minimum field size (we consider minimums of both 6 and 8 runners within this scenario) as being in the common interest. This definition is based on evidence on the relationship between these characteristics and betting activity. In practice, this scenario is likely to capture both Category 1 and Category 2 common interest races. Some of these competitive races will be attractive to racegoers, and so go ahead in a similar way even without off-course betting (Category 2). Others will not, and so would not go ahead to a similar scale or quality (Category 1).

We re-iterate that these are designed only as ways to conceptualise the Categories of common interest activities. There are other ways of doing so. There may also be a degree of overlap, albeit incomplete, between the two Scenarios considered here: for example, a number of races on AWTs would also meet the criteria of being competitive races.

Scenario A – races held on All Weather Tracks

This scenario categorises only racing on AWTs as an activity that would be significantly lower in scale if there was no off-course betting activity. We assume that races on AWTs are in the common interest, and all other races are not. This is close to a lower bound estimate[47] as it excludes the majority of races that are also of benefit to off-course gambling.

Table 10. Proportion of fixtures that courses ran on AWT, 2012 to 2014

Course	Proportion of fixtures on AWT
Kempton Park	89%
Lingfield Park	51%
Southwell	72%
Wolverhampton	100%

Source: BHA British Racing Statistics, BHA fixture lists

AWT fixtures made up around 21% of all fixtures between 2012 and 2014. During this time, only four courses had all-weather tracks: Kempton Park,

[47] We suggest "close to" as clearly some races on AWTs will be attractive to visitors as well as bettors.

Common interest cost estimates

Lingfield Park, Southwell and Wolverhampton. These four courses ran between 51% and 100% of fixtures on AWTs as shown in **Table 10**.

Estimating gross common interest costs

We want to estimate the costs associated with racing on AWTs. Our estimates of how these divide into common interest ('common') and other ('non') costs are shown by expenditure category in **Table 11**.

Table 11. Gross common interest costs: Scenario A (All-Weather Tracks)

£m	2012		2013		2014	
	Common	Non	Common	Non	Common	Non
Prize money	23.1	74.7	23.5	90.8	23.7	99.3
Raceday costs	9.5	95.1	9.6	100.9	9.0	118.9
Other staff costs	3.9	29.6	3.3	32.0	4.4	35.1
Catering	1.7	75.3	1.5	78.8	1.5	80.7
Administrative costs	5.1	36.1	4.7	37.2	5.8	36.4
Establishment costs	5.1	45.7	4.8	47.5	5.2	54.4
Other	2.1	11.2	2.1	11.2	2.4	11.6
Total	**50.5**	**367.6**	**49.5**	**398.3**	**52.0**	**436.4**

Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources.

To derive these estimates, we:

- Apportion the costs (taken from raceday returns) for each course listed in **Table 10** according to the proportion of fixtures run on AWTs.
- For most cost categories, we aggregate the costs across the four courses.
- For some categories, where raceday return data were not felt to be reliable, we apportion aggregate cost data from external sources. **Prize money** costs were apportioned by the proportion of AWT fixtures per year, assuming that prize money per fixture is roughly constant. **Catering** costs were apportioned by the estimated share of total attendance income from AWT racing, assuming that catering costs are directly related to attendance.[48]

[48] Note that we use attendance income rather than actual attendance as the latter figures were not available.

In 2014, this estimate suggests that gross common interest costs are just over £52 million, around 10% of our estimated total racecourse costs.

Estimating relevant income

To arrive at net common interest costs, we need to determine the revenues that AWT racing can raise to support this activity. We follow a similar approach as described above; in particular we:

- Apportion the revenues (taken from raceday returns) for each course listed in **Table 10** according to the proportion of fixtures run on AWT. For most revenue categories, we then aggregate the costs across the four courses.

- For some categories, where raceday return data were not felt to be reliable, we instead apportioned aggregate cost data taken from external sources. **Media income, sponsorship income and HBLB funding** were apportioned according to the proportion of AWT fixtures per year, assuming that these revenue items are roughly constant per fixture. **Catering incomes** were apportioned by the estimated share of total attendance income associated with AWT racing, assuming that catering revenues are directly related to attendance.

We took a two stage approach to options for netting off racing's income. First we estimate net costs if betting's payments through commercial arrangements are excluded from the netting off process. Second we then consider the costs if all of betting's commercial revenues are netted off. The reason for this 'two step' netting process is because the level of the common interest in these scenarios is dependent on how betting's commercial payments to racing are reflected.

Revenues from Levy funding are not netted at all, because the new funding model will replace this. We also do not net off revenues from 'other non-racing operating income',[49] which does not directly relate to racing activity.

The associated revenues are then shown in the top panel of **Table 12**.

For 2014, our estimates suggest that excluding media rights, sponsorship and advertising from the betting sector, HBLB funding and non-racing income, AWTs raised around £13.7 million in revenue towards the cost of putting on the relevant races. The resulting net common interest costs in this scenario are then shown in **Table 13**.

[49] Comprising other operating income and investment income.

Table 12. Relevant apportioned revenues, Scenario A

£m	2012	2013	2014
Non-betting revenues for stage 1 netting			
General admission	1.9	1.7	1.8
Catering	2.2	1.9	2.1
On-course betting	0.6	0.5	0.5
Sponsorship, advertising (non-betting sources only)	3.0	3.4	3.7
Hospitality	0.0	0.0	0.0
Other raceday income	5.3	6.5	1.3
Other fixed racing income	2.6	3.4	4.3
Total	**15.6**	**17.4**	**13.7**
Revenues from betting for stage 2 netting			
Media rights	21.2	23.9	24.6
Sponsorship, advertising (betting sources only)	2.7	3.0	3.3
Grand total	**39.5**	**44.2**	**41.6**

Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources

Table 13. Net common interest cost estimates, Scenario A

£m	2012	2013	2014
Total costs	50.5	49.5	52.0
Selected revenues (non-betting racing revenues only)	15.6	17.4	13.7
Net cost (only netting non-betting racing revenues)	**34.9**	**32.1**	**38.3**

Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources

We estimate that using this scenario, net common interest costs are £38.3 million in 2014. As outlined above, the French decision calculated the size of the levy using net common interest costs, which is important in avoiding creating incentives for inefficiency in the horseracing sector. The Commission also put in place additional mechanisms to ensure that common interest costs in the horseracing sector are efficient, through regulation, direct financial control, and

requiring an implementation report monitoring the trend in common interest costs. This informed our approach to estimating potential common interest costs. For this scenario, we do not consider a more "efficient" allocation of fixtures across racecourses: there are relatively few all weather tracks in GB, and they are well utilised. We explore efficiency further in Scenario B.

We then estimate the net common interests costs if commercial income from betting is also netted off. This is made up of income from media rights, sponsorship and advertising from the betting sector (see bottom panel of **Table 12**). While given the complex payment structure for media rights (see Annexe 5 for details) it is hard to attribute a particular proportion of media, sponsorship and advertising income to AWTs,[50] we use the proportion of races run on AWTs to apportion aggregate media, sponsorship and advertising income to AWTs.[51] This increases the value of revenues for netting and changes the net common interest calculation as shown in **Table 14**.

Table 14. Net common interest cost estimates, Scenario A, net of apportioned media, sponsorship and advertising income estimates

£m	2012	2013	2014
Total costs	50.5	49.5	52.0
Selected revenues (inc. media, sponsorship and advertising revenue from betting)	39.5	44.2	41.6
Net cost (also netting media and sponsorship revenue from betting)	**11.0**	**5.2**	**10.4**

Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources

As noted above, Scenario A is likely to be a low estimate of Category 1 common interest costs. This is because other types of fixtures in addition to AWT races could also differ in scale without off-course betting, incurring costs in the common interest. For example, mid-week, winter fixtures are likely to attract low attendance and could therefore be category 1 common interest activities. The data do not allow us to identify these races and the corresponding costs and

50 LBOs purchase packages of content covering a range of races and fixtures, rather than paying race-by-race or fixture-by-fixture. The package deals may not reflect the underlying willingness of betting to pay for content for individual races.

51 To the extent that media pricing includes a significant flat per-race or per-fixture component this may not be a bad approximation.

revenues. At the same time, some races on AWTs may be mutually beneficial, so should be considered in Category 2 of the common interest. A more granular analysis using race-by-race data on attendance and betting turnover could allow for a finer consideration of this Scenario than was possible with the information available to us.

The proportion of races that currently receive fixture incentive payments from the HBLB gives an indication of the proportion of turf fixtures that might fall into category 1. Fixture incentive payments, while not based on analysis of the common interest, aim to incentivise racecourses to put on races to ensure a programme of fixtures that will maximise betting turnover on horseracing. This programme is based on HBLB's analysis of data provided by some bookmakers eligible to pay the Statutory Levy, and fixture payments have been significantly reduced in recent years. Currently, fixture incentive payments are concentrated in months with lower racecourse attendance and where risks of abandoning fixtures due to bad weather are higher. Under this system, in 2014 the HBLB budgeted to make fixture incentive payments on 24% of scheduled fixtures (35% of scheduled AWT fixtures and 21% of scheduled turf fixtures). This gives an indication of the proportion of turf fixtures that could potentially be considered as falling within our definition of category 1 common interest activities.

Scenario B – competitive races

This scenario attempts to identify races that are particularly attractive to the betting sector, some of which are also attractive to racing by using races defined as competitive. We define competitive races as races that are either a handicap or pattern race with a minimum field size (we consider minimums of both 6 and 8 runners within this scenario). This definition is based on evidence on the relationship between these characteristics and betting activity.

We estimate the proportion of races that meet certain criteria and apply this proportion to the relevant costs of racing to estimate the costs associated with putting on these races. We do this based on types of races and field sizes; our assumptions are in Annexe 8. The ideal way to carry out this estimation would be to use data on betting turnover by race to identify the races that generate the most revenue. The costs associated with putting on these races could then be allocated to the common interest. Lacking data that specifically identifies betting turnover by race, we instead employ the approach described.

We only look here at races that are mutually beneficial in the short term, i.e. those races that generate more betting turnover, rather than developmental races that are important for the longer-term sustainability of the racing industry.

Discussions with betting operators, and analysis provided by the HBLB, revealed a general consensus that the races that are the most attractive for the betting industry are those that are most competitive. Handicap and pattern[52] races were identified as being particularly competitive: handicap races because horses are allocated by weight according to their previous form in order to even out the performance of horses of differing abilities, and pattern races because they are at the top level of the sport. The betting industry also pointed out that large field sizes are needed in order for races to be an attractive betting product. As described above, evidence points to six or eight runners as the key minimum field sizes; both figures were raised in our qualitative discussions with stakeholders.

There are a wide range of other factors that influence the betting turnover that races generate. For example, the time of day and the day of the week on which a race is held both affect how attractive the race is as a betting product. However, we consider these factors to be less relevant to this analysis because, for example, while Saturday races do tend to generate more betting turnover than Sunday races, this does not mean that Sunday races are not in the interests of betting. Some betting operators emphasised the importance of having a consistent betting product that is available for people to bet on as regularly as possible. Therefore, while lack of competitiveness in races damages the consistency of the betting product, the timing of races is a separate issue.

Using a definition of handicap and pattern races with at least six runners, we find 55% of costs are deemed in the common interest on average across 2012 to 2014. This is based on our finding that 55% of races have at least six runners, which we use to apportion costs by assuming that 55% of costs are associated with putting on these races, and in the common interest. Our estimates of gross common interest costs are in **Table 15**.

