

<b>Title:</b> Charges on Bookmakers 2017	<b>Regulatory Impact Assessment (RIA)</b>		
	<b>Date:</b> February 2017		
	<b>Type of measure:</b> Secondary Legislation		
<b>Lead department or agency:</b> Department of Agriculture, Environment and Rural Affairs (DAERA)	<b>Stage:</b> Consultation		
	<b>Source of intervention:</b> Domestic NI		
<b>Other departments or agencies:</b> Department of Finance	<b>Contact details:</b> Farm Policy Branch		
	Room 919, Dundonald House,		
	Belfast BT4 3SB		

## Summary Intervention and Options

<b>What is the problem under consideration? Why is government intervention necessary? (7 lines maximum)</b> The Horse Racing Order (NI) 1990 requires DAERA to manage the Horse Racing Fund and to specify by Order charges to be paid annually by bookmakers, intending to apply for or renew a bookmaker or bookmaker office licence, into the Fund. The current charges (£1,123 for an office and £99 for a bookmaker licence) were originally set in 2007 but the office charge was increased, following agreement between bookmakers' and racecourses' representatives, to £2,000 for a 5 year period from 2010 to 2014. The office charge reverted back to £1,123 from 2015. A new agreement has been reached between bookmakers' and racecourses' representatives for revised rates for a bookmaker office starting from 2017 and it is necessary to set the charges by Statutory Regulation.	
<b>What are the policy objectives and the intended effects? (7 lines maximum)</b> The policy objective is to replace the existing Statutory Regulation to amend charges on bookmaker offices. The aim is to set the charges as agreed by bookmaker and racecourse representatives. The intention is that the charges will, through the Fund, provide assistance to the racecourses with regard to the provision of racing, including prize money, facilities and services, and health and safety of spectators, with some of the funding for improvement of eligible infrastructure.	
<b>What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base) (10 lines maximum)</b> Consideration was given to either a voluntary arrangement or maintaining the status quo by doing nothing as alternatives to Statutory Regulation.  A voluntary arrangement between the 2 parties outside the Horse Racing Fund would not be enforceable by DAERA. There is a risk that the total funding expected is not realised under a voluntary arrangement. It is also considered that there is still a need for the Fund, as agreed by the racecourse and bookmaker representatives. Statutory Regulation of the agreement between bookmakers and racecourse representatives is the preferred option and will help ensure the sustainability of racing here and also provide adequate regulation of the monies contributed by bookmakers to the Fund.	
<b>Will the policy be reviewed?</b> It will be reviewed	<b>If applicable, set review date:</b> n/a

Cost of Preferred (or more likely) Option		
Total outlay cost for business £m	Total net cost to business per year £m	Annual cost for implementation by Regulator £m
0.597 per year (average over 5 yrs)		0.007

<b>Does Implementation go beyond minimum EU requirements?</b>		<b>NO</b> <input type="checkbox"/>	<b>YES</b> <input checked="" type="checkbox"/>
Are any of these organisations in scope?	<b>Micro</b> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	<b>Small</b> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	<b>Medium</b> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
		<b>Large</b> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	

The final RIA supporting legislation must be attached to the Explanatory Memorandum and published with it.

Approved by:                      Date:

**ECONOMIC ASSESSMENT (Option 1)**

Costs (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Cost (Present Value)
Low	1.1 Optional	5	0.597 Optional	2.9 Optional
High	Optional		Optional	Optional
Best Estimate				

**Description and scale of key monetised costs by 'main affected groups'** Maximum 5 lines  
The cost for a personal bookmaker's charge will remain at £99. For a bookmaker's office the charges over 5 years will be 2017: £1600, 2018: £1700, 2019: £1800, 2020: £1900, 2021: £2000. The administration costs for government will be in the region of £7k - £10k per year and is paid from the Fund. Administration costs to the industry are nominal, estimated at around £5000 p.a., and will not change, with the main cost being the payment of the charge itself.

