

**MINUTES OF THE FIRST MEETING OF THE CROSS PARTY GROUP ON
SCOTTISH HORSERACING AND BLOODSTOCK INDUSTRIES
HELD ON WEDNESDAY 22nd FEBRUARY 2017 AT 5.30PM
IN THE SCOTTISH PARLIAMENT**

1. PRESENT

Miles Briggs MSP; Rachael Hamilton MSP; John Scott MSP; Ross Hamilton; Donald Morrison

In attendance:

Julie Williams, independent bookmaker; Niall Duncan and Christopher Hector, Ladbrokes Coral; Andrew Jamieson, William Hill; Delly Innes (minutes)

2. UPDATE FROM ROSS HAMILTON OF THE BRITISH HORSERACING AUTHORITY

The BHA are delighted that this Group has been established to promote the interests of the Scottish racing industry to Parliament. Nick Rust, Chief Executive of the British Horseracing Authority, was scheduled to be speaking initially, but ongoing business in London required his presence, and Ross Hamilton kindly agreed to speak on his behalf.

British Racing

British horseracing is a world leader in Racing, and is the highest attended sport in the country behind football. With 1,450 fixtures held at 59 racecourses Britain every year, with hundreds of training yards and thousands of breeding operations – British Racing is a significant industry for the wider British economy.

British Racing provides direct, indirect and associated expenditure of £3.45bn for the British economy every year. For every £1 spent in the core Racing industry – a further £1.53 is generated elsewhere in the British economy.

17,400 FTE positions are provided for in the British Racing industry – and 22,000 individuals – including 550 licensed trainers employing 6,500 Stable Staff, 450 licensed jockeys, 2,200 racecourse employees and 3,000 in the Breeding industry. Further, tens of thousands of full-time equivalent jobs are directly or indirectly supported by the British Racing industry – including significant numbers of jobs in the betting industry, farriery and veterinary services.

Horseracing is intrinsically related to betting – with over £11 billion annually wagered on the sport on-course, in betting shops and – increasingly – online or on mobile. With record prize money of over £135 million anticipated in 2017 – the industry is having to work hard to maintain that level with recessionary pressures and the broken funding system the racecourses have faced over the last decade from betting to Racing.

Over 5.98 million people came through the turnstiles last year to watch British Racing – and that is not just through sheer volume of meetings. Just shy of 1 million people went racing in July alone while Christmas period attendances were up year on year by almost 14%.

In terms of attendance, racing is blessed with three of the top ten biggest sporting events annually, including Royal Ascot, the Cheltenham Festival and the Epsom Derby. The Grand National also sits just outside the top ten.

Scottish Racing

The Scottish Racing industry plays a key role in the wider British racing industry – adding to its diversity and quality. Scotland has five of Britain's 60 racecourses (8%), 108 of 1,496 Fixtures in

Great Britain (7.2%) and there are 30 licensed trainers across Dumfriesshire, Roxburghshire, Perthshire, the Borders and Fife.

Scottish racecourses face a big challenge – geography. On average, it costs £200 more to transport a runner to a Scottish racecourse from our major training centres in England – or Ireland – with ¾ of runners at Scottish courses coming from outside Scotland. The average number of runners at a race meeting in Scotland is 13% lower than at the five nearest racecourses in the North of England.

This means the racecourses have to work very hard to attract runners, to enhance the ownership experience, and drive attendances. They are doing this extremely well – Ayr, Hamilton Park and Musselburgh are three of the twelve courses listed by the Racehorse Owners Association for their Gold Standard award, recognising excellence in the owners' raceday experience.

This is important for the sport, in a period where the number of individual owners has dropped by one-sixth in the last decade.

Scotland's racecourses have recorded their highest, and second-highest, attendances on record in 2015 and 2016 respectively. Average attendances in 2016 at Scottish racecourses were 38% higher than at the five most northerly English racecourses – and despite hosting 18 fewer fixtures they welcomed 81,000 more spectators through their gates than these courses (albeit they are not the largest in England).

The work which Scottish racecourses are doing to make the raceday experience as a whole more enjoyable for spectators is demonstrated that all have a 3 star or higher visitor attraction rating from Visit Scotland, with Ayr and Musselburgh receiving 5 stars.

One other critical element to Scottish Racing's success in recent years has been its willingness to work as one cohesive unit – for marketing, promotional and representation purposes. The benefits of this are varied but one tangible outcome is the very existence of this group. Scottish Racing has also held events, supported by BHA, in Westminster to promote the Scottish Racing industry's interests there. The BHA is extremely grateful to all of the Members of the Cross Party group, in particular Miles Briggs MSP, for their support in getting it established.