To estimate net common interest costs, we use the same approach described for Scenario A. The relevant apportioned revenues are shown in **Table 16**.

52 Group (groups 1, 2 and 3) and listed races, which are the races that the best horses compete for.

Table 15. Gross common interest costs: Scenario B (competitive races)

£m	2012		2013		2014	
	Common	Non	Common	Non	Common	Non
Prize money	53.4	44.4	62.9	51.3	68.4	54.6
Raceday costs	54.3	45.2	58.6	47.8	68.8	55.0
Other staff costs	18.5	15.4	19.7	16.0	22.1	17.7
Catering	42.0	35.0	44.2	36.0	45.7	36.5
Administrative costs	22.7	18.9	20.0	16.3	20.2	16.1
Establishment costs	28.1	23.4	29.1	23.7	33.5	26.7
Other	7.3	6.1	7.4	6.0	7.9	6.3
Total	**226.4**	**188.3**	**242.1**	**197.2**	**266.5**	**212.9**

Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources

Table 16. Relevant apportioned revenues, Scenario B

£m	2012	2013	2014
Non-betting revenues for stage 1 netting			
General admission	46.3	48.5	52.3
Catering	54.6	57.7	61.0
On-course betting	7.5	6.4	6.8
Sponsorship, advertising (non-betting sources only)	6.9	9.0	10.6
Hospitality	3.6	3.4	3.3
Other raceday income	18.7	18.7	16.6
Other fixed racing income	10.2	11.7	13.3
Total	**147.9**	**155.3**	**163.9**
Revenues from betting for stage 2 netting			
Media rights	49.0	64.0	71.0
Sponsorship, advertising (betting sources only)	6.2	8.1	9.5
Grand total	**203.1**	**227.4**	**244.4**

Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources

Our estimated net common interest cost is £102.6 million in 2014 (see **Table 17**). Alternatively, if media income and advertising and sponsorship income from betting are also netted off, this produces a lower estimate of common interest costs of £22.1 million in 2014.

We stress some conceptual differences between the Scenarios as far as they conceptualise the different Categories of common interest activities described above. Category 1 costs (which Scenario A illustrates) should, in principle, be fully compensated by betting once relevant revenues that racing can raise have been netted off as these are activities which are put on largely for the benefit of betting. The extent to which costs illustrated by Scenario B are funded by betting would depend on some estimate of the net costs, but a range of outcomes would be possible.

Table 17. Net common interest cost estimates, Scenario B

£m	2012	2013	2014
Total costs	226.4	242.1	266.5
Selected revenues (non-betting racing revenues only)	147.9	155.3	163.9
Selected revenues (inc. media, sponsorship and advertising revenue from betting)	203.1	227.4	244.4
Net cost (only netting non-betting revenues)	**78.5**	**86.7**	**102.6**
Net cost (also netting media and sponsorship revenue from betting)	**23.3**	**14.7**	**22.1**

Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources

There are other ways to determine the competitiveness of races which could be used to estimate common interest costs. For example, a competitive race with well-matched horses would have similar odds across horses. If a race has an odds-on favourite, the favourite is more likely to win than it is to lose, and the race can be considered uncompetitive. Data from the BHA shows that 84.4% of races in 2014 did not have an odds-on favourite.[53] To use this as a measure of the

[53] BHA Racing Data Pack, 2015, p11. http://www.britishhorseracing.com/wp-content/uploads/2015/04/Full-Year-Data-Pack-2015v2.pdf

proportion of competitive races, we would need to combine it with field size data to determine what proportion of races do not have a prohibitive favourite and have a sufficiently large field size to make the race an attractive betting proposition. However, we are not able to do this because a race having an odds-on favourite is likely to be negatively correlated with field sizes, so the two figures are not independent and cannot be combined. However, more detailed data on odds and field sizes by race would allow this type of analysis to be carried out.

Exploring efficiency gains

Ideally, only the most "efficient" costs associated with running races would be allocated to the common interest. It is possible that fixtures could be run more efficiently, using fewer courses to fuller capacity. Still, restrictions such as turf maintenance mean that courses cannot run more than a certain number of fixtures per year. To explore the potential size of efficient costs, we have estimated what percentage of fixed costs could potentially be avoided by running more fixtures per course (first assuming a maximum of 20 fixtures per course per year, which implies courses are currently 96% efficient; then a maximum of 25 which implies courses are currently 81% efficient), thus allowing the programme of racing which satisfies the needs of the betting industry to be run on fewer courses.[54] We present estimates below, again netting off first non-betting racing revenues only, then also netting off revenues from betting.

Using these assumptions, we find estimates of net common interest costs fall to £99.5 million and £86.9 million respectively in 2014 if commercial revenues from betting are not netted off. If commercial revenues from betting are netted off, the net common interest costs become £18.9 million and £6.3 million respectively (see **Table 18** and **Table 19**). These estimates should be taken as indicative only. In practice, racing costs are also affected by the spatial distribution of racecourses: a smaller number of courses may increase travel costs on average, dis-incentivising owners from entering their horses into races. Similarly, racing income is also affected by the location of racecourses, so reduced costs associated with a smaller number of courses may also result in reduced income form attendance, for example due to increased travel times reducing attendance.

54 These are illustrative scenario figures; we do not consider the possible wider economic and social implications of a number of courses being effectively closed.

Table 18. Net common interest cost estimates, Scenario B, 20 fixtures per course p.a.

£m	2012	2013	2014
Total costs	223.5	239.2	263.4
Selected revenues (non-betting racing revenues only)	147.9	155.3	163.9
Selected revenues (inc. media, sponsorship and advertising revenue from betting)	203.1	227.4	244.4
Net cost (only netting non-betting revenues)	**75.6**	**83.8**	**99.5**
Net cost (also netting media and sponsorship revenue from betting)	**20.4**	**11.8**	**18.9**

Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources

Table 19. Net common interest cost estimates, Scenario B, 25 fixtures per course p.a.

£m	2012	2013	2014
Total costs	211.9	227.7	250.8
Selected revenues (non-betting racing revenues only)	147.9	155.3	163.9
Selected revenues (inc. media, sponsorship and advertising revenue from betting	203.1	227.4	244.4
Net cost (only netting non-betting revenues)	**64.1**	**72.3**	**86.9**
Net cost (also netting media and sponsorship revenue from betting)	**8.8**	**0.3**	**6.3**

Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources

Exploring a higher field size threshold

Six runners is often considered as the threshold below which races are "service failures", and analysis by the HBLB has shown that the largest jump in betting GGY occurs between races with five and six runners. However, some betting operators considered eight runners to be the threshold for a race that makes a

good betting product. We therefore here consider the impact of defining competitive races as handicaps and pattern races with eight or more runners.

In this variant, a smaller proportion of races meet the criteria for competitive races (42.2% in 2012, 40.6% in 2013 and 38.8% in 2014).[55]. This means that a smaller proportion of costs are allocated to the common interest. The net common interest cost estimate in 2014 under this definition has fallen to £72m if revenues from commercial arrangements are excluded, or £15m if these revenues are netted off (see **Table 20**).

Table 20. Net common interest cost estimates, Scenario B, associated with handicap and pattern races with eight or more runners

£m	2012	2013	2014
Total costs	175.2	178.2	185.9
Selected revenues (non-betting racing revenues only)	114.4	114.4	114.3
Selected revenues (inc. media, sponsorship and advertising revenue from betting	157.2	167.4	170.5
Net cost (only netting non-betting revenues)	**60.7**	**63.8**	**71.6**
Net cost (also netting media and sponsorship revenue from betting)	**18.0**	**10.8**	**15.4**

Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources

4.3 Summary of estimates

Our various estimates of net common interest costs in the Scenarios considered are summarised in **Table 21** below.

[55] The decline over time is driven by a reduction in average field sizes, offset in part by an increased proportion of handicap and pattern races.

Table 21. Summary of scenario estimates, net common interest costs, £ million, 2014

£ million	Gross cost	Net cost (netting off only non-betting racing revenues)	Net cost (also netting media and sponsorship revenue from betting)
Scenario A: All Weather Tracks			
Main estimate	52.0	38.3	10.4
Scenario B: Competitive races			
Main estimate (6+ field size)	266.5	102.6	22.1
Efficiency scenario (20 fixtures)	263.4	99.5	18.9
Efficiency scenario (25 fixtures)	250.8	86.9	6.3
Larger field size (8+) scenario	185.9	71.6	15.4

Source: Frontier Economics.

Common interest cost estimates

5 Future trends in horseracing and betting

This Section explores future trends in horseracing and betting which could affect costs and revenues in the horseracing sector over the next three years, drawing largely on stakeholder views from across the racing and betting industries. We find that a number of demand and supply side developments are expected in the sector. Significant uncertainties were raised over future media arrangements, trends in horserace betting activity, and the replacement of the Levy.

5.1 Demand side trends

- **Changes in media arrangements.** In the near term, stakeholders expected changes in media payments from racing to betting, and reductions in the 'leakage' of media payments outside the horseracing sector, as a result of new media deals being made. For example, RMG and SIS have agreed a five-year deal regarding provision of media to LBOs, taking effect from 2018. This is expected to reduce media costs to LBOs, while at the same time increasing the amount received by racecourses and transferring risk such that, if LBO numbers fall below a certain threshold in future, payments to racecourses for media rights will reduce.[56] Some stakeholders also anticipated a trend towards betting operators being more selective in their purchase and use of horseracing media in future, for example moving towards broadcasting a subset of British horseraces in LBOs.

- **Uncertainty over trends in horserace betting behaviour off course.** As a sports betting product, stakeholders expected horseracing to show a relative decline (i.e. compared to other fast growing sports betting products), albeit against a backdrop of increasing attendance at racecourses. As discussed above, the overall trend in betting on British horseracing is not clear, given the limited time series of publicly available data on remote horserace betting. In addition, it is not clear whether increasing attendance at horseraces is likely to result in increased off course betting.

- **Uncertainty over future Levy contributions.** Linked to uncertainty over trends in off-course betting behaviour, and the likely structure and size of contributions specified under the new model, there is significant uncertainty over future Levy contributions.

56 http://www.racecoursemediagroup.com/news/rmg-and-sis-agree-new-five-year-deal-for-pictures-and-data-for-bookmakers/

- **Continued shift in channels used for betting.** Stakeholders expected consumers to continue shifting towards using online betting, and within this, to continue moving to different channels, for example from desktop to mobile. One stakeholder noted that the shift towards mobile betting might have been relatively slow in horseracing, reflecting the age profile of horserace betting consumers.

- **Potential opening of new international markets to betting on British horseracing.** One stakeholder noted that a major potential growth opportunity is in new markets for betting on Great Britain horseracing internationally opening up. This could result in increased income to the horseracing sector, for example through sales of media rights.

5.2 Supply side trends

- **Further innovation in horseracing on-course.** A number of stakeholders referred to recent innovations in the types of racing products offered by racecourses to attract higher horserace attendance and increase returns from horseracing. These were expected to continue. For example:
  - evening races combined with a concert, to attract an audience that may not attend for horseraces alone;
  - niche or novelty horseracing products, for example Shire horse racing,[57] which may similarly attract a new audience to racecourses; and
  - using pricing to attract particular groups, for example offering free racecourse entry for children, to encourage families to attend.

