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Mr Paul Lee
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Horserace Betting Levy Board
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Dear Paul

THE 53rd LEVY SCHEME - RECOMMENDATIONS BY THE BOOKMAKERS' COMMITTEE

INTRODUCTION

1. I am pleased to submit the Bookmakers' Committee recommendations for the 53rd Levy Scheme for distribution to Board members and inclusion as an agenda item at the Board meeting scheduled for 23 Oct 13.
2. The Committee met on 7 Oct 13 and, in arriving at its recommendations, once again focussed its deliberations on the premise of changes that have occurred or are likely to occur between the previous year's Scheme (52nd) and the implementation of the following Scheme (53rd).
3. The Committee's position is that it is principally the continued rise in the cost of providing British horseracing in LBOs (in contrast to the acknowledged decline in betting on British horseracing) that has shaped its recommendations for the 53rd Levy Scheme.

CONTEXT OF THE RECOMMENDATIONS

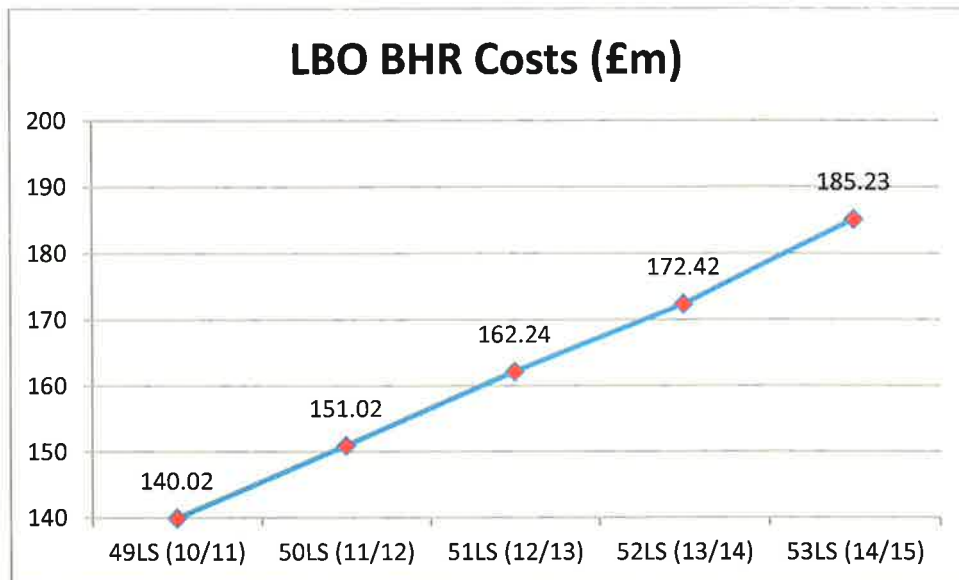
The Economy

4. Notwithstanding the perception by some of an improvement in the wider economy, bookmaking continues to reflect the uncertainty and lack of confidence felt by its customers. This is particularly noticeable in the high street retail sector which is already under significant cost pressure.

Cost of Providing British Horseracing in LBOs

5. The cost of providing British horseracing (BHR) in LBOs continues to rise. The Committee estimates that LBO BHR costs during the period of the 52nd Levy Scheme shall total £172.42m. These costs are expected to rise to £185.23m¹ (a further 7.5%) during the period of the 53rd Levy Scheme.

¹ Assumes SIS Ltd increase of 11.4% and TurfTV increase of 3.0% in CY 2014.



6. It is appropriate that those most affected by the cost of providing TV pictures (LBOs) should continue to be provided some level of relief and this is again addressed in our recommendations as a 'Flat Rate Rebate' (FRR) for all LBOs.

On-Course Bookmakers

7. The commercial agreement² between racecourses and on-course bookmakers is now established. It is estimated that this will increase the revenues received by racecourses from on-course bookmakers by approximately £3m per annum.

BHA Fixture List 2015 Policy

8. Although BHA fixture policy for 2015³ is unclear, the Committee wishes to highlight that a reduction in the total number of fixtures would impact directly on levy generation and racing's other revenue streams.

RECOMMENDATIONS FOR THE 53rd LEVY SCHEME

9. These recommendations are put forward on the understanding that the parties, being the HBLB and the Bookmakers' Committee, will use their reasonable endeavours as follows:

- a) To achieve a fixture programme in 2014 of a minimum of 1450 HBLB Criteria Fixtures⁴ and an improvement in the average number of runners per race across all codes.
- b) The Betting Patterns Working Party should continue to work with bookmakers' representatives in respect of the fixture programme. In particular, race planning would continue to be targeted to deliver a minimum of 7 races per racecard and a minimum of 6 runners per race.

I very much hope that the Board will take full account of the points set out in this letter in order to reach agreement on these recommendations and thus avoid a referral to Government.

² Effective Sep 2012.

³ 53rd Levy Scheme Q4.

⁴ Defined as those fixtures in receipt of a Raceday Services Grant.

Catchment. The Committee recommends that the levy should continue to be based on percentage payment of bookmakers' gross profits on horseracing business conducted in Great Britain. For the purposes of the 53rd Levy Scheme, this term shall mean the gross profit derived from horserace betting business conducted on horseracing taking place in England, Scotland and Wales only.

Rates.

LBO. Bookmakers making gross profit via betting on British horseracing on this channel should continue to pay 10.75% of gross profit as levy.

Telephone/Internet Bookmakers. We recommend that bookmakers who derive their gross profit from such business should pay levy at 10.75% of such combined gross profit, where it arises from British horseracing.

Bookmakers Engaged in Spread Betting. We recommend that bookmakers who derive their gross profit from spread betting businesses should pay levy at 2.15% of such gross profit, where it arises from British horseracing.

