

- 8.21 Over half of all bingo clubs are traditional clubs. The structure of the industry is shown in figure 8.iii.
- 8.22 The Bingo Association reports that whilst the majority of "new builds" are attracting over 5,000 admissions a week, over two-fifths of clubs are not generating sufficient admissions to bring them into profit. Many of the clubs are not meeting the expected targets for admissions and have capacities which far outweigh their usage. Nearly two-thirds of "new build" clubs are owned by the two largest bingo operators, Gala and Mecca. A further 20% are owned by medium-sized operators. The largest operators are often able to offset losses made within one part of their operation against another, in anticipation of profits in the long term. A significant majority of traditional and

neighbourhood club operators are single-site operators. There has been industry concern that such companies cannot sustain continued losses.<sup>21</sup>

- 8.23 The Gaming Board Report for 1999-2000 states that it believes that the reduction in the total number of bingo clubs has been offset to some extent by an increase in the average size of the clubs, although recently, the rate of closures has fallen.<sup>22</sup> The overall profitability of clubs rose for the first time in three years in 1998 and initial figures from 1999 also showed an increase in profitability. The Bingo Association attributes the increased profitability to a combination of closures, consolidation and cost-cutting. Figure 8.iv shows the changes in total club numbers between 1996-1998.



Figure 8.iii: Types of bingo clubs

Source: Bingo Association (2) (2000)

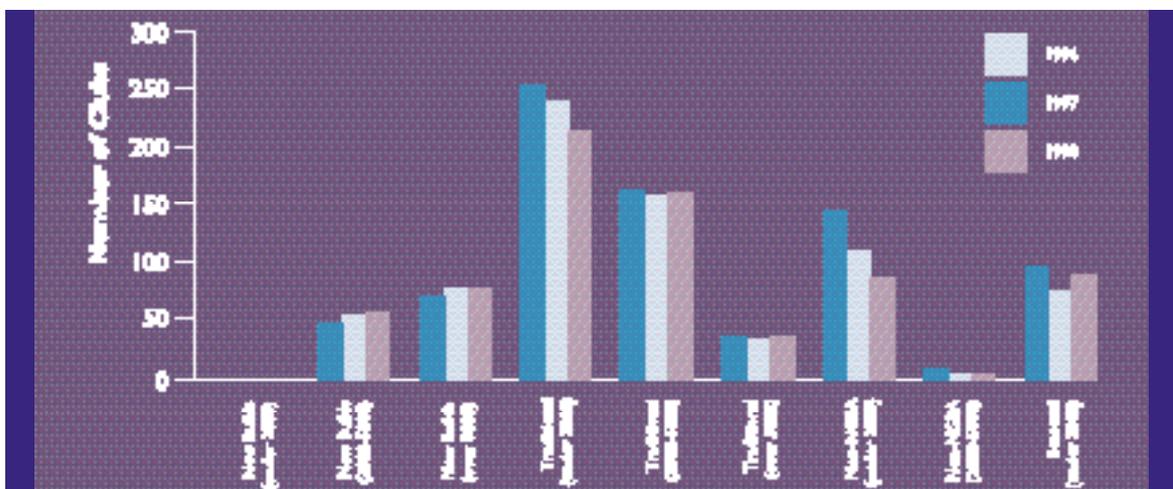


Figure 8.iv: Numbers of bingo clubs, by types

Source: Bingo Association (2) (2000)



### Turnover

8.24 There is a limited amount of data available on the value of bingo because of the limited registration requirements. Most of the data available concern only licensed bingo clubs. As figure 8.v shows, the Gaming Board reports that the overall amount staked in licensed bingo clubs was £618m in 1990-91 and £1,076m in 1999-00. The actual amount staked has risen steadily over the last decade although the year-on-year percentage growth has fluctuated. During the

same period, the amount of duty collected from bingo has grown from £67.4m in 1990-91 to £107.5m in 1999-00. Currently, bingo duty is charged at 10% of the money staked by players, plus 1/9th of the amount by which the weekly value of prizes exceeds the duty-exclusive value of the stakes. Bingo duty is charged on cash bingo clubs (licensed under part II) and some members' clubs which provide bingo on a substantial scale.<sup>23</sup> Figure 8.vi shows the actual value of the duty collected over the last decade.