Funding from Betting Activity

The first point to make is that it is growing – contrary to many suggestions and in contrast to many other racing jurisdictions, overall betting turnover is growing (driven by significant growth in the online space). Over £11 billion is bet on British racing annually.

2016 was a key year for betting activity on the sport – it was the first year that bookmakers made more money from online betting on British racing, than in betting shops, with the majority of turnover having been derived from online betting for the last 2-3 years.

In terms of retail betting, turnover has been in gradual decline but still represents 53% of off-course betting turnover according to the latest Gambling Commission statistics, while it is just over 40% of William Hill's Over The Counter revenues. The vast majority of betting on the sport is with the 3 largest operators.

The UK remote betting market is a far more diverse affair than its retail counterpart – with myriad operators selling their product in to the British market. This makes it far more difficult to assess market share but the general wisdom is that the three major retail operators are joined by Paddy Power-Betfair, Bet365, SkyBet, and many others.

Racing is second to football, but is a clear second at 25-30% of turnover for the majority of online operators. With this rapidly changing, and ever more competitive, betting market, it is critical for British racing to do all it can to continue to provide an attractive betting product which meets the

needs of the modern betting market (e.g. races at times which generates the highest turnover) but has been doing so against a broken funding mechanism.

That funding mechanism is called the Horserace Betting Levy, which has been in place since the 1960s (when off-course betting was first legalised) and exists as “a mechanism for transferring funds from the business of betting on horseraces to ‘horseracing’ in a broad sense.”

These funds are then directed in to key areas of expenditure – including prize money for owners and participants, integrity provision, training and education initiatives, and veterinary research and education – which benefit not only the racing industry, but the betting industry.

This is in line with the internationally recognised, and replicated, principle that the betting industry has a common interest in a sustainably funded, well-regulated racing industry, from which they derive hundreds of millions of pounds in profits annually.

The unfortunate reality is that the Levy simply fails to reflect the modern betting market. The Levy reached a peak in 2007-08, having averaged a yield of £106 million in the five year period prior to that. However, the Levy yield declined almost by half within three years to a yield of only £59.5 million in 2010-11. And we are almost back at that level again in 2016-17...

This is because the Levy does not capture remote betting activity on a Point of Consumption basis – meaning that online operators based offshore in Gibraltar and other locations have not had to pay a return. With more than 50% of betting on the sport now taking place through these channels, it is simply inconceivable that the Levy could continue on its current basis.

Many online bookmakers, including almost half of the remote betting market, have made voluntary contributions at lower rates under British Racing’s Authorised Betting Partner scheme in recent years.

After many years of lobbying and representation by the racing industry, with cross-party support, we are now on the brink of a historic reform of the Levy.

The Government has announced that a new Levy will be introduced by April 2017, capturing all betting activity on the sport. The Minister for Sport, Tracey Crouch MP announced that Levy replacement will be charged at 10% of a betting operator’s gross win on British Racing from British customers. This means that all operators taking bets on British racing will have to pay a fair return to British racing. A 10% rate across all operators will mean up to an extra £30m annually for the British racing industry.

The 10% rate will be locked in for seven years, and certainty of income will also allow the sport to better plan big expenditure initiatives over several years.

Another key aspect of the announcement a fortnight ago was confirmation that in early 2018, the HBLB will be replaced by two new bodies: The Gambling Commission, which licences gambling in Great Britain, will take responsibility for collecting the Levy and enforcing its collection. A new Racing Authority, representative of BHA, RCA and Horsemen will be given responsibility to distribute the Levy in line with the existing statutory objectives. This allows the sport to plan expenditure better, and will involve working closely with the betting industry to target spend and the veterinary sector on veterinary science and education spend.

Clearance from the European Commission for the measure is anticipated shortly, and there will also need to be a vote in each House of Parliament (although there is cross-party support for this change). There is also the possibility of a legal challenge.

This is a measure which has the support of the Scottish Government, and many of the parties represented in the Scottish Parliament, and Ross Hamilton welcomed the ongoing support of the sport.

Racing and Betting Industries

Ross Hamilton stressed that there was now an opportunity to work with the betting industry to grow betting activity on the sport, and added that it would be disappointing if the betting industry resisted the Levy replacement.

Betting on horseracing is a popular, traditional and socially responsible form of gambling that can be a significant platform for the betting industry moving forward.

Ross Hamilton closed his presentation by saying that Scottish racing has demonstrated what can be achieved by different organisations coming together – and he hopes this is something that betting and racing can replicate moving forward.

Rachael Hamilton suggested that the CPG write a letter of support for the Statutory Instrument to the UK Government.

