HORSERACE BETTING HBLB LEVY BOARD

2010–11 ANNUAL REPORT

The Horserace Betting Levy Board Annual Report and Accounts 2010–11

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of the Betting, Gaming and Lotteries Act 1963

Laid with the Horserace Totalisator Board (Tote)
Annual Report and Accounts 2011

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CHAIRMAN'S STATEMENT

I can report another very busy year for the Horserace Betting Levy Board.

It is a year when I believe we have made significant progress across a range of areas. As you will see from the Chief Executive's report, in terms of our financial performance, we have reacted sensibly and prudently to a very challenging environment where a significant drop in Levy has led us to a series of difficult decisions. That those have been implemented with a high level of cooperation from Betting and Racing is a considerable achievement by all parties. We are also for the first time for many years seeking to run a balanced budget in 2011.

In everything we do, mindful of our primary responsibility to assess and collect monetary contributions from bookmakers and the Horserace Totalisator Board, we apply them for the purposes established under the Act which are :

1. The improvement of breeds of horses.
2. The advancement or encouragement of veterinary science or veterinary education.
3. The improvement of horseracing.

In particular, we seek to achieve the twin objectives of supporting, as cost-effectively as possible, the provision, countrywide, of racing in a form which retains high standards of integrity and is attractive to the owner, racegoer and off-course punter and at the same time of placing an emphasis on enhancing Levy yield. We also seek to play a leading role in the debate within Betting and Racing on a variety of proposals put forward from time to time.

Along with the ordinary work of the Board, so to speak, in terms of budget, planning and the like, the year has also seen a significant involvement of time on two extraordinary issues, namely the Determination of the 50th Levy Scheme and the Consultation exercise in relation to Betting Exchanges. The Horserace Betting Levy Board continues to be the only formal meeting place for senior representatives of the Betting and Racing industries to discuss key issues of importance with Independent Members appointed by the Government. I am pleased to say that, particularly having regard to the significant differences of view which Betting and Racing held, around the table everyone seeks to work together. As I have already said, we have made significant progress.

A critical example of this was the Determination of the 50th Levy Scheme. That experience was valuable in that we sought to apply for the first time a new process which the Board had adopted on the suggestion of Racing's appointees. As a result, Racing made the first submission in March 2010 in advance of receipt by the Board of the Bookmakers' Committee's first formal recommendation. Racing assessed its reasonable needs at between £130.0m and £150.0m, whereas subsequently the Bookmakers' Committee's formal recommendation was for a repeat of the 49th Levy Scheme but with a higher threshold figure which would have resulted in a Levy yield in the region of £55.0m based on the facts as we knew them then. The facts now are significantly different, particularly our knowledge that the 49th Levy Scheme actually produced just less than £60.0m as against estimates of at least £5.0m more.

It would be possible to conclude that the process failed and indeed, because agreement between the parties was not achieved and the matter was referred to the Secretary of State, that is a perfectly fair interpretation. That, I believe, is not, however, the full story.

The gap, after all, was huge. The Independent Members proposed to the Government our own scheme, looking for a Levy yield of between £75.0m and £80.0m. I believe that, in that proposal, there were some important ideas which I am disappointed were not, for very good reasons, ultimately to find favour with the Secretary of State. These included a Levy on foreign racing and the reduction of the headline rate from 10% to 9%. The Independent Members' submission did, I am pleased to record, receive very favourable critical comment, particularly in some leading national newspapers, which I think reflected a belief held strongly in many quarters that our suggestion was fair. I shall return to this point later.

At the end of the day, and understandably, the Secretary of State agreed in his Determination an estimated target yield in the range of £73.7m–£80.8m, with a midrange figure of £77.3m, and decided to continue to exclude foreign racing, reduce the threshold level to £50,000 and increase the headline rate to 10.75%. The Secretary of State re-stated his disappointment that the parties were not able to come to agreement themselves and said that it would have been preferable for them to agree a settlement at an earlier stage without recourse to central Government. He strongly encouraged them to develop a less adversarial relationship going forward, sentiments with which I strongly concur.

Notwithstanding the significant difference between the parties at the beginning of the process, I believe that there was support in both Betting and Racing circles around the proposition for a target yield of about £75.0m, even though that figure will not now be achieved due to the larger than expected decline in bookmakers' gross profit on British horserace betting. Further evidence of this was the general response to the Independent Members' submission and the final Determination by the Secretary of State. It is this shared agenda and these broad principles of agreement which I believe should be encouraged and fostered for the future.

The Consultation process also evidences the objective that principles of fairness similarly apply in relation to what is a bookmaker. The Board's purpose in conducting the Betting Exchanges' Consultation process was to establish in the clearest possible terms whether certain users of betting exchanges were truly leviable bookmakers under a proper construction of the 1963 Act. It is a question of a level playing field. If the users were established to be bookmakers, they should pay Levy appropriately. In the event, the Board rejected a resolution to institute Part 8 proceedings and decided that it would not seek to impose Levy on customers of betting exchanges.

We have a similar and possibly even more important matter insofar as concerns Levy yield arising from the increased activity of off-shore bookmakers. Many bookmakers have been operating all or part of their business off-shore for some years and they have now been joined by others' internet and telephone betting operations with a consequent substantial loss of revenue to the Levy.

In addition, the Tote has recently launched a pool in Guernsey which will capture international pool bets and co-mingle those bets into the UK with the result that the Levy will potentially no longer be paid on the Tote's international pool business.

It is simply not a level playing field for the UK-resident bookmakers who pay full Levy that their trade competitors should have this advantage which is compounded by continued increasing significance of internet and mobile betting. The Government is determined to seek to address this issue and we enthusiastically support that ambition. Payment of Levy by off-shore bookmakers would transform the Levy yield and may enable horseracing to achieve a more competitive position amongst betting products than is possibly the case at the present time where, to achieve desired levels of yield, on-shore bookmakers under the 50th Levy Scheme are paying not a lower percentage Levy, as had been proposed by the Government Appointed Members, but a higher one.

At the time of going to press, the Government's pre-consultation has not yet closed and we await developments with great interest. I am however delighted that, in June 2011, Betfair announced that it would make a £6.0m voluntary contribution to the Board, equal to that which it would have been required to pay under the terms of the 50th Levy Scheme. The contribution is very important and I hope that this example will be followed by other operators whose platforms are not licensed in the UK.

The future is uncertain in many ways, most fundamentally, of course, in whether the Levy – modernised or not, determined as currently is the case or not – exists at all. It is unlikely that the Board will have an overall and agreed view on this bearing in mind the clearly opposing and deeply-held views of two constituent parts. At the Levy Board, we will continue to try to reduce our costs, as we would have done successfully again last year excluding the costs of the Determination and the Betting Exchanges' Consultation.

In the future, under the Public Bodies Bill which is currently passing through Parliament, the Government proposes changing the mechanism for determining the Levy by removing the role of the Secretary of State with the successor mechanism still to be confirmed. This is an excellent step forward and will, I believe, further encourage Betting and Racing to come to an agreement within the Board.

The Independent Members will approach the discussions about the 51st Levy Scheme with a degree of confidence and optimism having regard to the Secretary of State's Determination of the 50th Levy Scheme in which he generally agreed with the Government Appointed Members' line concerning yield.

In closing, I would like to thank the Executive and their team at the Horserace Betting Levy Board. They deserve credit for their efforts in ensuring that, in what has proved to be a very challenging year which necessitated significant cuts to virtually all headings of cost and expenditure, continuity has been maintained.

I would also like to express gratitude to my colleagues on the Board for their work, which is widely appreciated and, on a personal note, to thank them for their great help and support to me throughout the year.

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

Paul Lee
Chairman

CHIEF EXECUTIVE'S REVIEW

Following the disappointingly low yield of the 48th Levy Scheme which ended on 31st March 2010, and without the cushion of significant further reserves, the Board decided, for the first time in some years, to have a balanced budget for 2011. However, the budgets for 2011 and 2012 have immediately come under even greater pressure from the weak yield of the 49th Levy Scheme.

During 2010, there were a number of downward revisions in our forecast for Levy yield for the 49th Levy Scheme and these had a direct impact on our expenditure during the year, to which I referred in my review in last year's Annual Report. In November 2010, therefore, the Board approved significantly reduced expenditure for 2011 and the new budget of £60.1m, with £34.0m prize money and appearance money, £2.1m for the Fixture Incentive Scheme, £16.4m for regulation and integrity, now known as raceday services, via grants to racecourses and £7.6m for other expenditure such as veterinary science and education, training, Breeders' Prizes and point-to-pointing. Unlike previous years when reductions had been necessary, the burden was shared among many headings and not borne wholly by prize money.

Given the scale of the required expenditure reductions, it was a particular achievement that it was still possible to introduce the planned new systems for the distribution of the main items of expenditure for 2011. These provide more transparency, incentivisation and effectiveness and were agreed following a period of consultation and discussion with the British Horseracing Authority, the Racecourse Association, Horsemen's Group and the Bookmakers' Committee. Within the largest heading by value – prize money – a racecourse receives in grants an amount more directly related to its betting performance and prize money contribution.