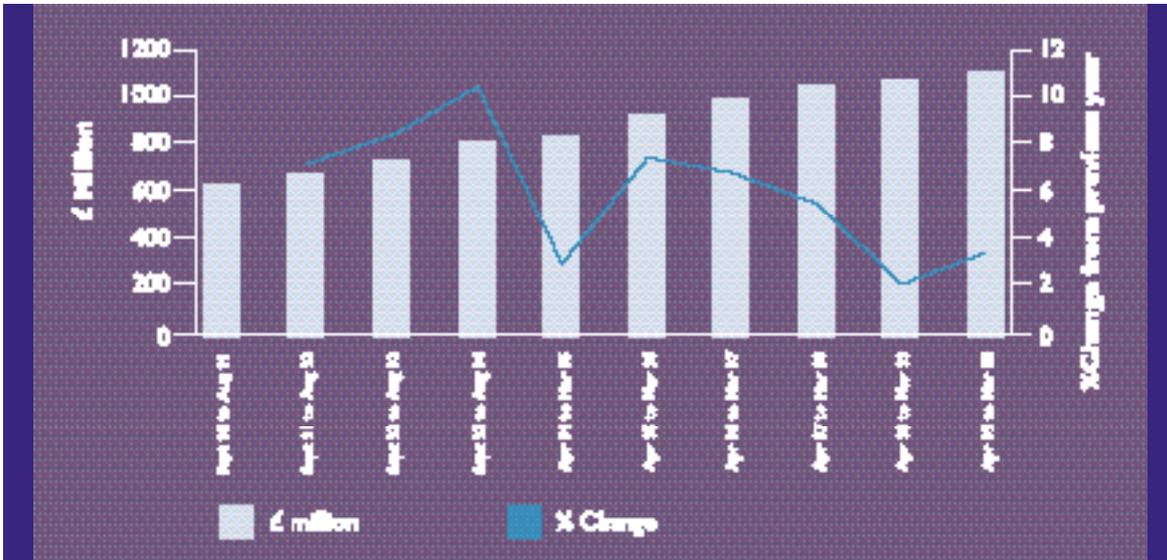


Figure 8.v: Amount staked on licensed bingo

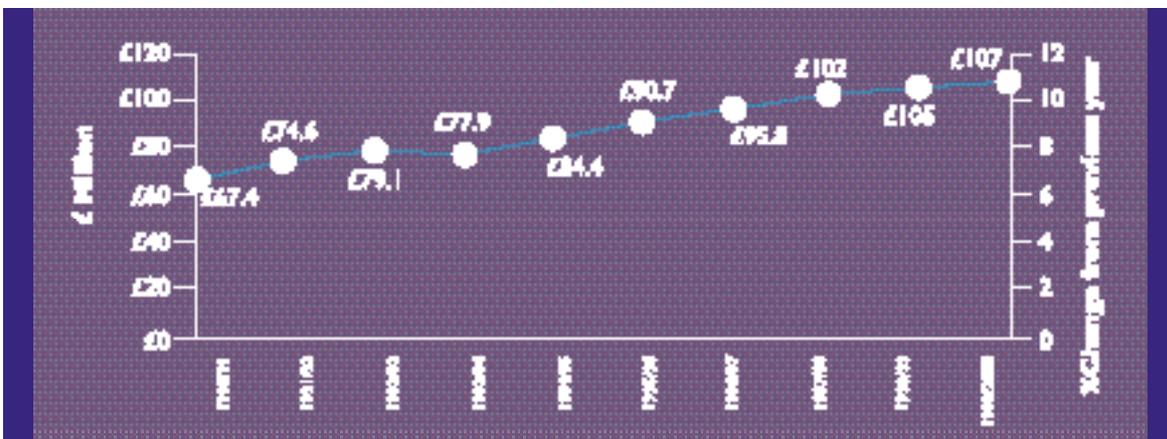
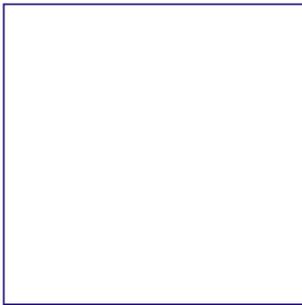


Figure 8.vi: Duty collected, 1990-2000

Source: Gaming Board for Great Britain (2000)

Source: Customs & Excise



8.25 In 1996, the bingo industry reported revenues of £600.5m. In 1997, this increased by 8.9% to £653.7m and again by 3.5% in 1998 to £676.9m. Net profit dropped by 12.5% between 1996 and 1997 but increased to £80.4m in 1998. This is shown in more detail in figure 8.vii.

8.26 The data on turnover include the revenue from gaming and jackpot machines in bingo clubs. Figures supplied by the Bingo Association suggest that the income derived from bingo is likely to form a minority of a bingo club's income. They suggest that the proportions of income are:

- 25-30% from mechanised cash bingo;
- 25-30% from gaming machines;
- 20% from bingo.

8.27 The remaining income comes from services such as entry charges, catering and drinks.<sup>24</sup> As all bingo stakes must be returned to players in full as winnings (less any bingo duty), bingo operators primarily make their profits from the cost of entry, mechanised cash bingo and gaming machines.

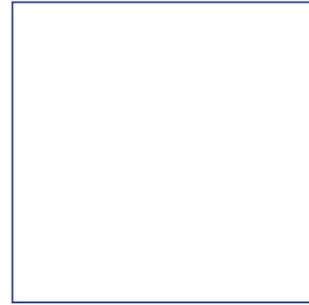
### Employment

8.28 The latest Gaming Board Report states that the industry estimates that around 21,000 people are employed in the bingo industry.<sup>25</sup> The largest bingo operator, Gala Leisure, employs about 6,700 staff.<sup>26</sup>

|         |                           | 1996 (£m)    | 1997 (£m)    | 1998 (£m)    |
|---------|---------------------------|--------------|--------------|--------------|
| Revenue | Main stage bingo per fee  | 125.9        | 102.3        | 106.1        |
|         | Other gaming revenue      | 334.5        | 404.8        | 423.3        |
|         | Food and drink            | 36.5         | 15.8         | 35.4         |
|         | Amusements (less off-set) | 43.7         | 48.9         | 48.4         |
|         | Other revenues/charges    | 3.9          | 4.8          | 7.2          |
|         | <b>TOTAL</b>              | <b>600.5</b> | <b>653.7</b> | <b>676.9</b> |
| Costs   | Licences                  | 11.6         | 10.8         | 13.7         |
|         | Added price money         | 25.8         | 34.8         | 37.1         |
|         | Advertising & promotions  | 32.4         | 31.4         | 46.8         |
|         | Property costs            | 70.8         | 74.6         | 86.3         |
|         | Total staff costs         | 192.2        | 202.1        | 188.0        |
|         | Other costs               | 195.4        | 211.1        | 225.2        |
|         | <b>TOTAL</b>              | <b>528.4</b> | <b>564.7</b> | <b>596.6</b> |
|         | <b>NET PROFIT</b>         | <b>72.1</b>  | <b>89.0</b>  | <b>80.4</b>  |