**Other key non-monetised costs by 'main affected groups'** Maximum 5 lines  
None

Benefits (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Benefit (Present Value)
Low	Optional		Optional	Optional
High	Optional		Optional	Optional
Best Estimate				

**Description and scale of key monetised benefits by 'main affected groups'** Maximum 5 lines  
The main benefit is to the racecourses through increased drawdown from the Fund. Local business and racing related businesses such as breeders and trainers, livery providers and farriers will continue to receive business from the courses. Many of those businesses are likely to be small businesses. Additionally local businesses in particular in Lisburn and Downpatrick may benefit from trade generated by visitors and competitors attending race meetings.

**Other key non-monetised benefits by 'main affected groups'** Maximum 5 lines  
The two racecourses will continue to provide race meetings in Northern Ireland which will contribute to a positive image of the region.

**Key Assumptions, Sensitivities, Risks** Maximum 5 lines  
Assumption is that the number of charges paid will not change significantly. There have always been variations in the number of charges paid ranging from 318 to 330 office charges and 119 to 124 personal charges over the last 7 years. It is also assumed that the governance arrangements in the sport will not change significantly; that both courses will host at least the same number of meetings; will benefit from the same income streams as before; and the leases for the racecourses will be renewed.

**BUSINESS ASSESSMENT (Option )**

Direct Impact on business (Equivalent Annual) £m			
Costs:	Benefits:	Net:	

**Cross Border Issues (Option )**

**How does this option compare to other UK regions and to other EU Member States (particularly Republic of Ireland)** Maximum 3 lines  
All racecourses in Great Britain and the Republic of Ireland rely on support from funds paid by bookmakers, namely the Horse Betting Levy Board levy scheme model, currently a percentage of gross profit of British horseracing business, in Great Britain, and the Horse and Greyhound Racing Fund in the Republic of Ireland, which is funded by taxation.

## Evidence Base

### Problem Under Consideration

- 1.1 An annual licence is needed from the local magistrates' court to operate as a bookmaker and to take on-course and off-course bets in Northern Ireland. An office licence is required for premises in order to take off-course bets.
- 1.2 Bookmakers are obliged to pay an annual charge to DAERA, which goes into the Horse Racing Fund (the Fund), if they intend to apply for, or renew a licence to be able to continue to operate as a bookmaker. DAERA supplies all the bookmakers who pay the charge with a receipt. This receipt is then required by the courts before considering the granting or renewal of the annual bookmaking licence.
- 1.3 The Fund can be used for the object of assisting the operation and development of the two racecourses by making payments to:
  - a. Provide or supplement prize money;
  - b. Provide or improve technical or other services with respect to the operation of racing;
  - c. Ensure the health and safety of spectators at race meetings or for the proper conduct of racing.
- 1.4 In addition to the Fund contributions, some licensed bookmakers also pay direct annual fees to the racecourses to gain the right to operate as on-course bookmakers at both Down Royal and Downpatrick race courses. The agreement currently in place is that each on-course bookmaker trading at Down Royal and Downpatrick pays the racecourses a cash fee of £700 and £400 pa respectively. Some off-course bookmakers are also on-course bookmakers. On-course bookmakers only derive income from the days they are at the racecourses.
- 1.5 The current charges on bookmakers are £1,123 for a bookmaker's office and £99 for a personal bookmaker's licences. These charges are the rates that were set by 2007 legislation. The rate for off-course bookmakers was increased to £2,000 for 5 years (2010 to 2014) following a previous agreement between the bookmakers and the two racecourses. The extra £877 was partially intended to address deficiencies with infrastructure identified by the Turf Club and by health and safety experts.
- 1.6 The off-course charge reverted to £1,123 on 1 January 2015, while the personal licence charge remained at £99.
- 1.7 From an administrative and regulatory perspective, horseracing on the island of Ireland is organised on an all-island basis in that fixture lists and prize money minima are set by Horse Racing Ireland (HRI) and regulation is the responsibility of the Racing Regulatory Authority. However, funding for the two racecourses in Northern Ireland is arranged in a different way from that in the Republic of Ireland and different arrangements again exist in Great Britain. Most of the funding, in all three jurisdictions, is raised from levies or taxes on bookmakers.
- 1.8 In Great Britain the Betting, Gaming and Lotteries Act 1963 provided for a Bookmakers' Committee to recommend the annual Levy Scheme to the Horse Betting Levy Board (HBLB). The Horserace Betting Levy Act 1969 introduced the process whereby the Secretary of State (SoS) determines a Levy scheme should the HBLB not accept a recommendation from the Bookmakers' Committee. The Department of Culture, Media and Sport in GB intends to replace the current Horserace Betting Levy arrangements by April 2017.
- 1.9 Levy schemes in Great Britain recommended by the Bookmakers' Committee has used a number of methods for determining the Levy including fixed fees, percentages of turnover and the current method of a percentage of gross profits of betting on British horseracing. In addition, over the past 4 years, the four largest retail bookmakers, William Hill, Ladbrokes, Coral and