At the same time, the Fixture Incentive Scheme was reviewed and reduced significantly in scope to target it where we consider it is most needed. Incentive payments only applied in the main to January and February with some incentives in March, April, October, November and December.

Funding for raceday services was also changed. The Executive questioned whether it was appropriate to use, as the starting point for the setting of the raceday services grants allocation, the assumption that it would fully, or almost fully, reimburse racecourses for all costs incurred. At the time at which the Board originally set its 2011 expenditure budget, the usual approach to regulatory funding would have seen raceday services reach some 40% of the total budget. Therefore the Board agreed to limit its contribution to a level in line with the equivalent of either not funding camera patrol/photo-finish services or funding race-day expenditure only: the total funding provision of £16.4m was approximately the same under either option.

The Board sets its annual budgets having regard to the best available information provided by the Bookmakers' Committee. Following the debate over the development of TurfTV in 2006/07, the Bookmakers' Committee ceased to provide up-to-date information. This had a very harmful effect on our ability to forecast Levy yield and, indeed, upon the Board's reserves, as we had to utilise them in order to fill gaps in our original budgets when final retrospective Levy yields become known each June. For example, at the meeting in July 2008, the Board approved the assumption upon which to base the outturn of future Levy Schemes and the 49th Levy Scheme was set at £99.2m, agreed by the Board including the Bookmakers' Committee's representative. In December 2008, a revised assumption, again agreed by the whole Board , was approved at £94.9m, so that assumption was used when the Levy Board approved in April 2009 a roll-over for the 49th Levy Scheme. The actual Levy yield for the 49th Levy Scheme was £59.5m – a difference of £35.4m. Market confidentiality means that the Bookmakers' Committee sometimes has little more knowledge of the figures not already in the public domain than anyone else.

Reasons put forward for the recent fall in Levy yield, not all of which are shared unanimously by Board members, include the effects of the recession and less spending power available, the introduction of TurfTV causing operational difficulties in LBOs, the introduction of 48 hour declarations increasing the number of non-runners, fewer horses in training, smaller fields, lower margins, increased use of betting exchanges instead of traditional bookmakers, increased competition between bookmakers, the increasing importance of remote betting most of which is done through offshore platforms which do not pay Levy and a general trend away from betting on horseracing.

The move offshore of certain internet betting operators and subsequently of some telephone betting operators has had a particularly significant effect on the 49th Levy Scheme's yield of some £59.5m.

The Board's Executive will continue to make recommendations to the Board about how best to collect and distribute Levy and to serve all its Members.

Douglas Erskine-Crum CBE
Chief Executive

FINANCIAL SUMMARY

The Levy yield for the 49th Levy Scheme (including the Tote) is £59.5m which is 21% below the final yield for the 48th Levy Scheme of £75.3m. This decline is attributable to the decisions in 2009 of a number of the larger bookmakers to move their internet betting operations off-shore and accordingly avoid paying Levy, and the simple fact that bookmakers are generating lower gross profits on British horse-race betting business. There are many explanations given for the drop in bookmakers' gross profits, such as the uncertain economic outlook and downward pressure on margins. Additionally, 2010/11 witnessed some good results for punters with the joint favourite, Don't Push It, winning the 2010 Grand National and a run of results at the 2010 Royal Ascot meeting which saw 10 favourites winning. Over the four days, 50% of the races run were won by horses at odds of 9/2 or shorter. This underlines how important the Grand National and the major Festival meetings are for generating Levy.

The breakdown of the yield from the 49th and 48th Levy Schemes is as follows:

	2010/11 £m	2009/10 £m
Levy Scheme	49th (estimated)	48th
Cash (Off-Course Bookmakers)	44.4	53.4
Phone	3.4	6.4
Internet	2.1	4.5
Exchanges	5.6	6.3
Others	4.0	4.8
Total Levy yield	**59.5**	**75.4**

The Board's Statement of Comprehensive Income for the year ended 31st March 2011 shows a deficit of £23.6m, compared to a deficit of £30.9m in 2009/10. The continued decline in the Levy yield was the major factor for this significant deficit, and the Board again utilised accumulated reserves to ensure prize money and other expenditure commitments were maintained.

Expenditure	2010/11 £'000	2009/10 £'000
Horsemen	48,963	64,000
Integrity Services	21,835	25,342
Racecourses	3,910	6,638
Administration	3,403	3,153
Improvement of breeds	1,245	2,056
Veterinary	1,009	2,055
Training	892	1,225
Other	2,017	1,135
Bookmakers' Committee	535	261
Total	**83,809**	**105,865**

This is the third consecutive year that the Board has reported a deficit, with the result that net assets have fallen from £75.6m in 2008 to £15.3m at the end of March 2011.

In order to stabilise its financial position, and in a bid to halt this decline in net assets, the Board is budgeting to break even in 2011/12.

PRIZE MONEY SCHEME

Prize Money 2011 Allocation	£'000
Betting Allocation	13,800
Divided Race Fund	900
Sub Total	14,700
FLAT ALLOCATION	
Basic Daily Rate – Racecourse Fixtures	**8,300**
Quality Support Fund	1,400
Blanket Period	1,110
Twilight Fixtures	960
Appearance Money	275
British Champions Day	90
Ffos Las	60
Sub Total	12,200 (rounded)
JUMP ALLOCATION	
Basic Daily Rate – Racecourse Fixtures	5,500
Winter Racing Payments	432
Quality Support Fund	275
Appearance Money	460
Ffos Las	260
Sinking Fund	233
Sub Total	7,200 (rounded)
Grand total	**34,100**

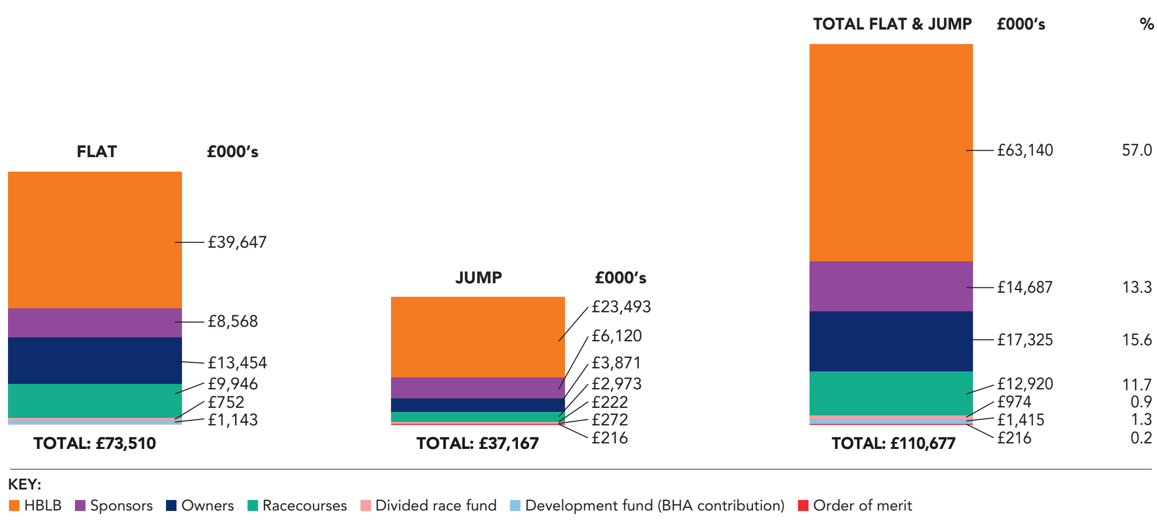
The Board agrees the vast majority of its expenditure allocation on a calendar year basis. The Board's allocation to Prize Money for 2011 was £34.1m (2010: original allocation £57.0m, which was downgraded to £52.1m following two mid-year reductions).

The Board's Fixture Criteria for 2011

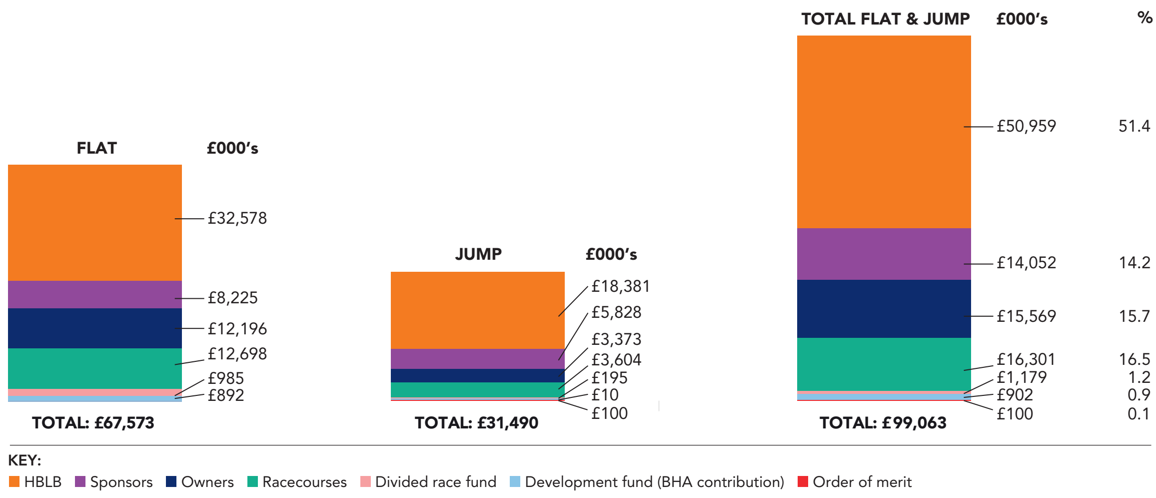
Full Basic Daily Rate (BDR) prize money funding and a raceday services grant is being provided in 2011 for fixtures which take place in slots within the Board's Fixture Criteria:

- Three afternoon fixtures on Mondays to Fridays (two such fixtures on Mondays and Tuesdays in June, July and August).
- Any Saturday afternoon fixtures that meet the criteria for "Premier fixtures" (as defined by the British Horseracing Authority).
- Two fixtures on Sundays, with a third fixture receiving a raceday services grant only.
- Four afternoon fixtures on Bank Holidays.
- Four afternoon All Weather Track (AWT) fixtures between 26th December and 31st December inclusive.