Figure 8.vii: Bingo industry revenue and cost

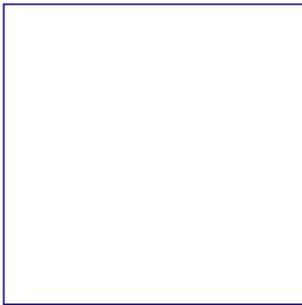
Source: Henley - Centre - Bingo Association submission to the GRB



# chapter nine

## Betting

- 9.1 A bet is an agreement between two parties whereby money is paid to the party that correctly predicts the outcome of an event. The Royal Commission in 1933 described a bet as “ a promise to give money or monies worth upon the determination of an uncertain or unascertained event in a particular way. It may involve the exercise of skill or judgement”<sup>1</sup>. Bets are often taken on the outcome of future events, such as horse races, greyhound races and sports such as football matches, but are also made on past events, the outcomes of which are supposedly unknown to at least one of the participants.
- 9.2 Betting either takes place on-course or off-course. Bets taken by bookmakers present at a racecourse are known as on-course bets. All other betting is known as off-course betting because the bookmaker is not at the racecourse. Off-course betting has commonly taken place at licensed betting offices and via the telephone. More recently, the internet has been used as a medium for placing off-course bets. Spread betting is another type of betting. It is discussed later in this chapter.
- 9.3 The types of bets that are available fit broadly into two categories: fixed odds and pool betting. The size of the winnings for a bet made at fixed odds, eg. 2 to 1, is determined by multiplying the value of the stake by the odds, in this case, two times the value of the stake. Types of bet include:
- win bets
  - place bets (normally that a horse or dog will finish among the first three);
  - each-way bets (a combination of win and place bets)
  - forecast and tricast bets (which require the first two or three finishers to be nominated in the correct order)
  - a wide variety of multiple bets (where bets are made on more than one event and winnings from the first event become the stake for the second).<sup>2</sup>
- 9.4 Over 80% of bets made in betting shops are made at the starting price (SP).<sup>3</sup> Starting prices are the odds available from on-course bookmakers when the race starts. The reporting of the SP has recently been reviewed within horseracing. Guidelines and more detailed procedures were introduced in May 2000.<sup>4</sup> Pool prizes are determined by dividing the total prize pool or stakes, minus a proportion for expenses and profit, by the number of bets (or units) correctly predicting the particular outcome. The size of the payout to each winner is proportionate to the number of winning units held.
- 9.5 Most betting is governed by the Betting, Gaming and Lotteries Act 1963. More details about the regulation of different parts of the industry are provided in the industry-specific paragraphs later in this chapter.
- 9.6 Bookmaker's permits are issued by the Betting Licensing Committee at the Magistrates Court (Local Authority Licensing Board in Scotland). The Committee has to be satisfied that the applicant is a fit and proper person to hold a permit. Only the holder of a bookmaker's permit may hold a betting office licence. Applications for a betting office licence are made to the Betting Licensing Committee who consider whether the premises are suitable and whether there is a demand in the locality for the facilities (known as the demand test). Both permits and licences last three years. The current fee for the grant of a bookmaker's permit is £160. The fee for a betting office licence is £125. The fees for renewal are £20 and £25 respectively.<sup>5</sup>
- ### Punters
- 9.7 The Prevalence Survey surveyed people who had taken part in betting in the previous year. There was a large difference between the sexes:
- 18% of men and 9% of women had bet on a horserace
  - 6% of men and 2% of women had bet on a dog race
  - 5% of men and 1% of women had bet on another activity with a bookmaker
  - 17% of men and 6% of women had made a private bet.<sup>6</sup>



- 9.8 Only 1% of those surveyed by the Prevalence Survey claimed to have made a spread bet in the week prior to the survey.<sup>7</sup> Spread betting was not treated as a separate category for further player research. The 25-34 year old age group had the highest score on all the betting activities apart from private bets. The likelihood of participating in any of the betting activities decreased with the age of the respondent.<sup>8</sup>
- 9.9 People in all social classes had a similar prospect of betting on a horse or dog race, or other event. Private bets were more commonly made by people in social class I and II and least often by those in social class V.<sup>9</sup>

**Average spend**

- 9.10 The Prevalence Survey divided betting into four types of gambling activity: horse races, dog races, betting with a bookmaker other than on horse or dog races, and private bets with friends or colleagues. For those that had bet on a horse race in the last week, about a third said that they broke even or won and nearly half had lost less than £5. One in ten had lost between £10.01 and £50. For those that had bet on a dog race in the past week, a quarter had won or broken even

and over half had lost less than £10. About one in six had lost between £10.01 and £50. The majority of those that had bet with a bookmaker in the past week on any other event had lost less than £5. For those that had made private bets in the past week, the majority had won or lost less than £1. One in a hundred had lost over £50.<sup>10</sup>