Rachael Hamilton asked what level of representation Scotland will have in the creation of the new Racing Authority. Ross Hamilton replied that Scottish Racing will have representation via its membership of the Racecourse Association, the Horsemen in Scotland will be represented via the Horsemen's Group, and the BHA in its role as regulatory body will look to represent the interests of the whole of British Racing. She went on to ask how the new funds will be divided, and how the new system will improve the breeding of horses, the quality of runners for the racecourses, and economic growth in Scottish racing. Ross Hamilton replied that the new funds will improve the prize money which in turn will improve the lot of horsemen across the country, whilst also helping support Scottish racecourses.

Miles Briggs asked what percentage of the £30m will be coming to Scotland as additional prize money. Ross Hamilton replied that, in recent years, Levy Board expenditure has been higher than the income, and as such there will not be a transformative rise in prize money in the immediate term. Moving forward, we hope to see a clear proportion of that revenue coming to Scottish Racing through the initiatives are in place.

Ian Good added that the five Scottish racecourses have used their own funds to increase prize money, when income figures from the Levy Board were decreasing. This was necessary to attract quality runners from further afield, given the geography of the Scottish tracks. This will hopefully continue but there will also be extra funds available to encourage further participation in Scottish Racing.

John Scott asked what was being done to attract runners from Ireland. A significant number of runners in Britain annually are trained in Ireland, so if there was a significant barrier this would be an issue. The majority of bloodstock sales from Ireland are to the UK, and the BHA will be working with the UK Government. By improving the prize money and the raceday experience for Irish owners, it is hoped will attract more people to the racecourses. Ireland's funding system has already changed in line with the levy replacement, and it is hoped to replicate this in Britain.

A tripartite agreement between France, Ireland and Britain regarding the movement of racehorses, pre-dates the entrance to the EU, and the industry would want this to continue post-Brexit. Miles Briggs will write to David Davis illustrating the numbers of runners from Ireland and France the Scottish racecourses have.

Ian Good added that the racecourses would welcome more openness as to what generates most revenue for bookmakers, but to date, that data has not been accessible.

Julie commented that as a small independent bookmaker with two shops in Ayrshire, the impact on retail would be substantial if there were an increase in evening fixtures, compared to bets placed online.

3. UPDATE FROM DONALD MORRISON, DIRECTOR OF ASSOCIATION OF BRITISH BOOKMAKERS (ABB), SCOTLAND.

Donald Morrison welcomed the launch of the Cross Party Group, and expressed his desire to work with the horseracing industry to overcome some of the challenges that they have had over the past few years. The fate of both industries rest together.

Donald Morrison explained that the ABB Scotland is the trade body for Scotland's retail betting shops. The organisation represents 80% of high street betting shops, including Ladbrokes Coral, William Hill, Paddy Power, Scotbet and independent companies.

The ABB drives industry wide responsible gambling initiatives, and promotes industry interests – working with regulators, governments, councils and local authorities.

The 1000 betting shops in Scotland welcome 650,000 customers and support 5000 jobs. The industry offers its members apprenticeships, flexible working opportunities and career development opportunities. 56% of betting shop staff are female, and 20% are over the age of 50.

The betting industry funds Scottish horseracing through £37m in levies and media rights and ABB members sponsor headline races such as the Ayr Gold Cup, the Scottish Grand National and the Lanark Silver Bell. As such, the future of both industries is closely linked.

Responsible Gambling

Responsible gambling is a huge priority for ABB and its members. The ABB want people to spend only what they can afford. Staff are trained to identify the signs of harm and intervene when necessary. The ABB has developed some world leading Player Awareness technology, and established Scotland wide Gamble Aware week, now in its third year. The ABB has a multi-operator self-exclusion scheme, piloted in Glasgow and rolled out nationally in 2016. A zero tolerance is prevalent within betting shops in their approach to alcohol and anti-social behaviour, and ABB members. Intelligence is shared with Police Scotland in terms of crime, and the reality is that betting shops accounted for 1.34% of crime in comparison with other retail establishments. The Binding Responsible Gambling Code – imposes high standards on training, advertising, self-exclusion, and age verification.

Problem Gambling

Levels of problem gambling in Scotland are low compared to UK and international standards. There was a decrease in problem gambling of 0.7% in 2015 – down from 0.8% and lower than in 2012.

Future Initiatives

The ABB has announced funding for an outreach project for young people, reaching out to 2,500 young people in Glasgow, Renfrewshire, Clydebank and Rutherglen, to make them aware of the problems associated with gambling addiction.