2009 CONTRIBUTIONS TO PRIZE MONEY



2010 CONTRIBUTIONS TO PRIZE MONEY



BDR funding is provided at 65% for two evening fixtures per day in the summer (2010: 80%) and 50% for non-Criteria Bank Holidays and for non-Premier fixtures on Saturdays, up to a total of four funded fixtures on each day.

The main changes from 2010 are to provide prize money only for the equivalent of three Saturday fixtures and two Sunday fixtures, and reduced prize money for evening fixtures. This reflects better the Levy generative capacity of fixtures in these slots.

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

- An amount calculated by reference to the latest average daily amount of its executive and sponsorship contribution to Prize Money.

- The share of the top-sliced £13.8m allocated by reference to the off-course betting turnover and gross profit attributable to its fixtures.

For 2011, BDR allocations no longer include the 'underpinning' element per fixture, an amount which the Board historically had paid as a flat rate to each fixture. Distributions for 2011 were based 50% on a racecourse's own prize money contribution averaged over the previous three years and 50% on its betting turnover and gross profits over the previous two and three years respectively. This new system provides a more direct link between a racecourse's performance and its return from the Board, increasing the responsiveness of the incentive and reward system.

IMPROVEMENT OF HORSERACING

Racecourse modernisation

During 2010/11, the Board approved, by way of Capital Credit grants, £2.3m (2009/10: £634,453) for use in racecourse improvement schemes.

As a result of the decline in income, the Board decided not to make any new loans for capital projects in 2011, but will look to reintroduce the approval of new loans from its Capital Fund when it is able to do so. This is not expected to be before 2012 at the earliest.

Before the Board took the decision to suspend the making of new loans, it had approved a revised lending policy which set clearer priorities against which applications would be assessed and which also would see interest charged on new loans. The principles of the new procedure will apply as and when lending is reintroduced.

Integrity of Racing

Maintaining high standards of integrity in British racing remained one of the Board's priorities within that part of its expenditure devoted to the improvement of horseracing. For 2011, the Board is no longer providing near-total reimbursement of costs to racecourses in respect of the BHA's Fixture and race day services fees, but is instead making a contribution towards those costs. This was reflected by the allocation of £16.4m for 2011 (2010 original allocation: £24.5m). The raceday services grant received by racecourses goes towards covering the cost of licensed officials, security and veterinary raceday officials, raceday services head office costs and drug testing and drug research services. Unlike 2010 where various elements of the grants were allocated separately for the provision of camera patrol and photo finish services, for 2011 there is a single grant per fixture. The Board however agreed to pay a supplementary sum of £2,000 in respect of each midweek Jump fixture in January and February, reflecting that such fixtures are among the least attractive for racecourses to stage.

Fixture Incentive Scheme

For 2011 the allocation to the Fixture Incentive Scheme, under which the Board grants a sum to a racecourse to encourage it to race in certain Levy generative slots which would otherwise be less attractive to stage, was £2.1m (2010: £5.8m). The Scheme was reduced in scale to focus particularly on winter, midweek racing.

In previous years, if a fixture was abandoned, racecourses received an Abandonment Payment of £10,000. These payments do not apply in 2011, and as an alternative, a fixture eligible for an incentive will still receive it whether or not the fixture takes place.

Additional Fixtures and Transfer of Races

Adverse winter weather led to a considerable number of abandonments between November 2010 and January 2011, with December suffering the greatest loss with 57 fixtures called off, compared to a five-year average in that month of 11. Fortunately, January's total was significantly lower than in recent years. To minimise the loss to Levy income, once it became clear that the bad weather was unlikely to relent quickly, the Board provided funding for additional all weather track fixtures and funding to convert programmed Twilight fixtures to afternoon slots to fill gaps.

Flexibility was the key and a number of parties worked together highly effectively to ensure that, as far as practically possible, Levy income was protected during what would otherwise have been a more damaging period for income.

The Board also provided one-off funding to ensure that certain important, high-profile races which would otherwise have been lost could be restaged at alternative venues or on an alternative date. The Board's additional financial support enabled the transfer of five Grade 1 races (Fighting Fifth Hurdle, Tingle Creek Chase, Long Walk Hurdle, King George Chase and the Christmas Hurdle), one Grade 2 (Peterborough Chase) and the Coral Welsh National fixture. Although the Board's total contribution to these races was probably not recouped in Levy yield, the races were considered worthy of being maintained for the benefit of racing as a whole.

Twilight Fixtures and All Weather Tracks (AWT)

Following the success of generating additional Levy (some £400,000) by way of converting the first 43 midweek winter evening fixtures to twilight slots in 2010, it was agreed for 2011 to programme these fixtures as twilights. A total of 96 twilight fixtures were scheduled for 2011 with BDR funding of £10,000 per fixture.

Appearance Money Scheme

For 2011, the total value of the Scheme is £735,000, funded entirely by the Board. Appearance Money payments are £100 per runner (2010: £155, subsequently reduced to £120 from July) for all runners on Sundays.

Point-to-Point meetings

The Board's support for Point-to-Points in 2011 is £200,000 (2010: £308,000). The funding ensured that the provision of veterinary, medical and security services, as well as course maintenance, remained of a high standard.

Divided Race Fund

The Board's allocation to the 2011 Divided Race Fund, which provides prize money for additional races, is £900,000 (2010: £1.8m, actual spend £1.3m). The reduced budget for the Fund in 2011 reflects in part the fall in average prize money per race. Both Racing and Betting continue to welcome the existence of the Fund, the cost of which is again anticipated to be outweighed by the incremental Levy yield.

VETERINARY

Advancing veterinary science and education

In 2010/11 £920,000 (2008: £2.0m) was allocated to activities recommended by the Board's Veterinary Advisory Committee (VAC) to improve the health and welfare of the racing and breeding thoroughbred.

Some 40% of the annual expenditure was devoted to disease control, a priority area for racing and breeding industries. The Board continued to contribute to a four-year programme, hosted at the Animal Health Trust. The programme, in its third year, is also supported by thoroughbred owners and breeders, and provides surveillance, testing, advice and expertise in the area of equine infectious disease. Funding was allocated for the final year of the equine influenza world-class research programme and its on-going expert response service. The Codes of Practice were published in advance of the 2011 breeding season, updating the latest protocols for equine disease prevention and control.

Expenditure on veterinary education provided two research scholarships, for training leading to a PhD, and one clinical scholarship, for high-level clinical training. These were in addition 10 other scholarships continuing during 2010 enabling the training of a core of expert equine clinicians and researchers for the future.

Two new equine veterinary science research projects were awarded. Moredun Research Institute received funding for further investigation into the diagnostics of pathogenic roundworms in the horse, and the Royal Veterinary College was funded to continue its work on 'tying up', a condition affecting around 7% of the thoroughbred population. Both projects build on previous research funded by the Board. Over 20 other projects were on-going throughout the year across a range of disciplines, reflecting the priority areas identified in consultation with stakeholders.

Veterinary Advisory Committee 2010

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

Professor Celia Marr BVMS MVM PhD DEIM DipECEIM MRCVS

Professor Peter O'Shaughnessy BSc PhD

Mr Rob Pilsworth BSc MA VetMB CertVR MRCVS

Professor Stuart Ralston MB ChB FRCP MD FMedSci FRSE

Mr Chris Rea BVM&S MRCVS

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

Dr Geraldine Taylor BSc PhD

BREEDS

Breeders' Prizes Scheme

The Breeders' Prizes Scheme, funded by the Board and operated by the Thoroughbred Breeders' Association (TBA), is in its 19th year in 2011. Its aim is to improve the quality of the British thoroughbred racehorse. The Board's allocation grant for Breeders' Prizes for 2011 was £700,000, reduced from an original £1.54m in 2010.

Following a review by the Board and the TBA of the objectives of the Scheme, the Scheme was refocused in 2011 on higher-class races but continuing to ensure diversity in the reward structure.