- 9.11 Telephone betting appears to be more weighted towards horseracing, football and other sports and less so towards greyhound racing and numbers betting, such as betting on the outcome of the Irish lottery. There is a much higher proportion of customers from the higher socio-economic groups than for licensed betting offices (LBOs). The average stake of around £50 for Ladbroke and Coral telephone customers is far higher than that in licensed betting offices.<sup>11</sup>
- 9.12 The Prevalence Survey also found that nearly half of those surveyed who had spread bet in the preceding seven days, claimed to have won or broken even. A further 37% had lost less than £10, and 6% between £10.01 and £20. The remaining 9% had lost more than £20 although 5% had lost more than £200.<sup>12</sup>

|   | Age % |       |       |       |       |       |     | Total |
|---|-------|-------|-------|-------|-------|-------|-----|-------|
|   | 14-24 | 25-34 | 35-44 | 45-54 | 55-64 | 65-74 | 75+ |       |
| Horse races   | 11    | 19    | 15    | 14    | 11    | 7     | 5   | 13    |
| Dog races   | 6     | 7     | 4     | 4     | 2     | 1     | 1   | 4     |
| Betting with a bookmaker other than on horse or dog races | 6     | 1     | 1     | 2     | 2     | 1     | 0   | 3     |
| Private bets  | 21    | 14    | 11    | 10    | 6     | 5     | 3   | 11    |

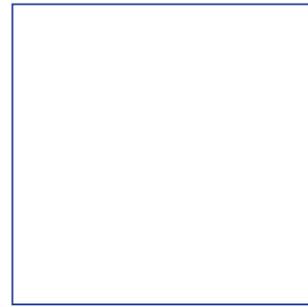
Figure 9.i: Participation in betting by age

Source: Sproston, Erens & Orford (2000)

|   | Social Class |    |       |       |    |    | Total |
|---|--------------|----|-------|-------|----|----|-------|
|   | I            | II | III-N | III-L | IV | V  |       |
| Horse races   | 14           | 14 | 12    | 13    | 12 | 13 | 13    |
| Dog races   | 1            | 3  | 2     | 4     | 4  | 2  | 4     |
| Betting with a bookmaker other than on horse or dog races | 2            | 3  | 3     | 3     | 3  | 4  | 3     |
| Private bets  | 12           | 13 | 11    | 11    | 11 | 6  | 11    |

Figure 9.ii: Participation in betting by social class

Source: Sproston, K., Bob Erens and Jim Orford (2000)



## The Industry

### Trade Associations

- 9.13 The main trade associations covering betting are the Betting Office Licences Association (BOLA), the British Betting Office Association (BBOA), the National Association of Bookmakers Ltd (NAB), the Rails Bookmakers Association Ltd and the Scottish Independent Bookmakers' Association.
- 9.14 BOLA represents many of the largest bookmaker chains. It represents 5,400 of Britain's 8,350 licensed betting offices, with membership ranging from the largest companies to one and two shop operations. Their members account for about 75% of all off-course betting turnover.<sup>13</sup> The BBOA represents many of the independent bookmakers (approximately 1,000 betting shops owned by 390 bookmakers).<sup>14</sup> The NAB represents 900 members both on and off-course.<sup>15</sup>

### Industry size and structure

- 9.15 This section examines betting under three headings:
- off-course betting
  - on-course betting
  - spread betting.

### Off-course betting

- 9.16 As the Rothschild Commission noted, before the Betting and Gaming Act 1960 many bookmakers lived at the edge of the law and beyond it. Betting for cash was allowed only at racecourses. Away from the course, betting had to be for credit and punters could not go to the bookmaker's office to place their bets. They were expected to use the telephone or send them by post.<sup>16</sup> The 1960 Act, amended by the Betting, Gaming and Lotteries Act 1963, established the principle of licensed betting offices for off-course

betting. Premises must have a betting office licence which is separate from the bookmaker's permit.

- 9.17 Off-course bookmakers generally operate by offering cash betting in licensed betting offices and telephone betting, although betting over the internet has become more popular in the last few years.
- 9.18 In order to take bets, a bookmaker must have a bookmaker's permit, which allows him to operate at a number of different locations. According to statistics published by the Home Office, the number of bookmakers' permits in force has an established downward trend. In 1987, there were 6,328 permits in force in Great Britain. By 1990, this had fallen to 5,437. Over the last decade, the number of permits has fallen by over 30% to 3,791. The decline has varied across Britain: in the last three years, the greatest percentage drop has been in Scotland.<sup>17</sup> In the last three years renewals of bookmakers' permits have also continued to fall. Over the twelve months to 31 May 2000, there were 3,500 applications for the renewal of permits. This was a third lower than the 5,250 renewals in 1990. In 1999-2000, 93% of applications for bookmakers' permits were granted.<sup>18</sup>

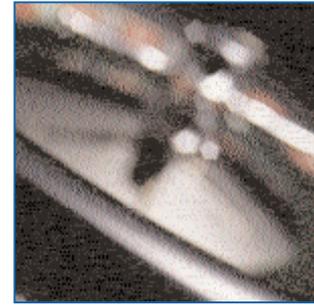
### Operators and Licensed Betting Offices (LBOs)

- 9.19 The three largest operators are William Hill, Ladbrokes and Coral, commonly referred to as the "Big Three". Between them they operate around half of all licensed betting offices and, based on turnover, over three quarters of the telephone betting market. The Monopolies and Mergers Commission reported in 1998 that Ladbrokes was the largest firm in the UK off-course betting industry with a chain of some 1,900 LBOs (21%), William Hill was the second largest with 1,515 (17%), and Coral was third with 833 (9%).<sup>19</sup> Figures supplied by BOLA, suggest that there are now around 8,100 LBOs, a decrease of around one tenth since the Monopolies and Mergers report. The Big Three operate about 53% of betting shops, compared to 47% in 1997. Ladbrokes has about 1,881 LBOs,

|              | Licensed betting offices |         |               |         | Telephone     |         |
|--------------|--------------------------|---------|---------------|---------|---------------|---------|
|              | Number of LBOs           | Share % | Turnover (£m) | Share % | Turnover (£m) | Share % |
| Ladbrokes    | 1,904                    | 21      | 1,377         | 26      | 137           | 26      |
| Coral        | 833                      | 9       | 785           | 12      | 55            | 10      |
| William Hill | 1,515                    | 17      | 1,280         | 22      | 220           | 42      |
| Stanley      | 475                      | 5       | 340           | 6       | 10            | 1       |
| Total        | 3,14                     | 2       | 170           | 2       | 70            | 13      |
| Others       | 4,042                    | 46      | 1,978         | 32      | 26            | 5       |
| <b>Total</b> | <b>8,359</b>             |         | <b>5,170</b>  |         | <b>578</b>    |         |