Betfred made Additional Voluntary Contributions to the scheme as well as voluntary payments from offshore businesses Betfair and Bet365.

- 1.10 In terms of administration the HBLB had an administration cost of £1.9m in 2015 on an income of £72.5m which is 2.6%. In the preferred option for the Horse Racing Fund, the administration is estimated at £10k from an income of around 588k (average over 5 yrs) which is 1.7%.
- 1.11 A goal of the HBLB is to maximise betting at race meetings which will in turn increase the amount of levy paid by bookmakers. This is largely done by increasing prize money and by management of the fixture list.
- 1.12 In the Republic of Ireland, the 1% betting tax on off course bookmakers' turnover is paid by the Irish government into the Horse and Greyhound Racing Fund (H&GRF), 80% of which goes to horse racing. The H&GRF has on occasion been topped up by the Irish government. Betting turnover at Northern Ireland bookmakers will not increase the betting tax paid into the H&GRF and there may be less incentive to set local fixtures that will maximise betting.
- 1.13 The income derived by off-course bookmakers from horseracing is not restricted to Northern Ireland, and in fact horseracing in other jurisdictions, particularly the Republic of Ireland and Great Britain, provides the vast majority of the horseracing income of bookmakers in Northern Ireland. This is in comparison to off-course bookmakers in Great Britain and the Republic of Ireland who generate larger incomes from horseracing held in their own jurisdiction. Bookmakers in Northern Ireland also face restrictions in their operations, in comparison to Great Britain, as Sunday opening is prohibited here.
- 1.14 The Irish Bookmakers Association – Betting Industry Report in 2015 reported that in the Republic of Ireland the number of bookmakers' shops has fallen from 1,365 in 2008 to 953 in 2015. In 2015 Ladbrokes, one of the largest bookmakers, entered examinership. The report stated that approximately 12% of overall turnover in Irish Betting Shops was from Irish horse racing producing around €1.2 million profit but over €26 million went to Horse Racing Ireland. NITGA in their response to the Department's public consultation in 2015 stated that based on a sample of shops 0.4% of turnover was derived from the two racecourses in Northern Ireland.
- 1.15 Racecourses receive a proportion of income from media rights which are also paid by bookmakers. Bookmakers currently pay around £30k per annum per shop, for the right to show broadcasts of racing in bookmakers' shops. In 2015 the local racecourses received around £928k from media rights.
- 1.16 There is a lack of recent research showing the value of horse racing to the Northern Ireland economy. However, *Deloitte – Economic Impact of British Horseracing 2013* calculated that for horse racing in Great Britain, for every £1 spent in the core industry and in off-site expenditure, a further £1.53 is generated in secondary expenditure by linkages in the economy.
- 1.17 The racecourses approached the Department because they said their costs have risen significantly and the charges which reverted to those set in set in 2007 were affecting their ability to invest in developing the racecourses. In addition, the amount of prize money required per race by HRI has continued to increase. HRI has provided additional funding to Down Royal and Downpatrick in 2015 and 2016 to help cover a shortfall in prize money.
- 1.18 The two racecourses have also identified a number of infrastructure requirements to be addressed going forward, including the widening of the track at Downpatrick. Horse Racing Ireland (HRI) administer horse racing on an all-island basis and, can provide grants of up to 40% for development of racecourses. It was announced by HRI in December 2016 that Down Royal has had a capital development grant of €183,000 approved.
- 1.19 Historically increases in charges were at the rate of inflation with the exceptions being in 1992 when the rate increased by 25%, in 1996 when the rate increased by 90% and most recently when the rate increased by 73% in 2010 for a five year period.