Prizes on the Flat are awarded to qualifying winners of all Class 1–3 and Class 4 Maiden and Novice races with payments rates for fillies and mares generally double those for colts and geldings

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

For 2011 the Scheme also awards a second tier NH breeders' prize at a lesser percentage (40% of the prize) to those winners who were foaled on or after 1st January 2000 but which were previously excluded by one or more of the following criteria:

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

Grants to Breed Societies

Grants to rare horse and pony breed societies are funded by the Board for purposes directly relevant to the improvement of breeds. Each society utilises the grant in the most appropriate way for its unique breed improvement programme, such as awarding stallion, mare and foal premiums and subsidies for registration fees, mare travel to premium stallions, animal inspection costs and breed show support.

Only native breeds listed on the Rare Breeds Survival Trust Watchlist are eligible to receive Levy Board funding, ensuring support is allocated to the breeds at greatest risk. Societies must also contribute at least 20% of the value of the grant from their own resources. Eleven societies received funding at the same level as in 2009, totalling £141,630 for 2010 (2009: £171,920). Two societies ceased to be eligible.

Society	Grant 2010 £
Cleveland Bay Horse Society	14,470
Clydesdale Horse Society	12,460
Hackney Horse Society	15,900
Shire Horse Society	42,100
Suffolk Horse Society	20,500
Dales Pony Society	7,780
Dartmoor Pony Society	6,800
Exmoor Pony Society	5,970
Fell Pony Society	5,870
Highland Pony Society	3,810
Welsh Pony and Cob Society (feral Group A only)	5,970
Total	**141,630**

OTHER ACTIVITIES

Charitable donations

The Board again made a charitable donation to the Retraining of Racehorses charity (RoR). RoR is the British Horseracing Authority's official charity for the welfare, retraining and re-homing of horses who have retired from racing. For 2010/11 the Board's donation was £56,500 (2009/10: £58,000). The Board made certain other small, ad hoc donations.

Industry Training and Education

For 2011 the Board continues its commitment to racing and breeding's education and training programmes. The grant to the British Horseracing Education and Standards Trust (BHEST) was £600,000 (2009/10: £695,000). This supports BHEST's core awarding body activities, providing an extensive suite of nationally recognised qualifications for stable and stud staff as well as other BHEST activities.

The grant also supports the BHEST's Racing To School programme, which contributes to the delivery of the National Curriculum while introducing young people to racing. BHEST organised 187 education days between January and August 2010 providing educational activities in a racing context for 7,671 school children at 44 racecourses.

The preparation of people for careers in thoroughbred breeding through courses run centrally for the breeding industry by the National Stud was supported for an eighth consecutive year with a grant of £200,000 (2010: £228,000) This supported the internationally renowned National Stud Diploma Course, the Apprenticeship Programme, the Stud Secretaries' course and short term work experience for school pupils, college students, veterinary undergraduates and breeders.

The Board also supported the TBA Education and Employment Scheme (formerly the Stud Staff Project). This is an initiative by the TBA to implement the recommendations on the employment, retention and development of Stud Staff within the 2004 report of the Stable and Stud Staff Commission. For 2011, the scheme focuses on five key areas including providing employer support, promotion of recruitment and careers within the racing and breeding industry, continuation of the Stud Farming course and acting as an industry information source for its members regarding industry qualifications and development. The Board's contribution for 2011 will be £70,000.

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

THE 50TH LEVY SCHEME

The 50th Levy Scheme (1st April 2011 to 31st March 2012) was finalised in February 2011 following the Secretary of State's Determination. A bookmaker's 2011/12 Levy contribution is calculated by reference to the gross profit on British Horserace Betting Business (BHBB).

For off-course betting through Licensed Betting Offices (LBO) showing a gross profit on BHBB of £50,000 (49th: £88,740) or more per year, a flat percentage charge of 10.75% (49th: 10%) applies. Abated charges apply to any LBO with gross profits of less than £50,000 (49th: £88,740). Other media platforms (telephone, internet and other platforms) pay Levy at a flat percentage charge of 10.75% (49th: 10%). The Levy for on-course betting is charged at a flat fee of £210 (49th: £200). On-course bookmakers who use and/or operate a betting exchange are also liable to pay Levy at a rate of 10.75% (49th: 10%) on their gross profits derived from BHBB. The Levy payable by bet-brokers including betting exchanges is charged on a basis equivalent to 10.75% (49th: 10%) of their gross profits, defined as gross commission on BHBB deducted from the winnings paid out to bettors and bet-takers. Spread betting business was levied at 2.15% (49th: 2%) of gross profits. Bookmakers who conducted BHBB only on Point-to-Point and/or harness racing and/or trotting events paid a fixed contribution of £166 (49th: £158).

The default percentage to be used by those bookmakers who are unable to calculate their gross profits on BHBB, and/or who do not operate EPOS systems, when making their 49th Levy Scheme returns was based on a survey of over 6,000 LBOs which can identify the share of BHBB. This figure is 39%, which compares with 43% for the 48th Levy Scheme.

Contributions by the Horserace Totalisator Board

The Board agreed that, for the 50th Levy period, the Tote should, as was the case with the 49th Levy period, contribute in respect of off-course SP and Tote odds, cash, internet and telephone BHBB, Tote Direct and on-course SP cash and credit BHBB as if it were a bookmaker.

THE BOOKMAKERS' COMMITTEE

The main function of the Committee is to recommend annually to the Board the categories, rates, conditions and definitions of the Levy Scheme for the following year and, if appropriate, to consider revising such recommendations in light of the observations of the Board. The Committee therefore was under remit to agree with the Board, by the statutory deadline of 31st October 2010, the terms of the 50th Levy Scheme. Secondary functions include a plethora of roles and functions providing support in line with the execution of Board policy.

The Committee's Recommendations, submitted to the Board in July 2010, were similar in most respects to those of the 49th Levy Scheme. However, faced with the increased price of receiving televised pictures of live British horseracing in the Licensed Betting Office (LBO) estate, the Committee made recommendations that sought to offset in part such costs, a matter which was addressed, but not resolved, during the determination of the 47th Levy Scheme. This offset was to have been achieved by increasing to £123,000 the threshold at which LBOs pay the headline rate of 10% of gross profits – affording relief through an abated rate of Levy to those operators most in need.

The Committee's recommendations were rejected by the Board in September 2010 and were thus referred back to the Committee for further consideration. The Committee was not, however, able to change its position on what it perceived to be a key point of principle. Agreement was not reached on the terms of the 50th Levy Scheme by 31st October 2010 and the Scheme was therefore referred to the Secretary of State for Culture, Olympics, Media and Sport.

The Secretary of State's Determination was announced on 16th February 2011, the main elements of which are set out elsewhere in the Chairman's statement. Importantly, the determination acknowledged two principles. First, that the Levy would be payable only in respect of profits arising from bets placed in relation to British horseracing and, secondly, that payment for televised pictures of live British horseracing represent indirect payments from bookmakers to racing which would be taken into account in determining both racing's reasonable needs and what it is reasonable for bookmakers to have to pay.

The costs of the Bookmakers' Committee, which in 2010/11 amounted to £535,000, (2009/10: £261,000) are met by the Board.

MEMBERS	
Will Roseff[1] Chairman	ABB
Thomas Murphy[2] Vice Chairman	William Hill plc
Warwick Bartlett	ABB
Howard Chisholm	ABB
Michael Corbett	ABB
Martin Cruddace	The Sporting Exchange
Richard Glynn (from July 2010)	Ladbrokes plc
Neil Goulden	Gala Coral Group
Keith Johnson	NAB
Richard Lang (from August 2010)	Gala Coral Group
Chris Palmer (until January 2011)	Ladbrokes plc
Nick Rust (until July 2010)	Gala Coral Group
Nick Rust (from February 2011)	Ladbrokes plc
Ralph Topping	William Hill plc
Brian Wallace (until June 2010)	Ladbrokes plc
Andrew Watson	NAB
General Secretary: Stu McInroy	

Notes:
[1] Re-appointed as Chairman on 24th March 2011
[2] Re-appointed as Vice-Chairman on 31st March 2011
ABB: Appointed by the Association of British Bookmakers
NAB: Appointed by the National Association of Bookmakers

POLICY STATEMENT 2011/12

Introduction

1. Section 24(1) of the Betting, Gaming and Lotteries Act 1963 requires the Horserace Betting Levy Board to assess and collect monetary contributions from bookmakers and the Horserace Totalisator Board, and to apply them for purposes conducive to any one or more of:

(a) the improvement of breeds of horses.

(b) the advancement or encouragement of veterinary science or veterinary education.

(c) the improvement of horseracing.

Strategic Objectives

2. This Policy Statement sets out 2011/12 objectives which the Board will pursue in its discharge of these statutory obligations. It will continue to review its objectives annually.

3. Generally, the Board will, within current financial constraints:

(a) Support, as cost-effectively as possible, the provision, countrywide, of horseracing in a form which retains high standards of integrity and is attractive to the racehorse owner, the racegoer and the off-course punter.

(b) Ensure its financial support for the racing industry is cost-effective, value for money and carefully monitored.

(c) Incentivise racecourses to increase their own contributions by linking grants to merit and Levy generation.