Figure 9.iii: Market shares in off-course betting, 1997

Source: Monopolies and Mergers Commission (1998)



William Hill about 1,526 and Coral operates some 868.<sup>20</sup> Figure 9.iii sets this out in more detail.

- 9.20 In order to accept bets on premises, section 9 of the Betting, Gaming and Lotteries Act 1963 requires a bookmaker to have a betting office licence. The number of betting office licences in force peaked in 1968, at 15,800. At the same time there were 11,100 permits in force. Since then, there has been a steady decline. Over the last ten years, the number of licences in force has fallen by around 15% from 10,219 to 8,732. In 1999-2000, 87% of betting office licence applications were granted. Applications for the renewal of betting office licences have dropped by 19% in the last decade.<sup>21</sup> In the last 10 years there has been a relaxation of some of the restrictions applying to betting shops, including the removal of the requirement that activities conducted inside the shops should not be visible from the outside. Also LBOs are now able to sell snacks and refreshments, have the right to install up to two all-cash machines and are allowed to advertise in print.<sup>22</sup>
- 9.21 On average there are 150 betting shops per million people in the population, but there is some geographical variation. The highest concentrations are mainly in the old industrial areas, some metropolitan areas, certain other cities or large towns, and some resort areas. High concentrations are found in Nottingham and Blackpool, then London, Merseyside and the central lowland belt of Scotland, as well as the coastal areas of Southend, Brighton and Bournemouth. The lowest concentrations are in the Highland and Islands of Scotland, Cornwall, the Isle of Wight, many of the shire counties in England and Powys in Wales.<sup>23</sup> Betting office licences are currently subject to a demand test. Schedule 1 of the Act gives the licensing authority the power to refuse to grant a licence if the demand for betting offices has already been met by other betting offices in the locality.

#### Telephone betting

- 9.22 Telephone betting has historically required customers to have credit accounts, although the bulk of turnover is now accounted for by debit cards which were first used in 1991. Turnover from telephone betting is said to be around 10% of the turnover in LBOs.<sup>24</sup> In 1997, the market share of the "Big Three" was reported as 78%, which equated to a turnover of around £412m. The Tote was said to have a market share of around 13% and a turnover of £70m.<sup>25</sup> More details can be found in figure 9.iii.

#### Off-Course Turnover

- 9.23 A bookmaker can legally offer a bet on anything other than the outcome of the National Lottery. In 1997, around 71% of LBO turnover was on horse racing, 20% on greyhound racing, 5% on other sports, mainly football, and 4% on numbers betting.<sup>26</sup> Similar percentages were given in the BISL report of 2000.
- 9.24 The total turnover from LBOs in 1997 was estimated to be in the region of £6,190m. The Big Three had a market share of around 60% and the Tote of about 2%. Figure 9.iii gives more details.
- 9.25 According to BOLA, over the last ten years traditional turnover in real terms has been broadly static, whilst the industry's net margin over the period has averaged around 3%.<sup>27</sup> Two fundamental changes took place during the decade: the introduction of all-cash machines to betting shops in 1996 (said to add an estimated £60m plus to the net margin over the last few years), and the introduction of the National Lottery. BOLA attributes much of the reduction of betting shop numbers to the National Lottery. However, it accepts that the 9% drop in shop numbers between 1994 and 1997 could also be attributed to rationalisation by operators seeking to become more efficient and competitive, and the apparent high level of general betting duty affecting real terms growth in traditional turnover.<sup>28</sup>

#### Internet betting

- 9.26 Betting on the internet has grown in popularity over recent years. It is discussed in more detail in chapter 12.

#### On-course betting

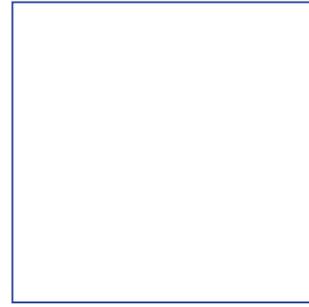
- 9.27 Most on-course betting is on horseracing (including point-to-point meetings) and on greyhound tracks

#### Horseracing

- 9.28 There are 59 racecourses in the UK. According to statistics published by the British Horseracing Board (BHB), between 1995 and 1999 there were over 1,100 fixtures per year, and over 7,000 races. Total attendances for that period were around five million.<sup>29</sup>

#### Regulation

- 9.29 Betting at racecourses is currently regulated by two statutory bodies: the Horserace Betting Levy Board (known as the Levy Board) and the Horserace Totalisator Board (known as the Tote). Horseracing at racecourses is self-regulated with responsibility divided between the British Horseracing Board, as the governing authority, and the Jockey Club.