- **Further diversification by racecourses.** In addition to developing new horseracing products, many racecourses have diversified their activity to increase returns despite limitations on the number of races courses are able to host each year (e.g. as a result of weather or the time required between races to return a course to the required condition). Examples of diversification include developing hotels and conference facilities, or offering antiques fairs and other racing events (e.g. the Red Bull Air Race at Ascot). This trend is also expected to continue, and could reduce reliance by racecourses on off-course betting activity.

- **Increasing use of all-weather tracks.** The need for horseracing to provide a reliable and attractive betting product is reflected in the growth of all-

57 http://www.lingfieldpark.co.uk/fixtures/saturday-evening-raceday/

weather racing. Newcastle Racecourse has been given approval to hold all-weather racing, which is likely to result in a further shift towards all weather from turf racing, albeit from a low level. 307 fixtures were programmed for all-weather tracks in 2015, compared to 575 flat turf fixtures, and 1,482 fixtures overall.[58]

- **Risk of owner withdrawal, particularly at the higher end**. As described in Section 2.3, quantitative and qualitative evidence suggests that prize money trends do have some influence on owner incentives to enter and remain in racing, though the precise influence is hard to define precisely. Some owner stakeholders we spoke with also suggested there were other risks which could see rationalisation in racing, particularly at the top end of the sport, both in response to prize money and other factors. For example, the growth of racing in other jurisdictions including Australia, the Middle East and Far East, was leading to increased competition for where wealthy owners choose to purchase, train and run horses. While British racing was still seen as prestigious, a key draw for high-end owners to participate, it was not clear that this would remain such a significant advantage in the future. In addition, it was not clear whether future generations of potential high-end foreign owners would see the sport as being as attractive as the current generation, in particular as the growth of the 'business opportunity' around breeding from high quality stallions had become more apparent in recent years rather than people participating largely for the love of the sport.

- **Introducing new horserace betting products.** A number of stakeholders noted that horseracing has been at a disadvantage relative to other sports, as a result of the limited range of horserace betting products available. This could contribute to decreasing popularity of horserace betting compared to betting on other sports. This limitation was also identified as an opportunity for development of new horserace betting products, for example in-race betting. This would require supporting technology to be developed and introduced.

- **Risks around the future number of LBOs.** One stakeholder noted that changes in regulation of fixed odds betting terminals (FOBTs) that limit their use or increase costs associated with them could have knock on effects on horserace betting activity, by impacting on the profitability of individual LBOs. If changes to regulation resulted in a falling number of LBOs, this could in turn result in reduced off-course horserace betting activity, depending on the alternatives available to consumers.

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58 BHA, 2015

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Annexe 1: Our approach

Our approach was based on three distinct phases of analysis, as summarised in **Figure 16**, and described below.

Figure 16. Phases of analysis

	Core elements of approach
Developing the analytical framework	• Drawing on economic theory to define common interest costs and plausible counterfactuals. • Review of relevant literature.
Quantitative and qualitative evidence gathering	• Interviews with betting and racing stakeholders, exploring common interest, current funding, future trends, and differences within the sector. • Collection of quantitative data, including detailed racecourse accounts and data from betting companies.
Income and cost analysis	• Estimates of racing income and costs, including common interest costs. • Estimates of current funding from betting to racing. • Analysis of differences in income and costs by racecourse type.

Source: Frontier Economics

Phase 1 – developing the analytical framework

We drew on economic theory to explore how common interest costs could be defined and how this could be applied to develop estimates or approaches to quantify the common interest costs in British racing.

We also reviewed relevant literature, including international approaches to funding horseracing, the findings of which are presented in Annexe 2.

Phase 2 – quantitative and qualitative evidence gathering

We interviewed a wide range of betting and horseracing industry stakeholders, as set out in **Table 22** below. The interviews explored views on:

- areas of common interest between the horseracing and betting sectors;
- current funding of horseracing, including the contribution from betting
- potential changes in funding and how the sectors would respond to this; and

- future trends in the sectors, and variation across it, e.g. between racecourses of different size or type of betting operator.

Table 22. Stakeholders interviewed

Type	Organisations interviewed
Racecourses	• Arena Racing Company • Jockey Club Racecourses • A small independent course • A large independent course
Betting operators	• Two large terrestrial and online operators • Three online-only operators • Two smaller independent terrestrial operators
Horseracing industry bodies	• The Racecourse Association (RCA) • British Horseracing Authority (BHA) • Racehorse Owners' Association (ROA) • The Horsemen's Group
Betting industry bodies	• The Remote Gambling Association (RGA) • The Association of British Bookmakers (ABB)
Racehorse owners	• A large owner based internationally • A Great Britain-based owner of a small number of horses • Two Great Britain-based owners focused on syndicates
Media companies	• Satellite Information Services (SIS) • Racecourse Media Group (RMG) • At the Races (AtR)
Other stakeholders	• The Horserace Betting Levy Board (HBLB)

Source: Frontier Economics

As well as providing qualitative evidence, a number of stakeholders also provided quantitative data. We obtained detailed racecourse accounts for the past three calendar years, which set out itemised income and costs for individual racecourses. This included a breakdown of marginal income and costs associated

Annexe 1: Our approach

with individual racing days. In addition, we surveyed betting operators on their horserace betting activity, and current financial flows to the horseracing sector.

Phase 3 – income and cost analysis

In the third phase, we aggregated accounting data across racecourses to estimate income and costs from 2012-14, using other data sources (e.g. provided by media companies) to cross-check the figures. Our analysis estimated current funding flows from betting to racecourses, as well as identifying (and quantifying where possible) wider funding of horseracing by the betting sector.

We supplemented racecourse data with more limited data on income and costs associated with racehorse ownership. We identified that the majority of revenue flows into and within the racing sector that would not be included in racecourse data would be provided by owners. This was based on stakeholder discussions and the evidence review. Owner spending includes capital spend on horse purchase and the costs of owning and training horses on an ongoing basis. Given a lack of microdata on ownership costs, we relied on previous estimates, updated to account for best estimates of cost inflation and changes in the number of horses owned.

Based on our analytical framework, we estimated costs to racecourses that could be considered in the common interest with betting. This includes highlighting areas where there are open questions about common interest.

Finally, we matched the accounting data for individual racecourses with data on course characteristics, to highlight how income and costs differ across racecourses depending on aspects such as quality or course type. This supplemented qualitative insights provided in the stakeholder interviews.

Annexe 2: International models for the funding of horseracing

The relationship between racing and betting industries varies significantly across countries. Funding flows from betting operators to the racing industry occur via various channels and in differing quantities. The returns to racehorse owners in different countries can give some indication of the comparative flows from betting to racing in these countries.

Table 23 below gives a sense of the returns in a number of countries, based on 2008 data. It also shows whether horserace betting in each country is mainly through a totalisator board or through bookmakers. In totalisator (or tote) betting, all wagers placed on a certain race are pooled. The tote operator takes a share of this, and the remaining pool is shared out equally among the winners. The odds are therefore not known until after all bets have been taken and returns calculated, unlike fixed-odds betting where the odds are agreed when the bet is placed. Unlike private bookmakers, most totalisator boards are, or were originally, government owned. They tended to exist where other types of betting were illegal. Profits would generally be returned to the racing industry.

The table shows that countries where totalisator betting makes up a substantial proportion of betting tend to see higher returns to owners. Countries where betting is totalisator only tend to have heavily regulated gambling sectors. For example, in Hong Kong, betting with a bookmaker or anywhere other than one of a limited number of authorised gambling establishments is illegal. Gambling is banned in Japan, with a few exceptions including horse racing and the lottery. Legalised gambling in these countries is generally allowed as a source of income for governments, and this partly explains the higher returns for the horseracing industry in these countries.

Table 23. Returns to racehorse owners by country and betting model (2008)

Returns to owners	Country	Betting model
100% +	Hong Kong	Totalisator only
	Singapore	Totalisator only
60% - 100%	Japan	Totalisator only
45% - 60%	France	Totalisator only
	USA	Totalisator only
	Australia	Mainly totalisator based
	South Africa	Mainly totalisator based
< 30%	Ireland	Mainly bookmaker based
	Germany	Mainly bookmaker based
	Britain	Mainly bookmaker based

Source: Adapted from Racing NSW CEO Presentation to 32nd Asian Racing Conference, Tokyo 2008[59]

France

The online horse-race betting industry was opened to competition and regulation on 12 May 2010. This put an end to the monopoly of horse-race betting outside racecourses that was until then held by the PMU (Pari Mutuel Urbain), formed by a group of horse racing companies.

The levy on online horse-racing betting was introduced to ensure that the opening of the online gambling industry to competition would not threaten the revenues and sustainability of the racing industry. Common interest costs in France were estimated on the basis of 2010 data, which spans the period immediately preceding and following the opening of the online betting market in France to competition.

The key features of the new French model are:

1. Operators pay a rate based on a set formula;

[59] http://www.pc.gov.au/inquiries/completed/gambling-2009/submissions/sub213.pdf, p26

2. The formula is based on the common interest that the PMU and competing operators of online horserace betting have in the organisation of races; and
3. It includes measures to ensure no excessive increase in common interest costs. The measures taken include placing the horse racing companies "under the strict financial control of the State, and "regulatory control by the Court of Auditors of all beneficiaries of parafiscal levies". The Commission will also monitor the trend in common interest costs.

The amount of the levy is calculated by calculating the total common interest costs (as broken down in **Table 24** below), then deducting the revenues of the racing companies.

Table 24. Common interest costs identified in the French decision

Cost category	Quantum in 2010	Description
Incentives	EUR 493m 65% common interest	Premiums and allowances to breeders, owners and jockeys
Organisation costs of the parent companies	Redacted x% common interest	Head office running costs, staff and marketing costs, depreciation costs associated with race courses
Organisation costs of the provincial companies	Redacted x% common interest	Only costs connected with premium races organised by 49 provincial racing companies are included as common interest
Recording and broadcasting races	Redacted 100% common interest	Video feeds of only premium races
The fight against doping	Redacted 100% common interest	Concerning premium races only
Training and social welfare	Redacted 100% common interest	Training staff (the proportion of premium races is used to determine the percentage of common interest costs

Source: Commission decision (2013)

The following calculation is then used:

$$Levy\ (\max) = \frac{Common\ interest\ costs\ (2\ years\ prior)}{Horserace\ betting\ stakes\ (2\ years\ prior)}$$

Annexe 2: International models for the funding of horseracing

The horserace betting stakes in the denominator include stakes of both online and terrestrial betting operators.

Australia

In 2009, flows of funding from the betting industry made up 65 to 70% of Australian horse racing funding.[60] The racing industry of each State has traditionally derived the majority of its funding from state-owned monopoly off-course totalisator operators (Totalisator Agency Boards, or TABs), introduced by State Governments in the 1960s. Off-course totalisators generated significant financial flows to the racing industry.

The totalisator operators have been gradually privatised, but still play a major role in the transfer of revenue from betting to racing. This occurs via commercial agreements in place between the racing industry and the TAB of each state. These agreements generally require racing to run at least a minimum number of fixtures each year. TABs are required to conduct betting on at least these races and to pay fees to the racing industry. However, the growth of corporate bookmakers and new betting offerings, both online and on a wider range of products, routed an increasing share of levy income away from channels that were traditionally levied.

In 2005 Victoria adopted race fields legislation. By 2008 all Australian states had implemented similar legislation. [61] Race fields legislation prohibits the publication of race fields data (data on runners and riders which allows bookmakers to take bets) of a certain state by betting operators unless they have been authorised to do so by the relevant Controlling Body in that state. Approval is subject to conditions and fees which vary by state. This prevents betting operators based in other states and overseas from generating revenue from that state's racing industry without contributing to its costs.