(d) Support the principle that British horseracing is the best in the world.

(e) Encourage and promote betting on horseracing across the marketing mix.

(f) Apply funds at an appropriate level to the improvement of breeds of horses and to veterinary science and education.

(g) Monitor its net assets and maintain adequate cash balances.

4. Specifically in 2011/12, the Board will, within current financial constraints:

(a) Keep under review the distribution of annual racing grants for implementation from 1st January 2012 and for 2013.

(b) Consider joint initiatives for the promotion and marketing of racing and off-course betting on racing with Racing for Change and through the Betting Patterns Working Party.

(c) Continue to obtain and analyse information about betting activities in order to inform accurately the British Horseracing Authority's optimal Fixture List.

(d) Contribute to the costs of racecourses of maintaining Channel 4 television coverage of racing in 2012, on the condition that the number of televised races is similar to 2011.

(e) Work with Government to require that overseas operators pay Levy.

Policy Objectives

Levy Board Income

5. The Board will place emphasis on generating horserace betting turnover and gross profits, thus enhancing the Levy and therefore the funds available for pursuing its statutory and policy objectives, whilst taking proper account of the needs of racegoers, the horse population and other interests.

Financial Policy

6. The Board will not borrow, other than when necessary, for short term cash flow purposes. Short term borrowing will be considered to help minimise any adverse effects on the funding of the racing industry from any fluctuations in Levy income in 2011/12 and beyond. Cash balances will be kept under regular review.

7. The Board will work closely with the Bookmakers' Committee to ensure that forecast Levy income is accurate.

8. The Board will look to reintroduce the approval of new loans from its Capital Fund when it is able to do so. Appropriate rates of interest and introductory fees will be charged on any new loans approved.

9. The Board will consider proposals for the investment of its reserves, when it is able to do so.

10. The Board will strive to have a balanced budget in 2011/12 and start to build up its reserves if possible.

LEVY BOARD EXPENDITURE

Improvement of Horseracing

The Integrity of Racing

11. The Board will contribute to the cost effective provision of technical, security and regulatory services, for the protection of the integrity of racing, in the interests of the racing public, punters and participants.

RACECOURSES

General

12. The Board will maintain its support for the provision of a countrywide live horseracing entertainment and wishes, in principle, to see existing racecourses continue in business. This objective will be constrained by available financial resources and therefore the Board will not support any racecourse regardless of cost.

13. In particular, the Board will not give a racecourse special financial assistance by way of revenue support to enable it to remain in business.

Capital support

14. The Board, in recognition of the need to promote racing as a spectator sport and therefore to improve facilities for the racegoing public and punters, will support a continuing programme of improvements, when it is able to do so.

15. The Board's priorities, in assessing applications, will be: capital improvements needed as a result of British Horseracing Authority/legal requirements, followed by horse specific projects such as turf, drainage or stabling, revenue generating projects, applications from parties other than racecourses for the improvement of horseracing or another HBLB responsibility, and loans to racecourses for non-horse specific projects. All projects must demonstrate good quality design, providing high environmental and sustainability standards. Projects with a particular focus on improving the environmental performance of facilities will be encouraged.

16. In reviewing project proposals, regard will be taken of the ability of racecourses to exploit other sources of contribution, including commercial borrowing. The Board's critical review of racecourses' applications for assistance will continue to embrace, with increased emphasis, discussions of business plans, marketing strategies, prize money policies and an appraisal of management initiatives, performance and potential. Support for projects may be made conditional on improvements in management when this is judged to be deficient. Loan funding will be restricted to those racecourse proposals which, as well as meeting the foregoing criteria, seek to address environmentally-friendly principles and to support sustainable development.

17. The Board will help finance both revenue-earning and non revenue-earning projects with interest-bearing loans from its Capital Fund, subject to available financial resources, repayable over the shortest practicable period and/or by Capital Credit grants. Where a racecourse elects to fund a material part of a project's cost via the latter means, no cash investment will be required.

18. Where appropriate, security for a loan will be required. In so far as the Board has insufficient funds to satisfy all racecourse applications in respect of revenue generating projects, the allocation process will take into account the respective forecast returns on investment.

19. During the course of the year, the Board will invite racecourses to update their Five Year Plans for their development projects, together with supporting loan and Capital Credit grant applications.

Capital Credits Scheme

20. The Board will retain the Capital Credits Grant Scheme but projects which racecourses wish to finance in this way will continue to be subject to the same procedures for examination, consideration and control as those applied to schemes which are proposed for financing from its Capital Fund. In considering such proposals, the Board will wish to satisfy itself, in the context of the racecourse's long-term improvement programme, as to priorities.

Grouping

21. The Board is mindful of the advantages which can accrue to racecourses from grouping, at least for management, financial and promotional purposes, and will, when relevant, include in its discussions with racecourses about capital assistance, consideration of grouping potential.

New racecourses

22. In reviewing any application for revenue grants in respect of a new racecourse, to which the British Horseracing Authority indicates a willingness, in principle, to grant a licence and to grant or to approve the transfer of fixtures, the Board will have particular regard to the long-term viability of the project and will also assess its likely impact on existing racecourses and the Fixture List.

Prize Money

23. Prize money levels affect all those participating in the British racing industry and have a direct influence on the overall quality of the horse population. The Board will continue to incentivise racecourses to complement this allocation by maximising their own contributions, with a view to increasing the size of the total prize money pool.

Fixture Criteria

24. The Board's Fixture Criteria for 2012 will provide support for funded fixtures, according a high priority to Levy generation.

25. The Board will continue to make provision for its Fixture Incentive Scheme in 2012.

Other heads of expenditure

26. The Board will continue to make appropriate grants to other heads of expenditure in pursuit of its statutory obligations.

Environmental and sustainability policy

27. The Board has adopted an environmental policy and has introduced environmentally-friendly principles into all relevant areas of its work and activities. This is being applied to all purchasing and office management procedures. It is also being applied as a condition, where appropriate, to its expenditure for the benefit of the racing industry.

Equality Action Plan

28. The Board will ensure that all aspects of the Equality Act 2010 are incorporated into its policies and procedures to protect the rights of individuals and to advance equality of opportunity for all. Racecourse capital project proposals will be scrutinised to ensure they provide for disabled spectators to have access and viewing of the sport in compliance with the intended requirements of the Equality Act 2010 and the Disability Discrimination Act.

Board staff

29. Following the further modernised and more cost-effective organisational structure, the Board will work with its Executive and staff to fulfil its objectives.

Relations with other bodies

30. The Board will seek to maintain good working relationships with the various authorities and organisations with which it works on a regular basis within the Racing and Bookmaking Industries, and with the Department for Culture, Media and Sport and the Gambling Commission.

BOARD RESPONSIBILITIES & FUNCTIONS

Board Members

Paul Lee*
Chairman

Penny Boys CB*
Deputy Chairman

Paul Darling QC*

Paul Roy**
Chairman, British Horseracing Authority

Ian Barlow**
Chairman, The Racecourse Association

Paul Dixon**
Chairman, Horsemen's Group

Will Roseff
Chairman, Bookmakers' Committee

Mike Smith
Chairman, Horserace Totalisator Board

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

Observer

Thomas Murphy
Bookmakers' Committee

Board Executives

Douglas Erskine-Crum CBE
Chief Executive & Accounting Officer

Rob Skeggs
Finance Director

Alan Delmonte
Operations Director

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

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

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

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

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

The above statement should be read in conjunction with the statement of auditors' responsibilities set out in the auditors' report on page 28.

Functions of the Board

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

The Board is charged with the duty of assessing and collecting monetary contributions from bookmakers and the Horserace Totalisator Board, and with applying them for purposes conducive to any one or more of:

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

CORPORATE GOVERNANCE

The Board's obligations in respect of Corporate Governance have been fulfilled by the following:

Code Of Practice

The Board has adopted a Code of Practice designed to ensure a high standard of Corporate Governance incorporating those main provisions of the Treasury's recommended Code of Practice that were deemed relevant.

Information Given To Auditors

The Accounting Officer and each of the Members of the Board have confirmed that so far as they are aware:

- There is no relevant information of which the Board's auditors are unaware.
- That they have taken all the steps that they ought to have taken in order to make themselves aware of any relevant information and to establish that the Board's auditors are aware of that information.

Register Of Members' Interests

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

Statement On Internal Control

Scope of responsibility
As Accounting Officer for the Horserace Betting Levy Board, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Board's policies, aims and objectives, and in accordance with the Betting, Gaming and Lotteries Act 1963 (as amended), whilst safeguarding the public funds and the Board's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The purpose of the system of internal control
The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process to identify the principal risks to the achievement of the Board's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31st March 2011 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk
As Accounting Officer I acknowledge my overall responsibility for ensuring that the Board is committed to high standards of corporate governance, including the effective management of risk throughout the Board. The Board is committed to a regular review of risk management and identification and is guided by the Audit Committee as to risk processes, controls and framework.