9.30 In order to have betting on-course, a racecourse has to be approved by the Horserace Betting Levy Board although there is an exemption from licensing if betting takes place on fewer than seven days in a year.<sup>30</sup> The National Joint Pitch Council (NJPC) was set up by the Levy Board in October 1998 and is responsible for the administration of the betting rings on all racecourses.<sup>31</sup>

9.31 The British Horseracing Board is the governing authority for horseracing in Britain.<sup>32</sup> It was set up by racing in 1993 and takes responsibility for strategic planning and policy for racing, improving racing's financial position, representing racing, the fixture list race planning, nominating racing's representatives on the Levy Board and liaison with the Betting Industry among other duties.<sup>33</sup> The Jockey Club's role as the regulator for horseracing has evolved by consent through custom and practice. The role was formalised through incorporation by Royal Charter in 1970 and latterly confirmed by agreement reached in 1993 on the inauguration of the BHB. It is also accepted by legal precedent that, although the Jockey Club is a non-statutory body, it exercises a function in the public interest.<sup>34</sup>

9.32 In a statement to the House of Commons on 2 March 2000, the Home Secretary announced that the Government had decided to abolish the horserace betting levy and the Levy Board. He also said that the Horserace Totalisator Board (the Tote) should be sold to a consortium of racing interests. The British Horseracing Board (BHB) was invited to prepare a realistic plan for the future funding of racing without a statutory levy. This was published on 17 October 2000. The Government was satisfied that "racing can be funded without a statutory levy" and told "racing itself to take forward the necessary commercial negotiations" whilst it took forward work to end the levy.<sup>35</sup>

### Where to bet on-course

9.33 There are three main places to bet at a racecourse

- with a bookmaker in the ring or on the rails
- with the Tote
- or in a betting shop.

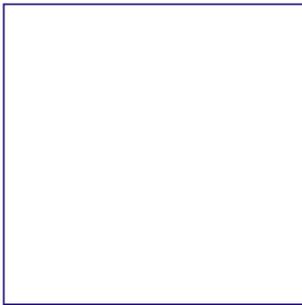
9.34 The bulk of turnover at racecourses is taken by bookmakers in the betting ring (Tattersalls is the main betting ring) and rails bookmakers who stand on the rails dividing the enclosures.<sup>36</sup> Ring and rails bookmakers are believed to account for about 78% of on-course betting at horse races, a further 18% is spent on the Tote and the remainder in on-course betting shops.<sup>37</sup> Under the 1963 Act, racecourses have the power to restrict the areas in which bookmakers may operate. The NJPC estimates that on most major racecourses, an estimated 90% of all public areas are available to the Tote, 8% to racecourse bookmakers, and 2% to betting shops.<sup>38</sup>

9.35 On-course betting is not subject to duty and there is no requirement to keep official records but on-course betting turnover in 1997 at horse races and greyhound tracks is estimated to have been around £700m, less than a tenth of overall betting turnover.<sup>39</sup> Figures produced for 1999 estimated that the total bet at racecourses was about £467.5m, with Tattersalls bookmakers accounting for £384.7m.<sup>40</sup> There is a large variation in turnover at different racecourses and between the different betting rings. The highest average turnover per bookmaker per meeting in the Tattersalls ring was in York with £18,178. The lowest was Carlisle at £4,415. The highest average turnover in a minor ring was at Cheltenham with £6,912. Nottingham scored the lowest at £821.<sup>41</sup> Estimates have suggested that "a bookmaker needed to take £4,500 a meeting to cover expenses and produce a profit of five per cent...£3,000 a meeting was needed to cover expenses."<sup>42</sup>

### Funding

9.36 Since off-course betting was legalised in 1961, racing has benefited from a levy collected on off-course betting turnover. The levy has been distributed through the Horserace Betting Levy Board (the Levy Board) whose statutory powers and purposes were set out in the Betting, Gaming and Lotteries Act 1963. The Levy Board has statutory responsibility for assessing and collecting monetary contributions from bookmakers and the Tote, and for allocating them for one or more of the following purposes:

- the improvement of breeds of horses
- the advancement or encouragement of veterinary science or education
- the improvement of horseracing.<sup>43</sup>



9.37 The Levy Board collects the contributions made on bets, paid by a deduction (in practice, an additional amount) on each bet. Horseracing is the only sport with a statutory levy. The Levy Board's annual income from 1 April 1999 to 31 March 2000 amounted to nearly £61m, of which almost £53m was from levy paid by bookmakers, £5.5m was from levy paid by the Tote and nearly £2.5m was earned on investments and laboratory services.<sup>44</sup> This was similar to income the year before which had amounted to £52m from bookmakers and £4.5m from the Tote.<sup>45</sup> As the table shows, levy payments from the bookmaker and Tote have remained at between £53m and £55m for the last four years.

9.38 Nearly 90% of expenditure in 1999-2000 was split between three areas: £33.8m in prize money (55%), £14.6m on integrity services including fixture fees (24%) and £6.8m on other racecourse expenditure (11%). Other costs included administration (4%), veterinary costs (2%) and improvement of breeds (3%).<sup>46</sup>

### Point-to-Points

9.39 Point-to-point meetings are races where horses ride from one specified location to another. Point-to-point meetings also receive a grant from the Levy Board. In both 1997 and 1998, they received £155,000 for safety improvements such as veterinary and medical services, fence stewards, plastic running rails and wings, and fence and course maintenance. The grant was paid for 209 meetings on 118 courses.<sup>47</sup> In 1999, the grant was increased to £182,000 and distributed over 206 meetings on 119 courses.<sup>48</sup> The NJPC told us that point-to-point meetings attract crowds which often exceed the attendance at midweek race meetings. There are high levels of turnover generated by the on-course bookmakers throughout the five months of the point-to-point season. A totalisator facility is also available to punters at these fixtures.<sup>49</sup> There is no requirement to keep official records so no data are available on the turnover at such events.