As an example, in Western Australia, publishing or use of race fields is subject to payment of a "racing bets levy" to the Gaming and Wagering Commission, and compliance with information requirements related to the integrity and reputation of the racing industry. The money received by the Gaming and Wagering condition in held in the Racing Bets Levy account, and with the exception of an administration fee, is all distributed to registered Western Australian racing clubs.[62]

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60 http://www.pc.gov.au/inquiries/completed/gambling-2009/submissions/sub213.pdf

61 http://www.thoroughbrednews.com.au/australia/Archive.aspx?id=35499&page=762&keyword

62 http://www.rgl.wa.gov.au/racing/wa-race-fields

Ireland

The betting industry in Ireland contributes financially to the horseracing sector through an off-course betting duty of 1% of licensed off-course betting income. This encompasses all sports betting, not just horseracing and greyhound racing.[63] The Irish Exchequer transfers receipts from this tax to the Horse and Greyhound Racing Fund to distribute for the development of horseracing and greyhound racing. The amount transferred is equivalent to the revenue from excise duty on off-course betting in the preceding year, or the amount in the year 2000 adjusted with reference to the Consumer Price index, whichever is greater. 80% of this funding is allocated to Horse Racing Ireland, and the remaining 20% going to Bord na gCon (the greyhound racing body).[64]

An additional subsidy has been provided by the Government since 2003, and the limit on the size of the fund provided to the racing sectors by Government has been increased a number of times. Substantial decreases in betting duty receipts over time resulted in an increasing subsidy from the Government, and questions over the value for money of this subsidy.[65] To illustrate the scale of the subsidy, between 2002 and 2012, the Government contributed €727.9 million to the racing sectors, of which €462.3 million was from hypothecated betting duties (i.e. an indirect contribution from the betting industry), and the remaining €265.6 million represented a subsidy from general taxation. To address the shortfall, betting duty was extended to include online betting in the Betting (Amendment) Bill 2013.

Uses of funding from betting duties by the racing sectors have included prize funds, capital investment to support growth in racing, and meeting administration and regulatory costs.[66]

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63 Unless otherwise indicated, this section draws on Houses of the Oireachtas, Joint Committee on Agriculture, Food and the Marine Report on the General Scheme of the Horse Racing Ireland (Amendment) Bill 2014

64 A minimum level of annual funding is ensured by the provision that the Horse and Greyhound Racing Fund receives the greater of the revenue from off-course betting duty in (i) the preceding year, or (ii) in 2000, uprated by the Consumer Price Index.

65 See discussion in Houses of the Oireachtas, Joint Committee on Agriculture, Food and the Marine Report on the General Scheme of the Horse Racing Ireland (Amendment) Bill 2014

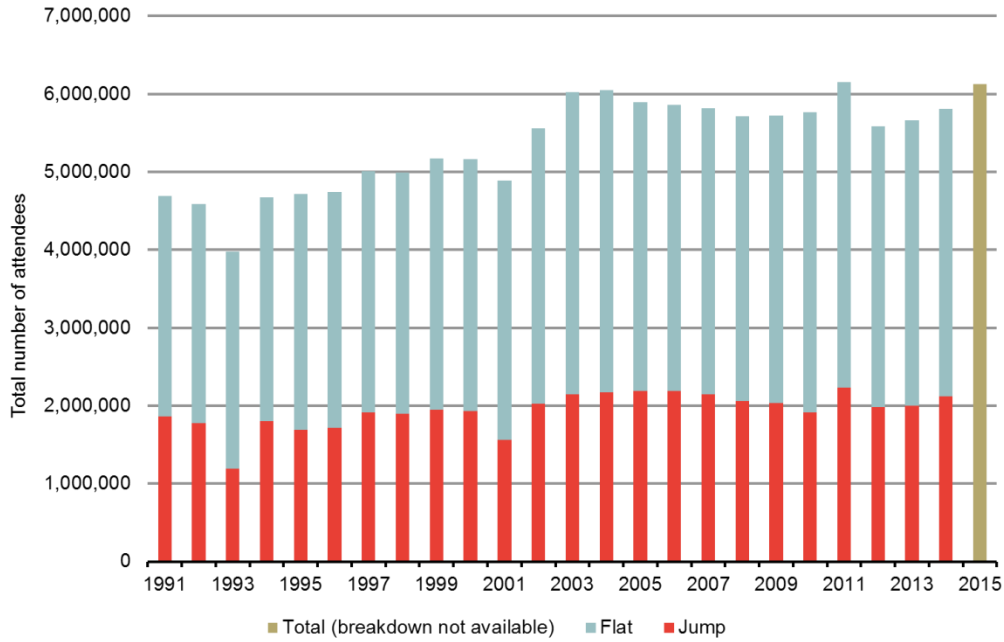
66 Report of the Casino Committee, 2008, p. 65, Regulating Gaming in Ireland, available at: http://www.justice.ie/en/JELR/Casino%20(Eng)%20for%20Web.pdf/Files/Casino%20(Eng)%20for%20Web.pdf.

Annexe 2: International models for the funding of horseracing

Annexe 3: Recent trends in horseracing

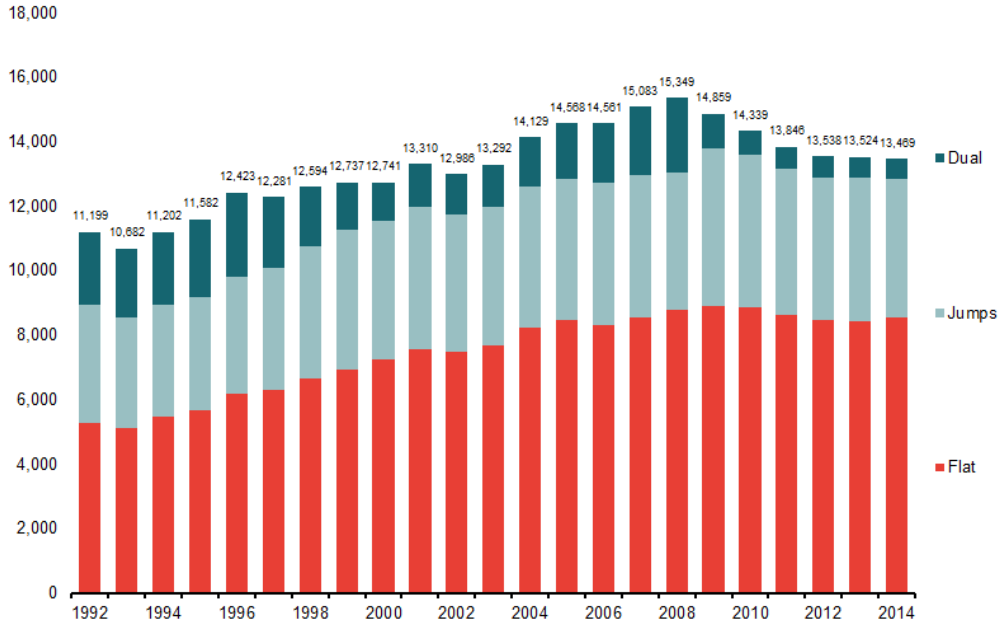
This annexe illustrates recent trends in horseracing, also discussed in Section 1.4.

Figure 17. Attendance at horseraces in Great Britain over time



Source: BHA and ROA, 2015

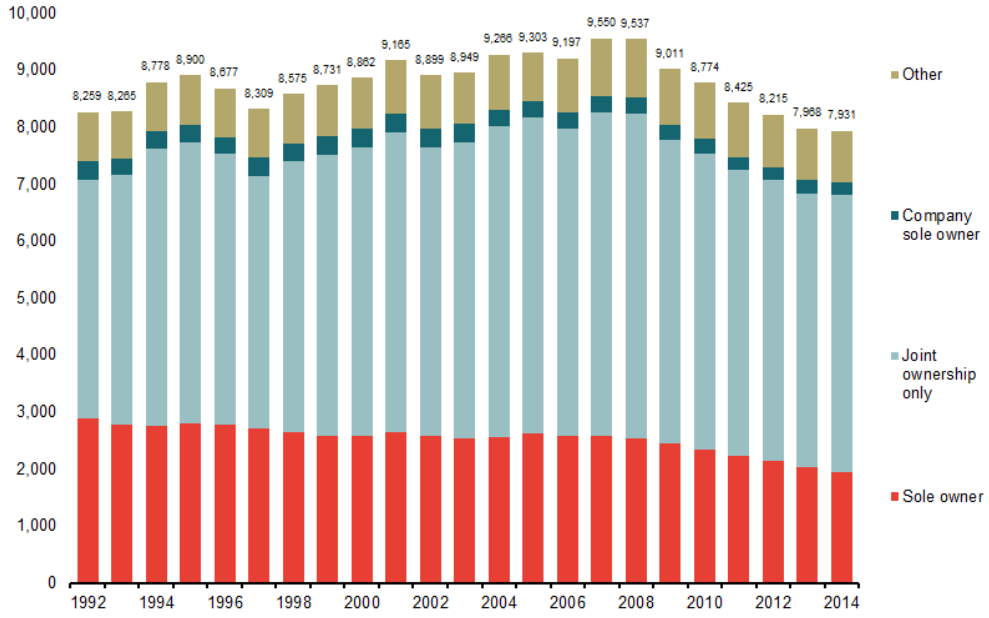
Figure 18. Average numbers of horses in training, 1992 to 2014



Source: Frontier analysis of BHA data

Annexe 3: Recent trends in horseracing

Figure 19. Trends in numbers of people with a horse in training, by type, 1992 to 2014



Source: Frontier analysis of BHA data.

Annexe 4: Methodology

Bookmaker survey

We developed a data template which was rolled out, via industry associations, to online and terrestrial bookmakers taking bets on British racing from British based consumers. A copy of the template is shown below.

Figure 20. Data template for bookmakers

Company:				
		Calendar year ending December		
		2012	2013	2014
Retail (UK LBO)				*If applicable*
		Number	Number	Number
Shop Numbers	*Average number of shops trading*			
		£	£	£
Revenue related to British Horseracing				
GB Horseracing Gross Win	*From all customers*			
GB Horseracing Gross Win	*From GB customers*			
Payments related British Horseracing				
Statutory Levy				
Additional Voluntary Contributions (AVCs)				
Media Payments				
- SIS	*All payments*			
- Turf TV / Other RMG	*GB Racing Only*			
- Other (please specify)	*GB Racing Only*			
Commission & fees paid to courses for on-course betting	*GB Courses Only*			
Race Sponsorship & Hospitality	*GB Racing Only*			
Other advertising / marketing themed around racing	*Please provide best estimates, GB only*			
Other direct contributions (e.g. charitable, grassroots)	*Please provide best estimates, GB only*			

Interactive - Onshore (Online/Mobile/Telephone)				*If applicable*
		£	£	£
Revenue related to British Horseracing				
GB Horseracing Gross Win	*From all customers*			
GB Horseracing Gross Win	*From GB customers*			
Payments related British Horseracing				
Statutory Levy				
Additional Voluntary Contributions (AVCs)				
Streaming	*RUK/ATR/Other charges for GB Racing*			
Commission & fees paid to courses for on-course betting	*GB Courses Only*			
Race Sponsorship & Hospitality	*GB Racing Only*			
Other advertising / marketing themed around racing	*Please provide best estimates, GB only*			
Other direct contributions (e.g. charitable, grassroots)	*Please provide best estimates, GB only*			

Interactive - Offshore (Online/Mobile/Telephone)				*If applicable*
		£	£	£
Revenue related to British Horseracing				
GB Horseracing Gross Win	*From all customers*			
GB Horseracing Gross Win	*From GB customers*			
Payments related British Horseracing				
Levy: Additional Voluntary Contributions (AVCs)				
Streaming	*RUK/ATR/Other charges for GB Racing*			
Commission & fees paid to courses for on-course betting	*GB Courses Only*			
Race Sponsorship & Hospitality	*GB Racing Only*			
Other advertising / marketing themed around racing	*Please provide best estimates, GB only*			
Other direct contributions (e.g. charitable, grassroots)	*Please provide best estimates, GB only*			

Other comments
Please complete if you have other comments or observations you wish us to know about, including indirect or support in kind that your company provides to British racing

Source: Frontier Economics

Operators were given two weeks to complete and return the template. We requested data on Gross Gaming Yield (GGY) and payments related to British racing for each of the last three calendar years. Operators were also given free text entry to describe other financial or non-financial contributions they were making to racing.