The risk and control framework

A strategic risk register is in place which is approved by the Board. The Audit Committee reviews this register at every meeting to ensure effective monitoring of risks. In the 2009/10 Annual Report it was highlighted that; *"the process to embed risk management within the Board's procedures continues to develop, although further improvement is required before we can say it is fully embedded in all our procedures. The Board is developing an improved self-assessment approach for risk identification and staff will be asked to identify the risks to their objectives, to evaluate these and to identify the necessary controls."*

In order to develop this self-assessment approach, during 2010/11 the Executive undertook a "bottom-up" review of the Board's risks and controls. The employees were divided into five departmental groups (Operations, Finance, IT, Bookmakers' Committee and Administration) and meetings were held with each of the groups enabling them to devise their own risk matrices. For each of their key risks identified, the departments compiled a list of controls that would help either to reduce the likelihood of the risk scenario occurring or minimise the impact of that scenario if it happened. Once all of the departmental meetings had been completed, the outcomes from each group were compared to each other and then considered in the context of the existing over-arching Strategic Risk Register. As a result of this review two new risks were added to the strategic risk register by the Audit Committee.

Given the confidential nature of trading information received from bookmakers, the Board recognise the importance of the management and control of information risk. This area is regularly monitored and though the overall level of risk is considered to be low, it is subject to review by internal audit at least every three years. The most recent review was undertaken in 2010/11.

The Board and the Audit Committee have agreed eleven principal risk categories, which are continually monitored. Each principal risk has an impact analysis and a risk evaluation. Early warning indicators of the risk materialising have been identified and all of the risks are assigned Risk Owners i.e. someone with sufficient authority to ensure the risk is addressed. The risk register is constantly monitored and, subsequent to the "bottom-up" review, it is considered that risk awareness and management is much more firmly embedded within the organisation. Any areas of concern that are identified are addressed, in line with the risk they pose.

The Board will continue to address issues identified by internal audit, relating to improving the control and the assurance framework, and ensure that any outstanding agreed actions relating to identified internal control weaknesses are remedied promptly. Progress will be reviewed as part of the Audit Committee's remit.

Review of effectiveness

As Accounting Officer, I have the responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the departments who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee and a plan to ensure continuous improvement of the system is in place. In particular the Board has established the following processes:

- At least nine planned Board meetings a year which are also attended by the Executives. The Board regularly reviews quarterly and annual financial reports which indicate financial performance against the budget that is agreed by the Board.
- The Audit Committee met four times during the year and supports me in my responsibilities for risk management, control and governance. The Chairman of the Audit Committee reports to the Board after each Audit Committee meeting.
- Internal audit work undertaken by external advisors and reviewed by the Audit Committee. For the year ended 31st March 2011, no significant control issues were identified by their work.

As a result of the above, there is nothing of which I am aware that leads me to believe that our systems of control are not adequate.

Information Management

The Board has suffered no protected personal data incidents during the year ended 31st March 2011 or prior years, and has made no reports to the Information Commissioner's office. Details of action taken to manage risk in this area can be found at www.hblb.org.uk.

Audit Committee

The Members of the Audit Committee for the year ended 31st March 2011 were as follows:-

Penny Boys CB (Chairman)

Ian Barlow

Will Roseff (Appointed April 2010)

The Board's Audit Committee met four times during the year to carry out its duties in accordance with its terms of reference, which are to:

- Review the Board's internal and external Financial Statements and reports to ensure that they are appropriate and reflect best practice.
- Review, and where necessary recommend appointment, of internal and external auditors.
- Approve arrangements and scope for both internal and external audits.
- Advise the Board on its annual and long term audit programs and to approve the response to the external auditor's Management Letter.
- Review the findings arising from the annual internal audit.
- Monitor the effectiveness of the Board's internal control systems.
- Review the Board's risk controls and compliance with the Treasury's recommended Code of Practice.
- Review Members' and Executives' register of interests and advise on any conflicts.
- Review the Board's banking and investment arrangements, and monitor the rolling cashflow forecasts and financial projections.
- Consider any other matters when requested to do so by the Board.
- Report once a year to the Board on the discharge of the above duties.

Remuneration Committee

The Board has a Remuneration Committee, the Members of which were as follows for the year ended 31st March 2011:

Paul Darling (Chairman)

Paul Lee

Will Roseff (Appointed April 2010)

This Remuneration Committee meets as required to:-

- Determine Executive and staff remuneration.
- Make recommendation to the Board on issues of organisation and Remuneration policy.
- Details of the Board Members' and Chief Executive's remuneration are disclosed in note 5 of the Financial Statements.

Sickness Absence

Average days sickness absence per person employed by the Board during the year ended 31st March 2011 was 1.9 days.

Freedom Of Information

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

Race Relations

The Board continues to operate, in all areas of its activity, in line with the Race Relations (Amendment) Act 2000 and its own Equal Opportunity Policy, and continues to monitor recruitment and employment. The racial composition of employees is consistent with that of the population of England and Wales, and there continues to be full equality of access to promotion, training and other features of employment, regardless of race, within the Board. Control measures are in place to ensure that all of the Board's obligations under equality, diversity and human rights legislation are complied with.

Douglas Erskine-Crum CBE
Chief Executive and Accounting Officer

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

We have audited the financial statements of the Horserace Betting Levy Board for the year ended 31st March 2011 which comprise the statement of comprehensive income, the statement of financial position, the cash flow statement, the statement of changes in reserves and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Board's members, as a body, in accordance with Section 31(1) of the Betting, Gaming and Lotteries Act 1963 (as amended). Our audit work has been undertaken so that we might state to the Board's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board and the Board's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Members, Accounting Officer and auditor

As explained more fully in the Statement of Responsibilities of Members and Accounting Officer, the Members and Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Accounts Direction issued by the Secretary of State for Culture, Olympics, Media and Sport and whether in all material respects the income and expenditure have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. We also report to you whether in our opinion the information given in the Management Commentary in the Annual Report is consistent with the financial statements. This other information comprises only the Chairman's Statement, the Chief Executive's Review of the Year, Financial Summary, Prize Money Scheme, Improvement of Horseracing, Veterinary, Breeds, Other Activities, 50th Levy Scheme and Bookmakers Committee, Policy Statement, Board Responsibilities and Functions, and Corporate Governance. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Board's affairs as at 31st March 2011 and of its deficit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union;
- have been prepared in accordance with the Accounts Direction issued by the Secretary of State for Culture, Olympics, Media and Sport;
- the information given in the Management Commentary in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

8th June 2011

Statement of comprehensive income for the year ended 31st March 2011

	Notes	2011 £000	2010 £000
Revenue			
Levy income receivable for:			
49th Levy Scheme (comparative is 48th Levy Scheme)	2a	59,530	75,385
Previous years' Schemes	2a	237	(904)
		59,767	**74,481**
Other income	2a	219	–
Interest receivable	2a	251	855
Total revenue		**60,237**	**75,336**
Expenditure			
Improvement of horseracing	3a	(77,168)	(97,868)
Other expenditure	3b	(6,287)	(7,837)
Pension finance costs	17c	(227)	(281)
Profit on disposal of non-current assets		–	5
Net (loss)/gain on available-for-sale financial assets	12	(127)	116
Total expenditure		**(83,809)**	**(105,865)**
Operating deficit		**(23,572)**	**(30,529)**
Income tax	7	–	–
Deficit for the year		**(23,572)**	**(30,529)**
Other comprehensive income:			
Actuarial loss on the defined benefit pension scheme	17g	(22)	(348)
Total comprehensive income for the year		**(23,594)**	**(30,877)**

The deficit for the year arose from continuing operations.

The notes on pages 34 to 48 form part of these accounts.

Statement of financial position as at 31st March 2011

	Notes	2011 £000	2010 £000
Assets			
Non-current assets			
Property, plant and equipment	8	126	198
Loans	10	17,938	25,065
Total non-current assets		**18,064**	**25,263**
Current assets			
Trade and other receivables	9	142	346
Loans due within one year	10	11,403	14,009
Financial assets	12	3,253	12,481
Cash and cash equivalents	13a	9,923	7,893
Total current assets		**24,721**	**34,729**
Total assets		**42,785**	**59,992**
Current liabilities			
Trade and other payables	14	(25,906)	(19,054)
Provisions	15	(601)	(601)
Total current liabilities		**(26,507)**	**(19,655)**
Total assets less total current liabilities		**16,278**	**40,337**
Non-current liabilities			
Provisions	15	(598)	(1,057)
Pension liability	17b	(406)	(412)
Total non-current liabilities		**(1,004)**	**(1,469)**
Total net assets		**15,274**	**38,868**
Reserves	18	**15,274**	**38,868**

These financial statements were approved and authorised for issue by the Board on 8th June 2011 and were signed on its behalf by:

Paul Lee
Chairman

Douglas Erskine-Crum CBE
Chief Executive and Accounting Officer

The notes on pages 34 to 48 form part of these accounts.