### Greyhound racing

9.40 The Betting and Lotteries Act 1934 requires that all tracks on which betting takes place on eight or more days per year should be licensed.<sup>50</sup>

9.41 There are two types of greyhound track: those registered with the National Greyhound Racing Club (NGRC) and the independent tracks, sometimes known as "flapping tracks". Racing at the NGRC-registered tracks must be conducted in accordance with NGRC rules, whereas independent tracks may have their own rules. According to the British Greyhound Racing Board (BGRB), there are approximately 33 NGRC greyhound tracks and approximately 28 independent greyhound tracks.<sup>51</sup> In 1999, there were 63,700 greyhound races of which 9,710 were shown live in betting shops.<sup>52</sup> This increased to 67,837 races in 2000 at 5,643 meetings. Total attendances were said to be in the region of 3.5m in 1999, rising to 3.7m in 2000.<sup>53</sup>

### Regulation

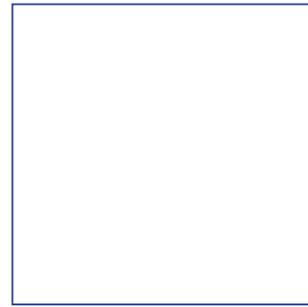
9.42 Greyhound tracks are licensed by the local authority. Unless cancelled or revoked, a track licence lasts for seven years. Since 1991, licences have cost £464 or £46 for a transfer.<sup>54</sup> There are no statutory bodies within greyhound racing but the sport has three main bodies: the British Greyhound Racing Fund (BGRF), the British Greyhound Racing Board (BGRB) and the National Greyhound Racing Club (NGRC). The BGRF is responsible for collecting the voluntary levy paid by off-course bookmakers. The aim of the BGRB "is to promote the best interest of greyhound racing" in this country. The Board has representatives from all sections of the sport including owners, trainers, breeders, the NGRC and track operators.<sup>55</sup>

| Year    | Levy Yield (£m) |
|---------|-----------------|
| 1990-91 | 27.3            |
| 1991-92 | 34.0            |
| 1992-93 | 46.9            |
| 1993-94 | 50.9            |
| 1994-95 | 53.7            |
| 1995-96 | 48.0            |
| 1996-97 | 53.7            |
| 1997-98 | 55.5            |
| 1998-99 | 51.1            |
| 1999-00 | 53.4            |

Figure 9.iv: Levy Yield, 1990-2000

Source: HBLB Annual Report 1999/2000, 27

44-HBLB (2000) 11 45-HBLB (1999) 7 46-HBLB (2000) 1 47-HBLB (2000) 15 48-Ibid, 15 49-NJPC (2000) 6 50-Smith & Monkcom (1987) 7 51-BGRB (2000) 36 52-Ibid, 8 53-Racing Post (20/3/2001), 'Annual Tote Figures', 54 54-Green, Mehigan, Phillips & Stevens (1999) 959 55-BGRB (2000) 2



### On-course betting turnover

9.43 As with on-course betting at horse races, on a greyhound track punters can bet with bookmakers in the ring, on the totalisator or in a licensed betting office. On-course betting is not subject to duty so there is no statutory requirement to keep records. As previously stated, on-course betting turnover in 1997 at horse races and greyhound tracks is estimated to have been around £700m.<sup>56</sup> The on-course market at greyhound tracks, which sets the starting prices for most off-course betting, is often weak, with only a handful of bookmakers standing and little money bet.<sup>57</sup> On-course totalisators, which are run by the track operators on their own account, take a larger share of total betting turnover at greyhound tracks than does the Tote at horserace courses and provide an important contribution to profits for the track owner.<sup>58</sup> Total totalisator turnover was about £80m in 1999 and increased to over £86m in 2000. Average turnover per race had increased slightly from £1,259 in 1999 to £1,268 in 2000.<sup>59</sup>

### Funding

9.44 Greyhound racing receives direct income from betting through voluntary payments from off-course bookmakers and by owning its own totalisators. It also receives monies through the Bookmakers Afternoon Greyhound Service (BAGS) contracts, which are contracts awarded to greyhound tracks for putting on afternoon greyhound races for broadcast to betting offices. Bookmakers pay a voluntary levy to the British Greyhound Racing Fund (BGRF), which in 1999 amounted to a record £3.9m.<sup>60</sup> In 1999, £1.2m was given in grants to greyhound tracks; integrity and security received £1m, and £1m was spent on prize money. The remaining £1.1m was split between industry-wide marketing (£0.6m), information technology (£0.1m) and the Retired Greyhound Trust (£0.25m).<sup>61</sup> Although the major companies all contribute to the voluntary levy, a large number of other bookmakers do not. The rate of the voluntary levy is 0.4% of the total bet, paid by the punter from the amount deducted by the bookmaker over and above general betting duty. The BGRB estimated that had the levy been statutory, greyhound racing would have received £5.2m instead of the £3.9m it received in 1999.<sup>62</sup> Greyhound tracks are allowed to own their own tote. According to the BGRB, this accounts for 5.3% of all betting on greyhounds.