- 1.20 The racecourses had initially sought an office charge at £4,374 which would have included significant development of the racecourses. However, it was considered that this was beyond the assistive capacity of the Fund. Bookmakers had preferred an inflationary increase of around £1450.
- 1.21 Following a period of negotiations both parties have agreed to increases over 5 years beginning in 2017 at £1600 and rising by £100 per year to £2000 in 2021. The on-course charge will remain at £99 - the proposed Order has been drafted on this basis. The funding will primarily be used for prize money, technical services and health and safety, with some funding for improvement of eligible infrastructure.

## **Rational for Intervention**

- 2.1 Due to the historic close relationship between racing and betting, the two activities are interdependent. The racing industry supplies a product (the outcome of races), which forms the premise for the bookmaking industry to generate revenue. In turn, through the Fund, bookmakers provide funding which supports the continued viability of the racing industry.
- 2.2 The option of doing nothing, leaving the on-course rate at £1123, would lead to a risk that horse racing here would become unviable in the future and it would not meet the funding needs of the racecourses. Safe and well maintained facilities require a dependable funding stream.
- 2.3 A voluntary arrangement, with the racecourses agreeing a rate with the bookmakers who would make payments directly to the two racecourses, would meet stakeholders' needs and would benefit Government by removing the need to administer the Fund. However, a voluntary arrangement would not provide any enforceability or Government regulation of spending.
- 2.4 Government intervention ensures that the pursuit of each party's interests does not lead to a situation where betting operators use the racing betting platform without contributing appropriately to the cost of conducting racing, and it also ensures that the contribution made by bookmakers to racing is appropriately used for the operation of the racing industry here. Failure to continue to intervene in this sector could result in market failure where the pursuit of each party's own interests could fail to result in safe, and sustainable racing in Northern Ireland.
- 2.5 HRI did provide additional support in 2015 and 2016 but have indicated that they would not be able to increase support to keep the racecourses open if there was no levy paid or if it was too low. Other sources of funding such as Department of Communities/Sport NI and the Big Lottery Fund have not been available to the racecourses.
- 2.6 The Petrus Consulting review of Irish racecourses<sup>1</sup> found that income from traditional sources at Irish racecourses has fallen and it is increasing media rights income that is allowing racecourses to achieve profit. For all racecourses in 2012 profitability, as expressed by a percentage of turnover, was 15% and for Grade I courses (Down Royal is Grade I and Downpatrick Grade is II) it was 7% profit on turnover with Grade II earning just 3%.
- 2.7 The profit on percentage of turnover<sup>2</sup> in 2012 at Down Royal was 14.1% and at Downpatrick was 4.5%. In 2015 the percentages were 2.9% and 0% respectively.

## **Policy Objective**

- 3.1 The policy objective is to replace the existing Statutory Regulation to amend charges on bookmakers. The aim is to ensure fair charges are set for bookmakers that will assist in

---

<sup>1</sup> *Review of the Contribution which Irish Racecourses make to the Horse Racing Industry and the Finance of the Racecourses – Petrus Consulting, September 2013*  
[http://www.air.ie/The\\_Financing\\_and\\_Economic\\_Contribution\\_of\\_Racecourses\\_in\\_Ireland\\_2013.pdf](http://www.air.ie/The_Financing_and_Economic_Contribution_of_Racecourses_in_Ireland_2013.pdf)

<sup>2</sup> *Turnover including grants from the Fund*

ensuring the future of horse racing in Northern Ireland.