Cash flow statement for the year to 31st March 2011

	Notes	2011 £000	2010 £000
Cash flow from operating activities			
Operating deficit for the year		(23,572)	(30,529)
Adjustments for:			
Depreciation		78	86
Interest receivable		(251)	(855)
Fair value adjustment for loans receivable	3, 10	(628)	(23)
Net pension finance charge		227	281
Pension contributions paid		(255)	(94)
Decrease in trade and other receivables		204	1,358
Increase in trade and other payables		6,852	6,565
Decrease in provisions		(459)	(570)
Cash consumed from operations		**(17,804)**	**(23,781)**
Unrealised gain on financial assets	12	(14)	(104)
Income tax		–	–
Net cash flow from operating activities		**(17,818)**	**(23,885)**
Cash flow from investing activities			
Purchase of property, plant and equipment		(6)	(14)
Proceeds of disposal of property, plant and equipment		–	40
Net loans repaid by racecourses	10	10,361	2,126
Interest and investment earnings		251	855
Net cash flow from investing activities		**10,606**	**3,007**
Cash flow from financing activities			
Amounts transferred from financial assets		9,242	19,404
Net cash flow from financing activities		**9,242**	**19,404**
Net decrease in cash and cash equivalents		**2,030**	**(1,474)**
Cash and cash equivalents at 1st April		**7,893**	**9,367**
Cash and cash equivalents at 31st March		**9,923**	**7,893**

The notes on pages 34 to 48 form part of these accounts.

Statement of changes in reserves for the year ended 31st March 2011

	Reserves £000
At 1st April 2010	38,868
Changes in reserves 2010/2011	
Retained deficit for the year	(23,572)
Actuarial loss on the defined benefit pension scheme	(22)
Total comprehensive income for 2010/2011	**(23,594)**
Balance at 31st March 2011	**15,274**

The notes on pages 34 to 48 form part of these accounts.

1. Basis of preparation

In light of the substantial deficits in the last two financial years and the net current liabilities position at 31st March 2011, the Board has given careful consideration to its financial position, and they have considered in detail the anticipated future cash outflows and forecast income and expenditure of the Board, in particular over the next 12 months. The Board has taken steps to ensure that appropriate funding arrangements are in place. Based on this information, the Board has concluded that it is appropriate to prepare the financial statements on a going concern basis.

The financial statements are prepared under the historical cost convention, except available-for-sale financial assets, provisions and loans receivable that are stated at fair value.

The financial statements have been prepared in a form as directed by the Secretary of State for Culture, Olympics, Media and Sport and meet the disclosure and measurement requirements, in so far as it is applicable, of the 2010–2011 Government Financial Reporting Manual (FReM) issued by HM Treasury.

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

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

Betting, Gaming and Lotteries Act 1963

The statement of comprehensive income is in accordance with the provisions of the above Act (as amended). The Levy income receivable from bookmakers and the contributions from the Horserace Totalisator Board are governed by Sections 27 and 30 of the above Act, as amended, respectively. Specific applications of revenue relate to the following sections of Part 1 of the Act.

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

2. Accounting policies

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

(a) Revenue

Levy income

Receivable from bookmakers, Levy income represents the total amount which it is estimated will be collected in respect of the Levy Scheme for the 49th Scheme (for the year ended 31st March 2011) and an amount in respect of adjustments to estimates made in previous years.

Other income

Other income principally comprises voluntary contributions received from bookmakers.

Interest receivable

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

(b) Leases

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

(c) Improvement of horseracing and veterinary grants

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

(d) Property, plant and equipment

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

Estimated useful economic lives are as follows:

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

(e) Trade and other receivables

Trade receivables are reflected net of an estimated provision for doubtful accounts. This provision is based primarily on a review of all outstanding accounts and considers the past payment history and creditworthiness of each account and the length of time that the debt has remained unpaid. The actual amounts of debts that ultimately prove irrecoverable could vary from the actual provision made. Trade and other receivables are detailed in note 9.

(f) Cost of capital

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

2. Accounting policies *continued*

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

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

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

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

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

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

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

3. Expenditure costs

3a. Improvement of horseracing

	2011 £000	2010 £000
Horsemen		
Prize money	46,445	60,948
Prize money for divided races	1,136	1,079
Appearance money scheme	1,043	1,485
Development fund	339	488
	48,963	**64,000**
Racecourses		
Abandoned fixtures	710	844
Fixture incentive scheme	3,828	5,817
Fair value adjustment to racecourse loans	(628)	(23)
	3,910	**6,638**
Integrity services		
Regulatory and integrity grant	22,405	25,912
BHA pension scheme – future provision	(570)	(570)
	21,835	**25,342**
Training		
Industry training	892	1,225
	892	**1,225**
Other		
Point-to-point meetings	243	396
Channel 4 racing	970	225
Racing for change	350	-
Miscellaneous	5	42
	1,568	**663**
	77,168	**97,868**

3b. Other expenditure

	2011 £000	2010 £000
Improvement of breeds:		
Breeders' prizes scheme	1,145	1,773
Breed societies	100	283
Advancement of veterinary science and education	1,009	2,055
Administration costs	3,403	3,153
Bookmakers' Committee costs	535	261
Foreign exchange loss	–	156
Investment management fees	38	83
Pension scheme curtailment credit	–	(22)
Charitable payments	57	95
	6,287	**7,837**

4. Deficit

	2011 £000	2010 £000
This has been arrived at after charging:		
Remuneration of Board Members and Chief Executive	363	357
Depreciation	78	86
Operating lease rentals	254	242
Auditors' remuneration:		
– External audit	46	45
– Internal audit	14	14
– Other fees	–	6

5. Remuneration of Board Members and Chief Executive

Board Members are appointed by the Secretary of State and the Jockey Club, or represent the Bookmakers' Committee or the Horserace Totalisator Board.

	2011				2010			
	Board salaries £	Benefits £	Pension benefit £	Total £	Board salaries £	Benefits £	Pension benefit £	Total £
Board Members								
Paul Lee – Chairman (appointed 1/10/2009)	63,020	–	–	**63,020**	31,510	–	–	31.510
Robert Hughes – Chairman (retired 30/9/2009)	–	–	–	**–**	31,510	4,235	4,409	40,154
Penny Boys	25,890	–	–	**25,890**	25,890	–	–	25,890
Paul Darling	19,470	–	–	**19,470**	19,470	–	–	19,470
Christopher Bell – Chairman of the Bookmakers' Committee (retired 31/3/2010)	–	–	–	**–**	19,470	–	–	19,470
Will Roseff – Chairman of the Bookmakers' Committee (appointed 1/4/2010)	19,470	–	–	**19,470**	–	–	–	–
Chief Executive and Accounting Officer								
Douglas Erskine-Crum	230,000	5,252	–	**235,252**	218,000	2,666	–	220,666
	357,850	**5,252**	**–**	**363,102**	345,850	6,901	4,409	357,160

No other Board members have received any remuneration during the year.

6. Staff numbers and costs

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

	2011	2010
Administration	18	17
	18	**17**

The aggregate payroll costs of these persons were:

	2011 £000	2010 £000
Wages and salaries	970	1,148
Social security	115	146
Pension costs	163	83
Redundancy payments	8	188
Other staff costs	113	228
	1,369	**1,793**

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

Further details are shown in note 17.

7. Taxation

The charge for corporation tax represents tax charged in the financial statements of the Board in respect of interest received less certain deductions. Other revenue and expenditure of the Board is not taxable or tax deductible. There was no tax payable or refundable in the year (2010: £nil).

Factors affecting the tax charge for the year

The tax assessed for the year is lower than would be expected by multiplying the deficit before taxation by the standard rate of corporation tax in the UK of 28% (28% in 2010). The differences are explained below:

	2011 £000	2010 £000
Deficit for the year before tax	(23,572)	(30,529)
Deficit for the year multiplied by the standard rate of corporation tax	(6,600)	(8,548)
Effects of:		
Amounts not subject to taxation	6,600	8,548
Current tax charge for the year	–	–

8. Property, plant and equipment

	Leasehold improvements £000	Furniture and equipment £000	Total £000
Cost:			
At 1st April 2010	118	1,328	1,446
Additions	–	6	6
Disposals	–	(548)	(548)
At 31st March 2011	**118**	**786**	**904**
Depreciation:			
At 1st April 2010	26	1,222	1,248
Charge for the year	22	56	78
Disposals	–	(548)	(548)
At 31st March 2011	**48**	**730**	**778**
Net book value:			
At 31st March 2010	92	106	198
At 31st March 2011	**70**	**56**	**126**

Disposals totalling £548,000 made during the year reflect the fact that during the year the Levy Board has developed a new web-compatible Levy system and, in so doing, replaced the previous Levy system, which was over 12 years old and had been fully depreciated.

In accordance with IAS 38, the cost of internally developing the new Levy system has been expensed (rather than capitalised), as the future economic benefits of the system are not measurable. The cost of IT systems development expensed in the year was £111,000 (2010: £36,000).

9. Trade and other receivables

	2011 £000	2010 £000
Trade and other receivables	50	57
Prepayments and accrued income	92	289
	142	**346**

All the above amounts are due within one year.

10. Loans

	2011 £000	2010 £000
Secured:		
Repayable within five years	30,009	40,192
Repayable after more than five years	175	350
Unsecured:		
Repayable within five years	439	442
Total loans at historic cost	**30,623**	**40,984**
Fair value adjustment	(1,282)	(1,910)
Total loans at net present value	**29,341**	**39,074**
Loans included above due within one year	(11,403)	(14,009)
Loans due in more than one year	**17,938**	**25,065**

All of the loans granted are interest free. As at 31st March 2011, £30,184,000 of the loan balance (2010: £40,542,000) was secured against the assets of the racecourses to which the loans had been made.