The Association is seeking to establish closer working partnership with Glasgow City Council and Edinburgh City Council on responsible gambling initiatives, community relations and funding support.

State of the Betting Industry

The Industry supports 43,000 jobs in the UK, with 5000 employees in Scotland. Betting shops contribute over £1b in taxation and contributes £3.2b to the wider economy.

In Scotland, the industry contributes £112 million in taxes and business rates

33% of all gambling spend is online, with 25% of gambling spend on the national lottery and 24% of gambling spend in betting shops.

The number of betting shops declined from a peak of 14,700 in the 1970s/80s to 8700 today. Ladbrokes has not opened a new betting shop since 2013 and 302 shops have closed in the past two years. The reasons for closure has been the impact of higher taxes, rising costs and online competition. Research has shown that, based on existing modelling, 1350 shops are forecast to close. Smaller independent betting shops face an uncertain future.

Key Challenges

There are two main challenges currently facing bookmakers:

1. Fixed odds betting terminals (FOBTs)
2. The Triennial Review

FOBTs

FOBTs account for an increasing share (56%) of bookmaker revenues, and enable betting shops to compete in this digital era. They have been characterised as the crack cocaine of gambling by a well-funded anti-betting shop campaign. Gaming machines have been in betting shops for fifteen years, and there has been no increase in problem gambling over this period. New research shows customers losing more money and playing for longer in arcades than on FOBTs.

Low stake machines found in arcades are eight times faster than FOBTs and do not have the full range of protections in place in betting shops. The industry does not permit alcohol to be sold on its premises, nor are ATMs to be placed in betting shops, unlike casinos.

Problem gambling is complex. Problem gamblers tend to play multiple products, so removing one product would be meaningless; the problem would be displaced to less regulated or even illegal environments

Gamble Aware says policy makers need to look beyond reducing stake size to tackle problem gambling: also warn that a “narrow” focus on FOBTs, potentially ignoring online betting and fruit machines in pubs, amusement arcades and casinos, risks undermining efforts to help addicts.

Triennial Review

The ABB submitted a very detailed response, to the Government review on gambling, drawing on a range of evidence. The primary position is that there is no justification for a reduction in stakes and prizes in betting shops because there is no correlation between the increased number of FOBTs over time and the levels of at-risk gambling over the same period. In fact, there are many more ways to gamble now – online is the most popular – yet problem gambling remains static.

There are unforeseen consequences of stake cut, namely the effect to the horseracing industry. The betting industry contributes over £270 m through the levy (£56m), media rights (£220m) and sponsorship. Reducing stakes to £50 would see industry contributions fall by £48m by 2020. A £2 stake would see contributions fall by £284m over next three years.

Hundreds of shops have already closed. For every betting shop that closes, the horseracing industry loses £23,000.

Conclusion

Betting shops have been part of our high streets for more than fifty-five years and make an important contribution to town centres, generating business for other retailers, supporting jobs and – crucially – providing a forum where people can gamble responsibly

It is important that the two industries continue to work together. It is vital that a thriving horseracing sector exists to attract punters, and horseracing needs a successful retail betting sector to help secure its own long term future.

Miles Briggs asked to what extent online betting has an impact on betting shops being sustainable. Julie Williams replied that there is a definite risk that the customer base is getting older as young

people use their mobiles to place bets online. It is incredibly hard to compete. However, the new levy arrangement will be beneficial to small independent bookmakers.

Julie went on to add that media rights to get horseracing shown in her two shops costs £75,000 per annum. Whilst the money is fed back into the industry, it is at a greater cost to the independent betting shops than the larger companies, who can obtain their media rights at a discounted rate due to the number of shops they own.

Miles Briggs added that the CPG offers the opportunity for ministers to be invited to the Group. Delly Innes added that the Economic Impact Study on horseracing in Scotland will be published in the Spring of this year, so any opportunity for VisitScotland, or the Tourism Minister to attend would be appreciated to highlight the impact that racing in Scotland makes on the tourism industry.

Miles Briggs will write to Fiona Hyslop, or a representative from VisitScotland, inviting them to attend the next meeting.

Miles Briggs asked why there were not more runners from the north of England. Ian Good replied that this was owing to the all-weather track at Newcastle, and that the majority of trainers in Middleham, North Yorkshire would prefer to go to a nearer track. He added that the raceday experience for owners visiting a Scottish track is ahead of other British tracks, with a quarter of all gold standard courses for owners being in Scotland.

Ian Good thanked the MSPs, and the bookmakers, for their support of horseracing in Scotland.

4. DATE AND TIME OF NEXT MEETING

Wednesday 24th May 2017 at 5.30pm