## **Description of Options Considered (Including do nothing)**

### **Option 1 – Do Nothing Maintaining the Status Quo**

- 4.1 The main benefit of maintaining the status quo is that no additional costs would be passed on to bookmakers in the region. There is also a potential benefit associated with saving any further Government expenditure required in considering and implementing any increased funding arrangements for horseracing in Northern Ireland.
- 4.2 This could be a high risk option in terms of the potential impact on the continuation of racing at Down Royal and Downpatrick. It would not meet the objective of implementing the agreement reached between the representatives of the racecourses and the bookmakers and would not address the racecourses funding needs.
- 4.3 It is not considered that this option is viable.

#### **Costs and Benefits of Option 1**

- 4.4 There would be no additional costs in maintaining the status quo though there would likely be a cost to the racecourses in terms of being able to compete with other racecourses and continue horseracing at one or both courses. There may be a future cost in not investing in the racecourses in terms of having safe facilities and services that allow the racecourses to maintain the standards expected by racegoers and compete with other racecourse venues.
- 4.5 The current cost to bookmakers in 2016 was £380,323 at current charges of £1123 and £99. In the 2015 consultation bookmakers' representatives did not advocate keeping the 2007 charges and acknowledged that at least an increase by inflation above the status quo was justified.

### **Option 2 – Agreed Increase by Voluntary Arrangement**

- 4.6 This option would entail agreed payments being made directly to the two racecourses by bookmakers. There are already payments received by the racecourses in respect of on-course bookmakers in order that they may have a pitch at local meetings. However, there are no existing payment arrangements between the racecourses and those bookmakers who operate bookmaking offices only.
- 4.7 Any voluntary arrangement would be outside the Horse Racing Fund and would not be enforceable by DAERA. There is a risk that funding expectations of the racecourses would not be met. Whilst they could refuse entry to racecourses for on-course bookmakers if they did not make payments, they would have no sanction against off-course bookmakers.

#### **Costs and Benefits of Option 2**

- 4.8 The cost of the agreed increase would be met by off-course bookmakers with an annual increase over the next five years:

2017 - £1600  
2018 - £1700  
2019 - £1800  
2020 - £1900  
2021 - £2000

This would see an increase of around £1.1 million, not allowing for any inflationary increase which would be in the region of £1430 if applied in 2017, in contributions over the current charges.

- 4.9 It would reduce the cost of compliance in terms of there being no administration costs (£7 – £10k p.a.), including the NIAO audit fee, for DAERA and a reduction in administration for the racecourses in respect of making claims to DAERA for payment from the Fund. However, there may be little incentive for off-course bookmakers to make the payments and the racecourses would need to develop a system for receiving the payments.
- 4.10 It would also remove the costs incurred by DAERA in setting new rates which is not recovered from the Fund.

### **Option 3 – Agreed Increase by Statutory Regulation**

- 4.11 This option would implement by means of Statutory Regulation the increases over 5 years starting from 2017 that have been agreed between NITGA and NIHRG. Under this option bookmakers would not be able to renew their bookmaker licence without the receipt issued by DAERA thereby ensuring payments are made into the Fund. It would also assure the bookmakers that the Fund is used only for the areas set out in the Horse Racing (Northern Ireland) Order 1990 by ensuring verification of claims and audit of the Fund.