In total, we received returns from twelve different operators. Data from eleven operators is included in the analysis.[67] This includes data from all of the major high-street bookmakers (who also have an online offering).

Bookmakers operating both terrestrial and remote betting provided data separated by these different channels. In total, eight operators provided data relating to terrestrial betting and eight data relating to remote betting. Of the remote operators, five also had a terrestrial presence and three were online-only.

Gross Gaming Yield (GGY)

A summary of the GGY figures by operator type and year is given below.[68]

Table 25. GGY from British horseracing provided by operators, by year and type

Type	Number of operators	2012 (£m)	2013 (£m)	2014 (£m)
Terrestrial	8	513.1	515.3	458.5
Remote	8	226.9	263.8	267.9
ALL	**11**	**740.0**	**779.1**	**726.4**

Source: Frontier Economics analysis of bookmaker returns. Note: Five operators provided figures for both terrestrial and online betting, so the number of operators does not sum to the 'ALL' figure. Our sample comprises three online-only operators, three remote-only operators and five who have both.

There is no clear trend in the GGY figures over time (though these can be affected not only by the quantity of gambling but also the results of individual races affecting operator margins in a given period). However there is a shift from terrestrial to remote. Among the operators in our sample, 82% of GGY was from terrestrial betting on racing in 2012, 80% in 2013 and 78% in 2014.

Contributions to British racing

Operators were asked to provide their best estimates of their contribution to British racing through the following channels:

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[67] One operator (a small remote operator) provided data for only one year (2014) and was excluded. Their reported GGY for 2014 amounted to less than 0.1% of the combined remote GGY reported by the other operators included in the analysis.

[68] We asked operators to provide data on a calendar year basis for 2012, 2013 and 2014. In practice, some operators reported data on a different basis (7 operators provided data on a calendar year basis, 3 on a financial year basis and 1 on a year to July basis). Given the relatively short, aggregated time series of data available, we have assumed that all data are on a calendar year basis which is reasonable if GGY and payments are roughly consistent throughout the year.

- Statutory Levy payments (terrestrial and onshore remote);
- Voluntary Levy payments;
- Payments to media companies (SIS and Turf TV/RMG) for pictures, data and streaming services;[69]
- Commission paid to courses for on-course betting;
- Race sponsorship and hospitality payments;
- Any other direct payments.

Operators were also asked to provide estimates of their wider adverting and marketing spending that was themed around racing. In our qualitative work, some bookmakers had identified this as an indirect contribution to racing if such advertising also encouraged people to attend race meetings.

Much of the data we used to estimate betting contributions to racing was derived from external sources, including media companies and the HBLB, which ensures that the figures reflect total contributions. Where we did not have external sources to rely on, we used the bookmaker data. We believe that our figures look likely to capture a substantial majority of contributions from bookmakers to racing, in particular from terrestrial operators. We consider a number of cross checks with external data:

- **Comparing the Levy figures (including voluntary payments) with BHA data on total HBLB income from bookmakers**.[70] In 2012-13, reported Levy income from bookmakers (including non-statutory contributions) is £74.4m and in 2013-14 it is £78.1m. Our figures suggest total Levy income (including non-statutory contributions) of £70.3m in 2012 and £73.7m in 2013.

- **Comparing GGY figures with Gambling Commission statistics**.[71] Data from the Gambling Commission for terrestrial GGY from racing gives figures of £696m for 2012-13, £678m for 2013-14 and £628m for 2014-15. Our estimates for 2012, 2013 and 2014 are £513m, £515m and £458m respectively.

Table 26 below summarises the total direct contributions to British racing reported by the operators in our sample over the last three years.[72]

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[69] Not all of these payments will flow directly into British racing, as some will 'leak' in terms of profits taken by media companies.

[70] http://www.britishhorseracing.com/wp-content/uploads/2014/08/Racing-stats-2014.pdf, page F1.

[71] http://www.gamblingcommission.gov.uk/docs/Industry-Statistics-April-2008-to-March-2015.xlsx

[72] Operators were asked to provide total payments made to SIS, which are for a package of coverage which includes not just British racing but also racing from other countries and virtual racing. We used data

Table 26. Estimated direct bookmaker costs related to British racing, by year and type

£m	2012	2013	2014
Terrestrial	**174.1**	**191.7**	**196.9**
Levy (including voluntary payments)	*57.0*	*58.1*	*53.1*
Media and streaming	*104.2*	*118.6*	*127.9*
On-course commission	*5.0*	*5.8*	*6.0*
Sponsorship, hospitality & other direct payments	*7.9*	*9.2*	*9.8*
Remote	**27.6**	**33.3**	**35.8**
Levy (including voluntary payments)	*13.3*	*15.5*	*14.0*
Media and streaming	*11.1*	*13.4*	*16.5*
Sponsorship, hospitality & other direct payments	*3.2*	*4.4*	*5.2*
TOTAL	**201.7**	**225.0**	**232.6**

Source: Frontier Economics analysis of bookmaker returns. Note: Figures are from 11 bookmakers so not reflective of all betting activity. SIS media payments apportioned to British racing based on list price data from SIS.

Between 2012 and 2014, overall reported contributions are estimated to have increased by 15% (13% terrestrial, 30% remote). The largest increases were seen for sponsorship and hospitality (up 36% overall, 24% terrestrial and 64% remote). Media costs including streaming rose 25% over the period (23% terrestrial and 49% remote).

Spending on advertising themed around racing was reported to be £3.5 million in 2012, £5.1 million in 2013 and £13.0 million in 2014. The increase came largely from remote operators (£1.8m, £3.0m and £10.0m reported in each year) but there was also a rise in reported terrestrial spend (£1.8m, £2.1m and £2.9m). It is of course hard to quantify the extent to which such advertising translates into financial benefit for the racing industry, or whether all operators reported this spending on a consistent basis; however there does appear to have been an increase in such spending over time.

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received from SIS for 2015 relating to the components of the package price to apportion the total SIS spending to British racing.

Deriving the costs of ownership

Section 2.3 contained our estimates of the flows from owners into the British racing industry. Here we explain the assumptions underlying those figures.

For a number of categories, reasonable estimates of aggregate owner running cost contributions are available from external sources:

- **Registration fees** and **race entry fees** are available directly from the BHA (race entry fees are owner contributions to prize money).
- **Jockey fees** are estimated based on the number of runners in each code (jump/flat racing) taken from the BHA and the standard jockey fee for a runner. Some owners pay retainer fees to the very best jockeys, but these are unlikely to make material differences to the estimates. The relevant jockey fee calculations are detailed in **Table 27**.

Table 27. Calculations for jockey fee contributions

	2013		2014	
	Flat	Jump	Flat	Jump
Number of runners	57,526	34,507	56,309	31,222
Standard fee	£115.52	£157.72	£118.29	£161.51
Total (by code)	£6.65m	£5.44m	£6.66m	£5.04m
GRAND TOTAL	**£12.09m**		**£11.70m**	

Source: Frontier calculations based on BHA data

For other cost categories, we make adjustments to the 2012 Deloitte figures in two stages:

- adjusting for changes in the likely *quantity* of racing activity; then
- adjusting for assumed changes in the *price* of the relevant category.

The assumptions and resulting adjustment factors are detailed in **Table 28**.

Table 28. Quantity and price assumptions for owner running cost categories

Category	Quantity adjustment	Price adjustment
Basic training fees **Vets, medical and farriers** **Keep costs**	Change in total horses in training. Scenario for change in total quantity of training/keep and demand for vets. 2013: –0.1%; 2014: –0.4%	Average of all-items CPI inflation and service sector wage inflation. Assumes price reflects labour and other input costs. 2013: +1.9%; 2014: +1.3%
Transport and racing expenses	Change in total number of runners. Category reflects costs of taking a horse to a race. 2013: +2.1%; 2014: –4.9%	Average of all-items CPI inflation and service sector wage inflation. Assumes price reflects labour and other input costs. 2013: +1.9%; 2014: +1.3%
Insurance	Change in total horses in training. 2013: –0.1%; 2014: –0.4%	CPI insurance inflation. 2013: no change; 2014: +2.7%

Source: Frontier calculations based on BHA and ONS data. Note: we spoke with a number of owners to try to get a handle on how costs of ownership may have changed between 2012 and 2014. Although owners agreed that costs had risen there was no clear consensus on the scale of this increase across different cost categories. We therefore relied on ONS estimates of wage and price inflation as a reasonable proxy for cost increases where labour makes up a significant part of the cost base (as in the racing supply chain).

Racecourse costs and revenues

Aggregate estimates

Most of the aggregate cost and revenue data for courses discussed in Section 2 is based on course-level raceday returns provided by the BHA. Almost all courses fill out and submit an annual return to the BHA which includes the following figures:

- Raceday accounts, reporting raceday income and expenditure under a number of categories;
- A profit and loss account directly related to racedays;
- A statement of fixed income;
- A statement of fixed expenditure; and
- Further information on loans and capital grants.

A small number of courses had submitted BHA returns for only one or two years in the period 2012-2014. In these cases, we took a straight line average of their figures to fill in the figures for any missing returns. For the few courses that had not submitted any BHA returns over the three year period, we followed up with these courses separately to collect the necessary data.

In order to reach our aggregate cost and revenue figures, we reviewed and cleaned the data to ensure that categorisation of costs and revenues was broadly consistent across courses, and then aggregated the figures by category.

We also used external data to supplement our estimates. This was for the following items.

- **Media rights income.** We collected data directly from media companies SIS, RMG (including TurfTV) and At The Races, covering their total income for media services relating horseracing in GB, the income from betting companies for media services relating to horseracing in GB, and their payments to GB racecourses and racecourse groups. Where dividends were reported and paid separately, we excluded these from our analysis. This applied only to SIS, and the relevant payments were very small.

- **Sponsorship and advertising.** Figures for sponsorship from betting were taken from our survey of bookmakers, and scaled up to account for the survey coverage. We then used figures from the RCA on the proportion of sponsored races that are sponsored by betting to scale this up to estimate a total sponsorship figure.

- **HBLB funding.** Figures were provided directly by the HBLB. The amount of funding directly to courses is the sum of the HBLB's expenditure on prize money, raceday services, fixture incentives and contributions to aid with the costs of Channel 4 broadcasts (which ended after 2012).