11. Financial instruments

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

Market risk

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

Liquidity risk

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

Credit risk

The Board invests surplus cash in bonds, money market instruments and cash. The Board does not engage in speculative financial transactions and there are strict internal guidelines agreed by the Audit Committee that govern the investment of funds which ensure that funds are only invested in organisations that carry a minimum rating of A- (Standard and Poors) and or A3 (Moodys).

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

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

12. Financial assets

Financial assets comprise investments in bonds or money market instruments, which are managed on the Board's behalf by UBS. These assets are considered to be available for sale. In line with the requirements of IAS 39 ('Financial Instruments: Presentation') the investments are recognised at fair value at 31st March 2011 of £3,253,000 (2010: £12,481,000). The fair values are updated on a quarterly basis and any realised or unrealised gains or losses are recognised in the statement of comprehensive income.

	2011 £000	2010 £000
Realised (loss)/gain on financial assets	(141)	12
Unrealised gain on financial assets	14	104
Net (loss)/gain on available-for-sale financial assets	**(127)**	**116**

13. Cash and cash equivalents: Movement in the year

	2011 £000	2010 £000
Balance at 1st April	7,893	9,367
Net change in cash and cash equivalent balances	2,030	(1,474)
Balance at 31st March	**9,923**	**7,893**

13a. Cash and cash equivalents

	2011 £000	2010 £000
The following balances at 31st March were held at:		
Clearing banks and cash in hand	9,707	1,764
Money market deposits maturing in less than three months	216	6,129
	9,923	**7,893**

14. Current liabilities: Trade and other payables

	2011 £000	2010 £000
Capital grants	4,721	4,182
Accruals	3,176	4,800
Amounts due to bookmakers and Tote in respect of Levy income	17,905	9,964
Trade and other creditors	67	72
Social security	37	36
	25,906	**19,054**

15. Provisions

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

BHA Pension Scheme Provision	2011 £000	2010 £000
At 1st April	1,658	2,228
Provision utilised in the year	(609)	(609)
Unwinding of discount	38	39
At 31st March	**1,087**	**1,658**

In addition, a provision has been created during the year to provide for the costs the Board will incur in respect of premises dilapidations when the existing leasehold property is vacated. The estimated cost of work required, discounted in accordance with IAS 37, is £112,000 (2010: £nil).

The provisions have been discounted at a rate of 2.63% (2010: 2.75%) and are analysed as current and non-current as follows:

	2011 £000	2010 £000
Current	601	601
Non-current	598	1,057
	1,199	**1,658**

16. Commitments under leases

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

	2011 £000	2010 £000
Obligations under operating leases comprise:		
Buildings:		
Expiry within 1 year	259	248
Expiry after 1 year but not more than 5 years	493	724
	752	**972**

17. Defined benefits retirement scheme

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

In 2004, liabilities in respect of members drawing pensions at that time were secured through the purchase of an annuity policies in the name of the Trustees (see note 17a). The asset value for these policies has been assessed at the same amount as the related liability on the assumptions prescribed by IAS 19.

In 2005 the Trustees purchased a buyout with an insurance company which insured estimated benefits for active and deferred members based on a termination date of September 2009. In addition to an upfront payment of approximately £24m paid by the Trustees in December 2005, three further instalments of approximately £3m were made, the last of which was paid in September 2008 (net of employees' 4% and employer's 14.2% contributions).

The Trustees purchased the buyout policy with the objective of eliminating risks arising from investment returns and longevity and obtaining greater certainty over contributions required for the pension scheme up to 30th September 2009.

With effect from 1st October 2009, when the Scheme commenced winding up, defined benefit accrual ceased in the Scheme and all members who were accruing additional service immediately before 1st October 2009 became deferred members. The impact of the closure of the Scheme has been accounted for in the financial statements for the year ended 31st March 2010.

Regular employer contributions to the Scheme in 2012 are estimated to be zero. The employer may pay additional contributions to finance the deficit that currently exists (see note 17b), pay for the ongoing expenses of running the Scheme or pay for any augmentations during the year.

The valuation used for IAS 19 disclosures has been based on a full assessment of the liabilities of the Scheme as at 30th June 2007. The present values of the defined benefit obligation, the related current service cost and any past service costs were measured using the projected unit credit method.

Actuarial gains and losses have been recognised in the period in which they occur through the statement of comprehensive income.

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

	2011	**2010**
Rate of general long-term increase in salaries	**n/a**	n/a
Rate of increase in pensions in payment		
– Pre 1st April 1990 service	**5.0%**	5.0%
– Post 1st April 1990 service	**3.5%**	3.6%
Inflation rate	**3.7%**	3.9%
Discount rate for Scheme liabilities	**5.6%**	5.6%

Since the Scheme is closed to future accrual, there is no need to make an assumption about future salary increases.

17. Defined benefits retirement scheme *continued*

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 60 will live on average for a further 26.6 years if they are male and for a further 29.0 years if they are female.

For a member who retires in 2020 at the age 60 the assumptions are that they will live on average for a further 27.3 years after retirement if they are male and for a further 29.5 years after retirement if they are female.

17a. Expected return on assets

	2011		2010	
	Market value £000	Expected rate of return	Market value £000	Expected rate of return
Structured buy-out policy	25,227	5.6%	24,348	5.6%
Pensioner annuities	16,557	5.6%	16,854	5.6%
Other	276	1.5%	403	1.0%
	42,060	**5.6%***	**41,605**	**5.6%***

** The overall expected rate of return on scheme assets is a weighted average of the individual expected rates of return on each asset class.*

The Board employs a building block approach in determining the long-term rate of return on pension scheme assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Scheme at the 31st March 2011.

17b. Reconciliation of funded status to statement of financial position

	2011 £000	2010 £000
Fair value of scheme assets	42,060	41,605
Present value of funded defined benefit obligations	(42,466)	(42,017)
Liability recognised on the statement of financial position	**(406)**	**(412)**

17c. Analysis of the amount charged to expenditure

	2011 £000	2010 £000
Current service cost	–	(43)
Past service cost	–	–
Curtailments	–	74
	–	**31**
Analysis of amount charged to finance costs:		
Expected return on pension scheme assets	2,089	1,860
Interest on pension scheme liabilities	(2,316)	(2,172)
Net finance charge	**(227)**	**(312)**
Net charge to statement of comprehensive income	**(227)**	**(281)**

17. Defined benefits retirement scheme *continued*

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

	2011 £000	2010 £000
Opening defined benefit obligation	42,017	34,139
Current service cost	–	43
Interest cost	2,316	2,172
Contributions by scheme members	–	7
Age Related Rebates	–	(4)
Actuarial (gains)/losses on scheme liabilities*	(539)	7,170
Net benefits paid out	(1,328)	(1,436)
Curtailments	–	(74)
Closing defined benefit obligation	**42,466**	**42,017**

** Includes changes to the actuarial assumptions.*

17e. Changes to the fair value of scheme assets during the year

	2011 £000	2010 £000
Opening fair value of scheme assets	41,605	34,262
Expected return on scheme assets	2,089	1,860
Actuarial (losses)/gains on scheme assets	(561)	6,822
Contributions by the employer	255	94
Contributions by scheme members	–	7
Age Related Rebates	–	(4)
Net benefits paid out	(1,328)	(1,436)
Closing fair value of scheme assets	**42,060**	**41,605**

17f. Actual return on scheme assets

	2011 £000	2010 £000
Expected return on scheme assets	2,089	1,860
Actuarial (losses)/gains on scheme assets	(561)	6,822
Actual return on scheme assets	**1,528**	**8,682**

17g. Analysis of amounts recognised in statement of comprehensive income

	2011 £000	2010 £000
Total actuarial losses	(22)	(348)
Total loss	**(22)**	**(348)**
Cumulative amount of losses recognised*	**(349)**	**(327)**

** The cumulative amount of (losses)/gains recognised is calculated from the date of transition to IFRS, 1st April 2008.*

17. Defined benefits retirement scheme *continued*

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

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Fair value of scheme assets	42,060	41,605	34,262	28,927	38,836
Defined benefit obligation	(42,466)	(42,017)	(34,139)	(31,650)	(40,037)
(Deficit)/surplus in scheme	**(406)**	**(412)**	**123**	**(2,723)**	**(1,201)**

** It is only a requirement under IFRS to show data from the date of transition. Figures prior to 31st March 2009 given are those provided under FRS 17 and are for information only.*

17i. History of experience gains and losses

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Experience gains/(losses) on scheme assets	(561)	6,822	1,723	(9,467)	(2,222)
Experience gains/(losses) on scheme liabilities*	(226)	178	(36)	1,020	(9)

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

18. Reserves

Reserves represent the cumulative undistributed historic surpluses of the Board.

19. Related parties

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

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

20. Contingent liability

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

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

20. Contingent liability *continued*

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

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

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

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

OFFICES AND ADVISERS

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