Betting Exchanges. We recommend that betting exchanges should continue to be assessed for levy on the basis of 10.75% of their gross profit on British horseracing business, where gross profit is defined as the commission deducted by the exchange from the amounts paid out by it to bettors and bet-takers.

Racecourse Bookmakers. We recommend that the previous annual fixed fee for racecourse bookmakers who stand at licensed racecourses should be retained, with the proposal that the fee should be increased in line with RPI to £234⁵ per annum.

Point-to-Point Only Bookmakers. In respect of bookmakers who stand only at point-to-point events and/or at harness-racing and/or trotting events, the Committee would propose that their annual fixed contribution should be increased in line with RPI to £187.⁶ Bookmakers who otherwise pay levy under other clauses would be exempt from any additional payment under this sub-paragraph.

LBO Threshold. We recommend that the threshold be retained for chains of 100 shops or fewer subject to the threshold being applied to no greater than 30 shops selected by the operator. For eligible shops, we recommend an increase in the threshold figure at which the headline rate of levy is payable. This increase should be in line with the headline rate of RPI as at the end of Jul 13. Eligible shops with a gross profit of less than £55,860⁷ will pay a rebated charge on a sliding scale related to the percentage by which their gross profit falls short of £55,860.

Flat Rate Rebate. We recommend the continuance of a Flat Rate Rebate to each LBO which would be deducted from a bookmaker's liability during the year-end reconciliation at which individual liabilities are finalised. We recommend that this figure should be increased in line with the headline rate of RPI as at the end of Jul 13 to £758⁸ per LBO for the first 30 shops in any chain and £191⁹ for all other LBOs. LBOs open for less than the full period of the 53rd Levy Scheme shall attract a rebate pro-rata. The calculation would be made at the end of the Levy form as a reduction of a bookmaker's total levy liability, which could not be reduced below £0.

⁵ Based on RPI of 3.1% on 31 Jul 13.

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

Default Percentage. The Committee recommends that bookmakers who are unable to measure accurately their British horseracing gross profit be required to base their declarations for levy on the average percentage of gross profit attributable to British horseracing achieved by, as a minimum, Corbetts, Gala Coral Group, Ladbrokes plc and William Hill plc in their combined LBO estates during the calendar year 1 Jan 14-31 Dec 14. We will seek to expand the number of contributors in the sample.

10. The Betting Generated Revenue (BGR)¹⁰ estimated in the Bookmakers' Committee recommendations for the 52nd Levy Scheme was in the order of **£72.9m**¹¹. This has been revised to an estimated BGR of **£75.56m**¹². Annex A (Table A-1) shows the estimated BGR for the period of the 53rd Levy Scheme of **£75.39m**^{13,14} should Gross Profit experience 0% change. Annex A (Table A-2) shows the comparison between estimated BGR for 52nd and 53rd Levy Schemes and Annex A (Table A-3) shows the estimated BGR for the 53rd Levy Scheme should Gross Profit increase or decrease.

11. The Committee recognises that it may be helpful to provide clarification on certain administrative matters relating to the 53rd Levy Scheme. These are outlined at Annex B. The Committee is content to consider requests for additional changes identified by the HBLB Executive.

Yours sincerely



Will Roseff
Chairman
For and on behalf of
The Bookmakers' Committee

14 Oct 13

¹⁰ BGR comprises Statutory Levy and Betfair Contractual Payments.

¹¹ Bookmakers' Committee recommendations for the 52nd Levy Scheme, dated 16 Oct 12.

¹² BGR based on Bookmakers' Committee Q2 estimates FY13/14 and assuming 0% change in Q3 and Q4 GP YoY.

¹³ Ibid.

¹⁴ Betfair has indicated their payment is likely to be £7.5m - £8m; we have assumed the lower figure in our BGR estimate.

ANNEX A – BETTING GENERATED REVENUES (BGR)

Table A-1

53LS (14/15) BGR	
PLATFORM	£m
Forecast Yield ¹	70.21 ²
Betfair Contribution	7.5
Fixed Rate Rebate	(2.32)
Total	75.39

Table A-2

52LS (13/14) v 53LS (14/15) BGR			
PLATFORM	52LS (£m)	52LS (Revised) (£m)	53LS (£m)
Forecast Yield ³	68.10	70.26	70.21
Betfair Contribution	7.0	7.5	7.5
Fixed Rate Rebate	(2.2)	(2.2)	(2.32)
Total	72.9⁴	75.56⁵	75.39⁶

Table A-3

GP CHANGE (%)	53LS BGR (£m)
-10	68.23
-5	71.80
-3	73.23
-1	74.67
0	75.39
1	76.10
3	77.54
5	78.97
10	82.56

¹ All non-Betfair BGR.

² Based on Bookmakers' Committee Q2 estimate FY13/14.

³ All non-Betfair BGR.

⁴ Bookmakers' Committee recommendations for the 52nd Levy Scheme dated 16 Oct 12.

⁵ Based on Bookmakers' Committee Q2 estimate FY13/14.

⁶ Ibid.

ANNEX B – ADMINISTRATIVE AMENDMENTS¹

1. Paragraph 9. **'Non-payment and underpayment'**

Delete:

'The Bookmakers' Committee will be consulted before legal action is commenced for non-payment.'

Insert:

'The Bookmakers' Committee or its nominated representative² will be consulted before legal action is commenced for non-payment.'

¹ Relating to 'HORSE RACE BETTING LEVY BOARD, FIFTY-SECOND LEVY SCHEME, 1ST APRIL 2013 TO 31ST MARCH 2014.'

² Bookmakers' Committee General Secretary or other individual designated by the Committee.