#### **Costs and Benefits of Option 3**

- 4.12 The cost to bookmakers would be the same as for Option 2. There would continue to be an administration charge paid from the Fund to DAERA of around £7 – 10k per year.
- 4.13 This option imposes some costs on the racecourses in complying with the 1990 Order, places some restrictions on what they can use the Fund for and ensures that spend complies with the Northern Ireland Guide to Expenditure Appraisal and Evaluation. Those restrictions would not apply in a voluntary arrangement.
- 4.14 Only Option 3 ensures that all bookmakers make a payment that benefits horseracing in Northern Ireland.

#### **Rationale and Evidence that Justify the Level of Analysis Used in the RIA**

- 5.1 The evidence in this RIA follows a period of public consultation and subsequent negotiation with the bookmakers' and racecourse representatives over the last 3 years. The recommendations in this RIA are a result of an agreement reached with both parties.
- 5.2 DAERA has received and considered evidence from both parties over that period as well as responses from the public consultation. DAERA has also considered developments in other jurisdictions in particular the Republic of Ireland and Great Britain, which have some similarities to arrangements in Northern Ireland but don't have the same scope or range of use.
- 5.3 DAERA has also given consideration to bookmakers' ability to pay. Although information is not readily available on all bookmakers' accounts, consideration was given to the accounts and annual reports of 12 bookmakers available either on their company websites or on the Companies House website. DAERA is satisfied that the new charges, which are no more than the rates paid between 2010 and 2014, will not put a significant burden on bookmakers.

#### **Risks and Assumptions**

- 6.1 Risks associated with not implementing the agreed increase to the Fund include:
- a. the risk of undermining the ability of racecourses in Northern Ireland to compete and continue horseracing at one or both courses;
  - b. the risk of the racecourses being unable to maintain the standards expected by racegoers.

- 6.2 It is assumed that the number of charges paid will not reduce significantly. Generally bookmaking office businesses are sought after due to the nature of the licensing system in Northern Ireland. The information on accounts of bookmakers that the Department has seen and the fact that the charges are not higher than the rate paid between 2010 and 2014 support this assumption.
- 6.3 There has been a slight reduction in the number of bookmakers' office charges paid during the period of the increased rate of £2,000 between 2010 and 2014. This has occurred during a period of economic downturn and it is not possible to determine the precise reason for this and no explanation was given in the previous consultation responses. The number of office charges paid increased slightly between 2013 and 2014, dropped in 2015 before rising again in 2016.
- 6.4 It is assumed that the necessary regulation will be in place by 1 July 2017 in time to affect the charges paid in 2017. The Department will seek to ensure that every effort is made to progress the regulation. Should it not prove possible to enact the required legislation as proposed before 1 July 2017, DAERA will re-engage with NIHRG and NITGA to agree proposals for a rate to start from 2018.

### **Direct Costs and Benefits to Business**

- 7.1 The main beneficiaries are the two racecourses and businesses which benefit from the operation of horse racing in Northern Ireland. Businesses such as CCTV services, starting tape services, printers, advertisers, caterers, security staff, tradesmen, farriers, on-course bookmakers, staff employed either on a permanent or part-time basis and vets. Many of those businesses will be small or micro businesses. There may also be some benefits to local tourism.
- 7.2 The direct costs are borne by the bookmakers as a requirement to make the levy payments in The Horse Racing (NI) Order 1990. There are no additional costs to the bookmakers in terms of compliance over and above the requirement to pay the charge. Bookmakers have been paying the annual charges for 40 years and it is a well established process. Changing the amount of the charge will not have any further impact other than the amount of the charge itself.
- 7.3 The administration costs to DAERA are recoverable from the Fund and are currently around £7,000 p.a. Any increase in the amount paid into the Fund is unlikely to affect the number of claims made to DAERA as these tend to be made following race meetings and would not increase administration costs to DAERA significantly.

### **Wider Impacts**

- 8.1 Any environmental impacts due to development at the racecourses themselves will be minimal and impacts on local communities are likely to be welcomed in terms of the local economy. Both Newry, Mourne and Down District Council and Lisburn and Castlereagh City Council have recognised the tourism benefits and are supportive of both racecourses.