- **Prize money.** These figures were based on publicly available data from the BHA.

- **Catering costs and income.** Catering cost and revenue data were clearly under-reported in the raceday returns. This could be for two reasons. First, many courses and course groups outsource their catering operations or own separate catering companies and so the financial data would not be included in raceday return figures. Several courses confirmed that this was the case. Second, some courses may have categorised catering costs and income within an 'other' line item, and we have no way of being able to determine if this was the case based on the data supplied. We therefore took estimates of racecourse catering costs and revenues for 2012 from Deloitte (2013), and used these as our estimates for that year in the absence of alternative estimates. As for the owner costs above, we then used uprating factors to produce estimates for 2013 and 2014. First, we assumed that both aggregate revenue and costs would rise in line with changes in attendance numbers from year to year, reflecting increases in the quantity of catering supplied (we assume costs are largely variable) and purchased. Second, we assumed that the price of catering to consumers at courses rose in line with the published Consumer Prices Index catering category, reported by ONS. We also assumed that the cost of providing catering services at courses rose in line

with an average of the Producer Prices Index for Food Products, Beverages & Tobacco (including duties) and service sector wage inflation.[73]

Variation by course type

In Section 0 we provide estimates of how the costs and revenues associated with British racing vary by the type of fixture (flat turf, jump turf, all weather) and the quality of course. Here we explain how these splits were derived and provide detailed cost and revenue breakdowns for 2012, 2013 and 2014.

Racecourse quality breakdown. For this breakdown we use the ROA's flat and jumps league tables, which provide a ranking of flat and jumps racecourses respectively, based on average racecourse spending per fixture. We then derived an overall ranking for each racecourse, equal to the course's flat ranking if it only runs flat races, its jumps ranking if it only runs jumps races, or an average of its flat and jumps rankings if it runs both. The courses were then split in thirds based on these rankings, giving a top third of courses, a middle third and a bottom third.

In order to calculate the costs incurred and revenues earned by the top third of courses, the BHA returns were aggregated for only these top 20 courses. The same was done for the middle third and bottom third. Next, where external data were used, we apportioned across the quality groups based on specific assumptions. Media rights, sponsorship and advertising, HBLB funding and prize money were all apportioned by the percentage of fixtures run by courses in each quality band in each year. For example, in 2014, 26% of fixtures were run by the top third of courses. Therefore, we allocated 26% of HBLB funding to top courses. This is not a perfect way of allocating costs and revenues: for example fixtures at the top courses are likely to attract a disproportionately large amount of sponsorship income. Therefore these course breakdowns are only broadly indicative of the split of costs and revenues across courses. External data on catering costs and income are apportioned by admissions income accruing to courses in each quality band, under the assumption that catering costs and income varies with attendance, and in the absence of data on attendance across courses of different quality or on variation in prices/costs by quality.

Fixture type breakdown. Using BHA data, we calculated an average proportion of flat (turf), jump and AWT fixtures at each course in the period 2012 to 2014. Then, to calculate the costs and revenues associated with flat (turf) fixtures, only the relevant percentage of each course's costs and revenues would be aggregated. So if a course, such as Wolverhampton, ran no flat (turf) races, none of its costs

[73] Note that our approach assumes that the catering items are largely missing from the raceday returns rather than being reported in some other category. If some courses have reported catering as an 'other' item, then we will not account for this and so could be slightly overstating total costs and revenues

or revenues would go towards the flat total. Instead, because Wolverhampton runs only AWT races, 100% of its costs and revenues would be included in the AWT total.

As for the racecourse quality breakdown described above, most external data is apportioned by the relevant proportion of fixtures. For example, in 2014 19% of fixtures were run on AWTs, so 19% of HBLB funding would be allocated to AWT. Again, catering costs and income were apportioned by admission income across each fixture type.

Annexe 4: Methodology

Table 29. Estimated costs of racecourses in Great Britain (£ million, nominal), broken down by racecourse quality

Cost category	% split by category (average over 2012-14)			2012			2013			2014		
	TOP	MID	LOW	TOP	MID	LOW	TOP	MID	LOW	TOP	MID	LOW
Prize money	12%	37%	42%	26.8	27.4	43.6	30.7	33.9	49.6	31.4	35.3	56.3
Raceday costs	30%	22%	17%	68.4	17.6	18.6	69.9	19.6	20.9	87.3	20.7	20.0
Other staff costs	8%	8%	9%	16.5	6.2	10.8	18.6	6.6	10.1	21.0	7.7	10.8
Catering	26%	9%	6%	63.9	7.0	6.1	64.8	7.9	7.5	65.7	7.7	8.7
Administrative costs	9%	9%	10%	22.3	6.4	12.4	22.5	7.9	11.5	21.1	8.1	13.0
Establishment costs	12%	11%	12%	29.9	9.1	11.8	28.8	9.1	14.4	33.5	9.9	16.3
Other	2%	4%	4%	5.5	3.3	4.4	5.6	3.4	4.4	5.9	3.7	4.3
Total	100%	100%	100%	233.4	77.0	107.7	240.9	88.5	118.4	265.9	93.1	129.5

Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources

Annexe 4: Methodology

Table 30. Estimated income of racecourses in Great Britain (£ million, nominal), broken down by racecourse quality

Income category	% split by category (average over 2012-14)			2012			2013			2014		
	TOP	MID	LOW	TOP	MID	LOW	TOP	MID	LOW	TOP	MID	LOW
General admission	28%	9%	6%	73.4	8.0	7.1	74.2	9.1	8.6	78.7	9.3	10.4
Catering	31%	10%	7%	83.0	9.0	8.0	84.5	10.4	9.8	87.8	10.3	11.7
On-course betting	3%	3%	1%	8.5	3.6	1.6	7.7	2.1	1.8	8.3	2.1	1.8
Media rights	11%	33%	36%	24.6	25.2	40.0	31.2	34.5	50.4	32.6	36.6	58.5
Sponsorship and advertising	3%	9%	10%	6.6	6.7	10.7	8.3	9.2	13.5	9.2	10.4	16.5
Hospitality	2%	1%	1%	4.6	0.8	1.1	4.9	0.5	0.7	5.3	0.5	0.2
HBLB funding	6%	20%	22%	15.8	16.1	25.6	18.7	20.7	30.2	17.9	20.2	32.2
Other raceday income	7%	7%	2%	19.8	7.7	2.7	18.3	9.1	2.3	19.1	4.2	2.4
Other fixed racing income	4%	2%	7%	8.8	2.2	7.6	10.0	2.4	8.7	10.8	2.3	10.7
Other non-racing op. income	6%	6%	9%	14.6	5.7	9.5	15.2	6.0	13.2	18.9	6.3	13.7
Total	100%	100%	100%	259.7	85.1	113.9	272.9	103.9	139.2	288.5	102.1	158.0

Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources

Annexe 4: Methodology

Table 31. Estimated costs of racecourses in Great Britain (£ million, nominal), broken down by fixture type

Cost category	% split by category (average over 2012-14)			2012			2013			2014		
	FLAT	JUMP	AWT	FLAT	JUMP	AWT	FLAT	JUMP	AWT	FLAT	JUMP	AWT
Prize money	20%	25%	46%	38.8	35.9	23.1	45.8	45.0	23.5	46.2	53.1	23.7
Raceday costs	26%	26%	19%	53.0	42.1	9.5	55.9	45.0	9.6	65.9	53.0	9.0
Other staff costs	8%	8%	8%	15.6	14.0	3.9	16.6	15.4	3.3	18.7	16.4	4.4
Catering	21%	18%	3%	44.4	30.9	1.7	46.1	32.6	1.5	47.1	33.6	1.5
Administrative costs	9%	9%	10%	19.7	16.4	5.1	20.2	17.1	4.7	18.8	17.6	5.8
Establishment costs	13%	11%	10%	27.6	18.0	5.1	28.3	19.2	4.8	32.8	21.6	5.2
Other	3%	3%	4%	5.7	5.5	2.1	5.9	5.3	2.1	6.5	5.1	2.4
Total	100%	100%	100%	204.8	162.7	50.5	218.7	179.6	49.5	236.0	200.4	52.0

Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources

Annexe 4: Methodology

Table 32. Estimated income of racecourses in Great Britain (£ million, nominal), broken down by fixture type

Income category	% split by category (average over 2012-14)			2012			2013			2014		
	FLAT	JUMP	AWT	FLAT	JUMP	AWT	FLAT	JUMP	AWT	FLAT	JUMP	AWT
General admission	22%	19%	3%	51.1	35.5	1.9	52.9	37.4	1.7	56.4	40.2	1.8
Catering	25%	21%	3%	57.7	40.1	2.2	60.2	42.5	1.9	62.9	44.8	2.1
On-course betting	3%	2%	1%	8.2	5.0	0.6	7.2	3.9	0.5	7.7	4.1	0.5
Media rights	18%	22%	37%	35.7	33.0	21.2	46.5	45.7	23.9	48.0	55.2	24.6
Sponsorship and advertising	5%	6%	10%	9.5	8.8	5.7	12.4	12.2	6.4	13.6	15.6	6.9
Hospitality	2%	1%	0%	5.1	1.6	0.0	5.2	0.9	0.0	5.0	0.9	0.0
HBLB funding	11%	13%	22%	22.8	21.1	13.6	27.9	27.4	14.3	26.4	30.4	13.5
Other raceday income	5%	6%	7%	12.7	12.5	5.3	11.3	12.0	6.5	12.5	11.8	1.3
Other fixed racing income	4%	4%	6%	8.0	7.9	2.6	8.5	9.1	3.4	10.4	9.0	4.3
Other non-racing op. income	6%	6%	11%	13.1	11.2	5.5	15.2	11.9	7.3	17.3	13.7	7.9
Total	100%	100%	100%	223.9	176.6	58.6	247.4	203.1	65.8	260.1	225.7	63.0

Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources

Annexe 4: Methodology

Annexe 5: Course cost and revenue category breakdowns

This annexe lists the data sources and the breakdowns of the course cost and revenue categories used in the report.

Cost categories

1. **Prize money** (BHA figures)
2. **Raceday costs** (racecourse BHA returns)
    - Fixture fee costs and other BHA related costs
    - Officials and raceday staff
    - Advertising and promotion
    - Police and security (including CCTV)
    - Medical costs
    - Racecards expenditure
    - Camera patrol and photo finish costs
    - Racing calendar and entries
    - Integrity fees
    - Stables and accommodation
    - Course maintenance and repairs
    - Other miscellaneous costs
3. **Other staff costs** (racecourse BHA returns)
4. **Catering** (Deloitte data for 2012, inflated using racecourse attendance growth, service sector wage inflation and Producer Price Inflation for gross sector output of the food, beverage and tobacco sector to derive 2013 and 2014 figures)
5. **Administrative costs** (racecourse BHA returns)
    - Legal and professional fees, including auditors' fees
    - Advertising and marketing costs
    - Other administrative expenses
6. **Establishment costs** (racecourse BHA returns)
    - Rent, rates and related property costs
    - Maintenance of course, stands, etc.
    - Directors' salaries and fees
    - Group or other charges

- Insurance costs
- Sales and marketing
- Other establishment expenses

7. **Other** (racecourse BHA returns)
   - Depreciation
   - Amortisation
   - Other

Revenue categories

1. **General admission** (racecourse BHA returns)
   - Admissions
   - Annual Members subscription fees
2. **Catering** (Deloitte data for 2012, inflated using racecourse attendance growth and CPI for catering services in the UK to derive 2013 and 2014 figures)
3. **On-course betting** (racecourse BHA returns)
   - Bookmakers' badges
   - LBO and Tote income
   - Other LBO income
4. **Media rights** (data from media companies)
   - SIS, RMG (including TurfTV) and ATR payments to GB racecourses and racecourse groups for media.
5. **Sponsorship and advertising** (racecourse BHA returns)
   - Sponsorship, advertising and promotion income
6. **Hospitality** (racecourse BHA returns)
   - Hospitality income
   - Annual Box rental
7. **HBLB funding** (figures provided by HBLB)
8. **Other raceday income** (racecourse BHA returns)
   - Racecards
   - Other income including share of sales/claims, car parks, trade stands, souvenir shops and other miscellaneous income
9. **Other fixed racing income** (racecourse BHA returns)

Annexe 5: Course cost and revenue category breakdowns

- Club membership
- Others

10. **Other non-racing operating income** (racecourse BHA returns)
    - Other operating income including conferences, golf courses, caravan sites, sale of fixed assets, retail units, room hire, markets, etc.
    - Investment income

Annexe 5: Course cost and revenue category breakdowns

Annexe 6: The media sector

There are three main providers of media services, as follows.

- Racecourse Media Group (RMG) is a holding company owned by 34 racecourses,[74] and holds their interests in[75]:
  - Racing UK: a subscription-based television channel, dedicated to racing broadcasting. It is fully owned by RMG, with profits returned to the racecourses[76];
  - GBI Racing: a joint venture between Racing UK and At The Races. GBI Racing holds exclusive rights to distribute British and Irish racing content to overseas operators[77];
  - Racecourse Data Company: a joint venture with 57 racecourses. RMG is a licensor of pre-race data, which is necessary for watching and betting on races. Data includes final fields, owners, trainers, jockeys, weight, colours and ratings[78];
  - Turf TV: The trading name of Amalgamated Racing Limited (AMRAC). Turf TV is a dedicated television channel that provides pictures and data to over 10,000 betting offices. It has exclusive licenses to broadcast from the 34 RMG courses to betting operators. Turf TV is jointly owned by RMG and Timeweave, a company with investments in a number of businesses.[79]

74 Aintree, Ascot, Ayr, Bangor, Beverley, Carlisle, Cartmel, Catterick Bridge, Cheltenham, Chester, Epsom Downs, Exeter, Goodwood, Hamilton Park, Haydock Park, Huntingdon, Kelso, Kempton Park, Ludlow, Market Rasen, Musselburgh, Newbury, Newmarket, Nottingham, Perth, Pontefract, Redcar, Salisbury, Sandown Park, Thirsk, Warwick, Wetherby, Wincanton and York

75 http://www.racecoursemediagroup.com/about-us/

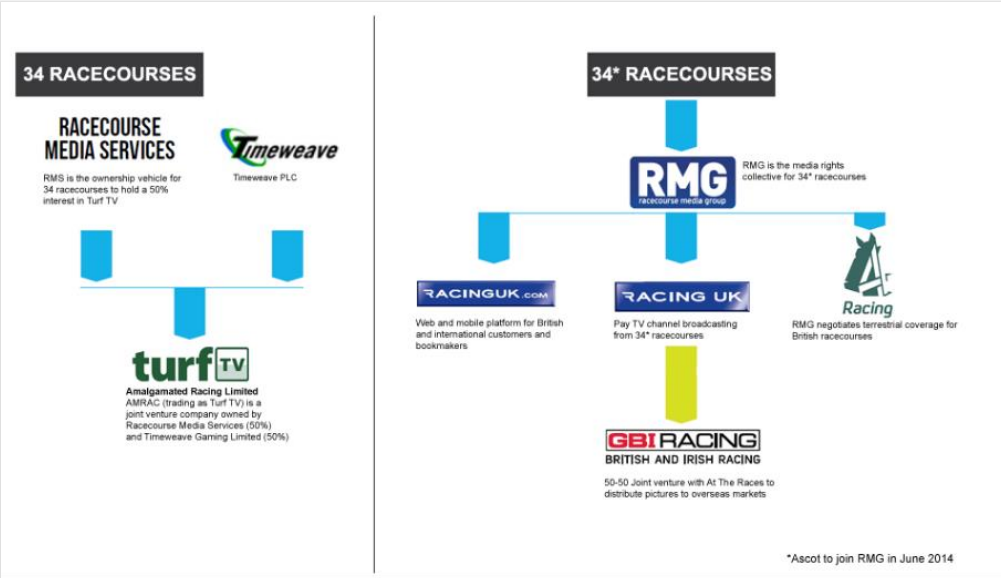
76 http://www.racinguk.com/about-us

77 http://www.racecoursemediagroup.com/gbi-racing/

78 http://racecoursedatacompany.com/

79 http://www.timeweave.com/turftv

Figure 21. RMG company structure



Source: http://www.racecoursemediagroup.com/company-structure/

- At The Races is a free satellite/cable channel, as well as an online platform providing streaming (streaming is charged for). It broadcasts live from 27 British racecourses,[80] as well as some Irish and overseas courses. Its shareholders are:[81]
  - Arena Racing Company: holds 41%;
  - Sky PLC: holds 41%;
  - Plumpton Racecourse Limited: holds 14%; and
  - the remaining 4% held by Ripon Race Company Limited, Northern Racing Limited, Plumpton Racecourse Limited, and Ripon Race Company Limited.

- SIS, Satellite Information Services, provides UK, Irish and overseas horse and greyhound racing content to LBOs.[82] Content includes live pictures, commentary and data. SIS pays racecourses licence fees for content

80 Bath, Brighton, Chepstow, Doncaster, Chelmsford City, Fakenham, Ffos Las, Fontwell, Great Yarmouth, Hexham, Leicester, Lingfield Park, Newcastle, Newton Abbot, Plumpton, Ripon, Sedgefield, Southwell, Stratford, Taunton, Towcester, Uttoxeter, Windsor, Wolverhampton, Worcester.

81 www.duedil.com

82 http://www.sis.tv/products/retail

provided, and also incurs costs capturing media content and distributing it to LBOs. SIS is owned by:

- Ladbrokes PLC: holds 23%;
- Caledonia Investments PLC: holds 23%;
- Alternateport Limited: holds 21%;
- William Hill Organization Limited: holds 19.5%;
- Mr Fred Done (co-owner of Betfred): holds 7.5%;
- Tote Limited: holds 6%; and
- the remaining shares are held by Leicester Racecourse, Bibury Club, Stratford-On-Avon Racecourse, Thirsk Racecourse, Catterick Racecourse and Frontrelay Limited.

Annexe 6: The media sector

Annexe 7: The role of prize money for racehorse owners

Estimates for 2014 suggest that in Britain, total prize money returned to owners is around 25% of the total keep and training cost, a low level by international standards though higher than at any point since 2007.

The Racehorse Owners Association carried out a survey of owners in 2013. Owners were asked a number of questions that shed some light on the importance of prize money in attracting owners into racing and retaining them in the sport. Some insights from the survey include evidence that:

- **Financial opportunities do not seem to be a driver attracting owners into the sport.** Only 3% of owners surveyed noted 'an investment opportunity' as a factor attracting them into ownership. 74% of owners cited the enjoyment of going racing and being part of the 'behind the scenes' of the sport as the most important attraction.

- **However, once in the sport, many owners see low prize money relative to costs as a problem.** Prize money and owner costs were the highest-ranked in a list of ten 'important issues facing racing': 58% of those surveyed ranked prize money as the most significant issue facing racing and 82% ranked it in the top three issues. Only 5% of those surveyed cited 'winning prize money' as the best thing about ownership; 45% cited prize money as the worst thing about being an owner.

- **Among those who said it was likely they would leave the sport, prize money and costs of ownership were they key drivers.** 6% of those surveyed said they did not expect to own a horse in three years' time. 86% of this group said that prize money being too low relative to costs was a factor.

To our knowledge there is no detailed quantitative evidence on why owners have left racing. Drawing on prize money and owner number data from the BHA between 2002 and 2014, we found a strong positive correlation (coefficient +0.91) between real-terms prize money per runner and numbers of owners three years later. The lag between prize money and owner numbers was to allow for adjustment time for owners to exit the sport, though positive correlations were also seen with lags of one (coefficient +0.69) or two (+0.89) years. Of course, these correlations are based on a small number of observations, and do not imply causation (macroeconomic trends could affect both owner numbers and prize money, for example).

Our qualitative interviews with a range of owners (from those involved in syndicates to large international owners) included questions asking why they first came into the sport. Connections to and a love of racing were cited; where prize

money or financial returns were discussed, it was to suggest (from one owner focused on helping put syndicates together) that those coming into the sport were not always aware of the full costs associated with ownership and the low financial returns that could be expected.

The interviews highlighted that returns to owners are variable: an 'average' return of 25% may be higher than the return to the median owner as it was pulled up by the potential for very high returns for a small number of owners, particularly at the top end of the sport. One owner involved with syndicates felt that a 'typical' return for a class 4-5 horse was 10% or less, for example. Returns were also felt to be lower for those owning jumps horses than flat horses; jump horses (who tend to be gelded) also could not be sold as stallions, reducing the opportunity for returns on investment further.

Many of those interviewed noted that there were different motivations for different types of owners. At one end, more 'social' owners were thought to be vulnerable to high rates of churn, getting disillusioned if they had some success in terms of wins or places but did not make back much in terms of prize money as a result, at least to make it financially viable to re-invest in ownership year-on-year. However the opportunities for 'low cost' participation through syndicates were seen as one way to ensure a flow of new owners in, and small increases in prize money could be sufficient to ensure that this kind of owner was motivated to remain. At the top end, 'business-oriented' wealthy owners were seen to participate for the prestige of being in British racing, the opportunity to go to high quality racing festivals and to make returns from high quality stallions; this group was felt to be less motivated by prize money. The biggest threat was seen to be in the middle tier of owners, those who had previously owned two or three horses but now choosing to own only one or exit altogether.[83]

[83] This aligns with evidence in Section 1.4 showing a greater decline in owner numbers for those owning fewer rather than more horses over time.

Annexe 7: The role of prize money for racehorse owners

Annexe 8: Defining competitive races

This annexe details our approach to categorising race types and field sizes as competitive or not.

Race types

Table 33 lists the types of races held on flat and jump tracks.

Table 33. Race types across flat, hurdle and steeplechases

Flat	Jump: hurdle	Jump: steeplechases
Handicaps		
	Novices	Novices
Sellers	Sellers	Sellers
Apprentices	Conditional Jockeys	Conditional Jockeys
Amateurs	Amateurs	Amateurs
Other handicaps	Other handicaps	Other handicaps
Weight for age		
Novices	Novices	Novices
Maidens	Maidens	Maidens
Sellers	Sellers	
Claimers		
Apprentices	Conditional Jockeys	
Amateurs	Amateurs	Amateurs
		Hunters
	National Hunt Flat Races	
Pattern		
Other weight for age	Other weight for age	Other weight for age

Source: BHA British Racing Statistics, 2012-14

Aggregating these race types across flat and jumps, and using statistics reported by the BHA for 2014, gives the race categories and figures reported in **Table 34**.

Table 34. Distribution of races by type in 2014

Race type	Number of races in 2014	% of races in 2014
Handicaps		
Sellers	39	0.4%
Hunters	-	0.0%
Conditional Jockeys	114	1.1%
Novices	380	3.8%
Apprentices	199	2.0%
Amateurs	148	1.5%
Other handicaps	5,592	55.3%
Weight for age		
Conditional Jockeys	24	0.2%
Apprentices	9	0.1%
Amateurs	8	0.1%
Hunters	93	0.9%
Pattern	146	1.4%
Sellers	165	1.6%
Claimers	136	1.3%
Maidens	1,541	15.2%
Novices'	729	7.2%
National Hunt Flat Races	333	3.3%
Other weight for age	449	4.4%
TOTAL	**10,105**	**100.0%**

Source: BHA British Racing Statistics, 2012-14

The main distinction among races is between handicaps and weight for age races. Approximately 60% of races in Britain are handicaps. Handicaps are races where horses carry weight determined by an official BHA handicapper according to their previous form. In weight for age races there is no handicapping based on previous performance, but there may be penalties, for example novices can be given penalties based on previous wins.

Races are then split further into a number of subcategories, which describe either the experience or age of the horses taking part, the jockeys, or other conditions placed on the race.

Races with conditions on horses

Annexe 8: Defining competitive races

- Maiden: for horses that have never won this type of race before (e.g. in a maiden hurdle the horse may have won a flat race previously);
- Novices: for 2 year old horses that have not won a particular type of race before the current season. Penalties apply depending on previous wins.

Races with conditions on jockeys

- Conditional Jockeys (jump) / Apprentices (flat): for apprentice jockeys
- Amateur: for amateur jockeys

Races with other conditions

- Pattern: group (groups 1, 2 and 3) and listed races, which are the races that the best horses compete for. Group 1 races are the highest class, and are level weight contests, except for allowances based on age and sex of the horse. There are graded races for Jumps;
- Hunters: races at the high end of point-to-point jumping;
- Sellers: where the winner of the race is offered for auction;
- Claimers: any horse can be claimed after the race, but the higher the claiming price set by the owner, the more weight is allocated to the horse.

The aim of handicapping is to make races more competitive by allocating more weight to better horses. This benefits the racing industry, by giving horses of lesser ability a better chance of winning, thus making the sport accessible to more owners. It also creates a more exciting spectacle that draws interest to the sport. Handicapping also benefits the betting industry, as pointed out by a number of betting operators that we spoke to. Most betting operators named competitiveness as one of the main characteristics of races that is relevant to betting, to the extent that the speed of horses is far less important than how well-matched they are. A race with slower but better-matched horses was described as a more attractive betting proposition than a race with faster horses but with a clear favourite.

In order to estimate common interest costs using race types, we allocate handicap races (as they are more competitive and thus more attractive betting products) and pattern races (as they are the highest quality and most popular races, so generate a large amount of betting turnover) to the common interest. This is a rough proxy for the races that would actually generate the most betting turnover, as we do not have access to this data. There are a few important points to note, and which this methodology does not account for:

- For a horse to run in a handicap it must first receive an Official Rating. In most cases, this is received once the horse either runs in at least three weight

for age races, or runs in no more than two weight for age races and meets certain minimum criteria in them. Weight for age races are therefore an important part of the handicapping process.

- Developmental races are important in order to produce the horses that run in Pattern races, but for the purpose of this exercise we do not consider them to be immediately in the common interest.

- Not all handicaps are competitive, and some weight for age races can be very competitive. Handicaps can, for example, have small field sizes. On the whole however, we take the view that handicaps are more competitive than weight for age races.

- Apportioning costs and income using proportions of different race types does not account for systematic differences in certain cost and income categories by race type. Most significantly, prize money is far higher for pattern races than for other races. The amount of prize money that will be apportioned to pattern races using this methodology will therefore underestimate the actual prize money that goes towards pattern races.

Field sizes

Handicap races are by no means always competitive. One of the main issues is small field sizes. We have therefore taken the proportions of races of different field sizes as reported by the BHA, as shown in **Table 35**, and applied the percentage of races with six or more runners (86% on average across the three years) to the percentage of handicap and pattern races, to estimate what proportion of all races have sufficiently large field sizes and are either handicaps or pattern races. Although field sizes are not likely to be uniformly distributed across different race types, this is the best approximation we are able to make with the available data.

The split of races between those that we consider to be of a competitive type and with sufficiently large field sizes ('handicaps & pattern, 6+ field'), and those that are not ('other'), are shown in **Table 36**. Some stakeholders suggested that higher field size thresholds should be used, for example of 8 or more runners. However, categorisation of the data meant that we couldn't explore this threshold.

Annexe 8: Defining competitive races

Table 35. Percentage of races by field size

Runners	2012	2013	2014
1 – 5	12%	14%	15%
6 – 10	53%	57%	59%
11 – 15	30%	26%	23%
16 – 20	3%	3%	2%
21+	1%	1%	0%

Source: BHA British Racing Statistics 2012-14, Frontier Economics analysis

Table 36. Proportions for common interest apportioning of costs

Race type and field size	2012	2013	2014
Handicaps and pattern, 6+ field	55%	55%	56%
Other	45%	45%	44%

Source: BHA British Racing Statistics 2012-14, Frontier Economics analysis

Annexe 9: Further cost and revenue tables

This annexe provides cost and revenue data that was used in the calculations of net common interest costs under Scenarios A and B and which are not included in the main body of the report.

Scenario A

Table 37. Revenues related to All-Weather Tracks

£m	2012		2013		2014	
	Common	Non	Common	Non	Common	Non
General admission	1.9	86.7	1.7	90.3	1.8	96.6
Catering	2.2	97.8	1.9	102.7	2.1	107.7
On-course betting	0.6	13.1	0.5	11.1	0.5	11.7
Media rights	21.2	68.6	23.9	92.2	24.6	103.2
Sponsorship, advertising (non-betting sources)	3.0	9.7	3.4	13.0	3.7	15.4
Sponsorship, advertising (betting sources only)	2.7	8.7	3.0	11.7	3.3	13.8
Hospitality	0.0	6.6	0.0	6.1	0.0	6.0
HBLB funding*	13.6	43.9	14.3	55.3	13.5	56.7
Other raceday income	5.3	25.2	6.5	23.4	1.3	24.3
Other fixed racing income	2.6	15.9	3.4	17.6	4.3	19.4
Other non-racing op. income*	5.5	24.3	7.3	27.1	7.9	31.0
Total	**58.6**	**400.5**	**65.8**	**450.5**	**63.0**	**485.8**

*Not included in our netting calculation. Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources.

Scenario B

Table 38. Revenues related to handicap and pattern races with 6+ runners

£m	2012		2013		2014	
	Common	Non	Common	Non	Common	Non
General admission	46.3	38.5	48.5	39.5	52.3	41.8
Catering	54.6	45.4	57.7	47.0	61.0	48.8
On-course betting	7.5	6.2	6.4	5.2	6.8	5.4
Media rights	49.0	40.8	64.0	52.1	71.0	56.7
Sponsorship, advertising (non-betting sources)	6.9	5.7	9.0	7.3	10.6	8.4
Sponsorship, advertising (betting sources only)	6.2	5.2	8.1	6.6	9.5	7.6
Hospitality	3.6	3.0	3.4	2.8	3.3	2.6
HBLB funding*	31.4	26.1	38.4	31.3	39.1	31.2
Other raceday income	18.7	15.6	18.7	15.2	16.6	13.2
Other fixed racing income	10.2	8.5	11.7	9.6	13.3	10.6
Other non-racing op. income*	16.5	13.7	19.2	15.6	21.8	17.4
Total	**251.0**	**208.8**	**284.9**	**232.1**	**305.3**	**243.9**

*Not included in our netting calculation . Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources.

Scenario B - exploring a higher field size threshold

Table 39. Costs related to handicap and pattern races with 8+ runners

£m	2012		2013		2014	
	Common	Non	Common	Non	Common	Non
Prize money	41.3	56.5	46.3	67.9	47.7	75.3
Raceday costs	42.0	57.5	43.2	63.2	48.0	75.8
Other staff costs	14.3	19.6	14.5	21.2	15.4	24.4
Catering	32.5	44.5	32.6	47.7	31.9	50.3
Administrative costs	17.6	24.1	14.8	21.6	14.1	22.2
Establishment costs	21.7	29.7	21.5	31.4	23.3	36.8
Other	5.7	7.8	5.5	8.0	5.5	8.6
Total	**175.2**	**239.5**	**178.2**	**261.1**	**185.9**	**293.6**

Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources

Table 40. Revenues related to handicap and pattern races with 8+ runners

£m	2012		2013		2014	
	Common	Non	Common	Non	Common	Non
General admission	35.8	49.0	35.7	52.3	36.5	57.6
Catering	42.2	57.8	42.5	62.2	42.6	67.2
On-course betting	5.8	7.9	4.7	6.9	4.7	7.5
Media rights	38.0	51.9	47.1	69.0	49.5	78.2
Sponsorship, advertising (non-betting sources)	5.3	7.3	6.6	9.7	7.4	11.6
Sponsorship, advertising (betting sources only)	4.8	6.6	6.0	8.7	6.6	10.5
Hospitality	2.8	3.8	2.5	3.6	2.3	3.6
HBLB funding*	24.3	33.2	28.2	41.4	27.2	43.0
Other raceday income	14.5	19.8	13.7	20.1	11.6	18.2
Other fixed racing income	7.9	10.8	8.6	12.6	9.3	14.7
Other non-racing op. income*	12.7	17.4	14.1	20.7	15.2	24.0
Total	**194.2**	**265.5**	**209.8**	**307.3**	**212.9**	**336.2**

*Not included in our netting calculation . Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources.

Annexe 9: Further cost and revenue tables

Scenario B - exploring efficiency gains

Table 41. Costs of handicap/pattern races with 6+ runners, 20 fixtures per course p.a.

£m	2012		2013		2014	
	Common	Non	Common	Non	Common	Non
Prize money	53.4	44.4	62.9	51.3	68.4	54.6
Raceday costs	54.3	45.2	58.6	47.8	68.8	55.0
Other staff costs	17.8	16.1	18.9	16.8	21.3	18.5
Catering	42.0	35.0	44.2	36.0	45.7	36.5
Administrative costs	21.9	19.8	19.3	17.1	19.4	16.9
Establishment costs	27.0	24.4	28.0	24.8	32.2	28.0
Other	7.0	6.4	7.1	6.3	7.6	6.6
Total	**223.5**	**191.2**	**239.2**	**200.1**	**263.4**	**216.1**

Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources

Table 42. Costs of handicap/pattern races with 6+ runners, 25 fixtures per course p.a.

£m	2012		2013		2014	
	Common	Non	Common	Non	Common	Non
Prize money	53.4	44.4	62.9	51.3	68.4	54.6
Raceday costs	54.3	45.2	58.6	47.8	68.8	55.0
Other staff costs	15.0	18.9	16.0	19.8	18.0	21.9
Catering	42.0	35.0	44.2	36.0	45.7	36.5
Administrative costs	18.5	23.2	16.3	20.1	16.4	19.9
Establishment costs	22.8	28.6	23.6	29.2	27.1	33.0
Other	5.9	7.5	6.0	7.4	6.4	7.8
Total	**211.9**	**202.8**	**227.7**	**211.6**	**250.8**	**228.7**

Source: Frontier Economics estimates using accounting data provided by Great Britain racecourses and external data sources