### Spread betting

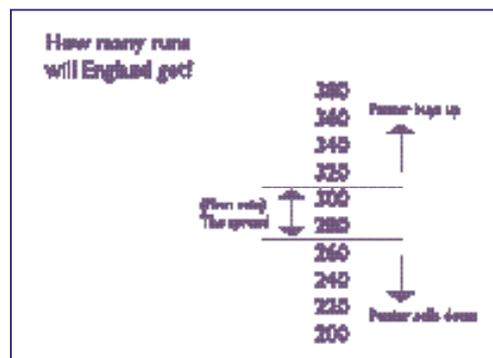
9.45 Spread betting started as a way of speculating on financial instruments and has developed as a new way of betting on the outcome of a sporting event.

According to IG Index, one of the largest spread betting companies in the world, there are three basic categories into which bets fall:

- total bets
- supremacy bets
- index bets.<sup>64</sup>

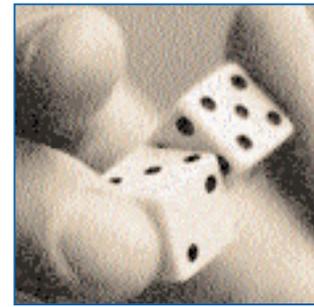
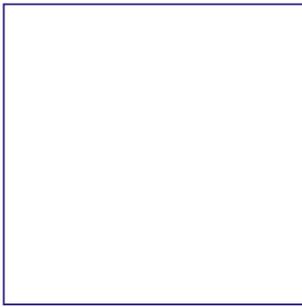
9.46 Total bets are decided by the totals of certain numbers in sporting events such as runs in cricket, goals in football, points in rugby or shots in golf. For example:

*How many runs will England score in their first innings against the West Indies? The spread betting firm might quote 280 – 300 (that is the spread). This means that they think England are expected to score between 280 and 300 runs. If the punter thinks that England will get more than 300, perhaps somewhere nearer 400, he or she buys at the top of the spread, i.e. at the 300. If, on the other hand, he or she thinks England will get nearer 200 runs, then he or she sells at the lower end of the spread, i.e. 280.*



The punter, specifies his or her unit stake when making the bet, i.e. in this case the amount per run. The punter might buy at £2 per run at 300. This means that for every run above 300 that England score, the punter wins £2. If England make 400 runs, the punter wins  $(400-300) \times £2 = £200$ . However, for every run that England make under 300, the punter loses £2. If England only get 200 runs, the punter loses  $(300-200) \times £2 = £200$ .

If, instead, the punter thought England would do badly, he or she could sell for £2 per run at 280. So for every run below 280 that England score, the punter wins £2. A final score for England of 200 brings the punter a profit of  $(280-200) \times £2 = £160$ . But every run over 280 loses the punter £2. If England score a total of 400, then the punter loses  $(400-280) \times £2 = £240$ .



- 9.47 The key difference between spread betting and fixed odds betting is that in spread betting the punter's stake – in this case £2 - is not the limit of their financial risk. The punter can win or lose many times the original stake.<sup>65</sup>
- 9.48 Most financial bets work in this way. A spread is offered for the price of a market at some date in the future, for example, the FTSE 100 Index in December. The punter decides whether the market will be higher or lower than the spread at that time and then buys at the higher end or sells at the lower end accordingly. The punter does not have to wait for the bet to expire and can take the profit or loss at any time. Punters are able to put a ceiling on their maximum possible loss.<sup>66</sup>
- 9.49 Supremacy bets mean that the interest is not on who will win, but by how much. Bets are generally on the margin of victory, or supremacy, of one team, player or performer over another.<sup>67</sup>
- 9.50 Index bets mean that where points, runs, goals and lengths are not suitable to measure success, an index can be created which allows prices to be offered on a variety of other sporting events. A different number of points will be awarded to the winner, runner-up, third place and so on.<sup>68</sup>

### Industry Size and Structure

- 9.51 There are six spread betting firms registered with the Financial Services Authority.<sup>69</sup> IG Index is the largest and was the first to set up business in the mid-1970s followed by City Index in the early 1980s.

### Turnover

- 9.52 Spread betting is normally treated as a sub-section of betting – data published on the economics of the betting industry often do not distinguish between fixed odds betting and spread betting. Spread betting is viewed by many as being very much a minority betting medium, particularly in terms of the proportion of all bets placed, and the number of bettors involved.<sup>70</sup> However, data published on turnover for the whole IG Group show strong upward trends. In 1998, turnover was nearly £6m, doubling in 1999 to £12m and almost doubling again in 2000 to £23.6m.<sup>71</sup> This compares to a total market turnover of around £528m on telephone betting and £6,190m in licensed betting offices in 1997.

### Regulation

- 9.53 Spread betting started out as a method of speculating on financial instruments. Subsequently all spread betting – financial and sporting – is subject to

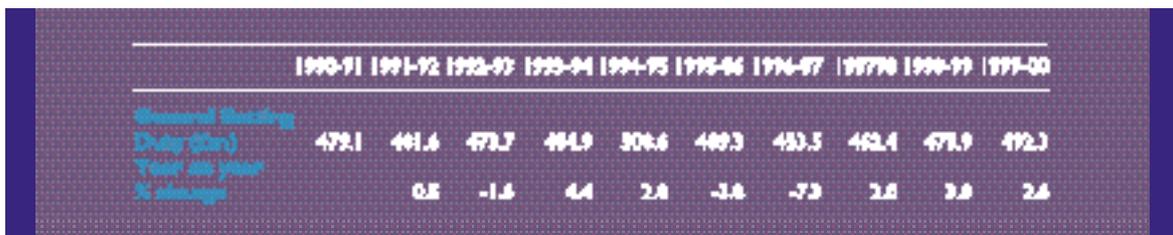


Figure 9.v: Receipts from Betting Duty, 1990-2000

Source: Customs & Excise

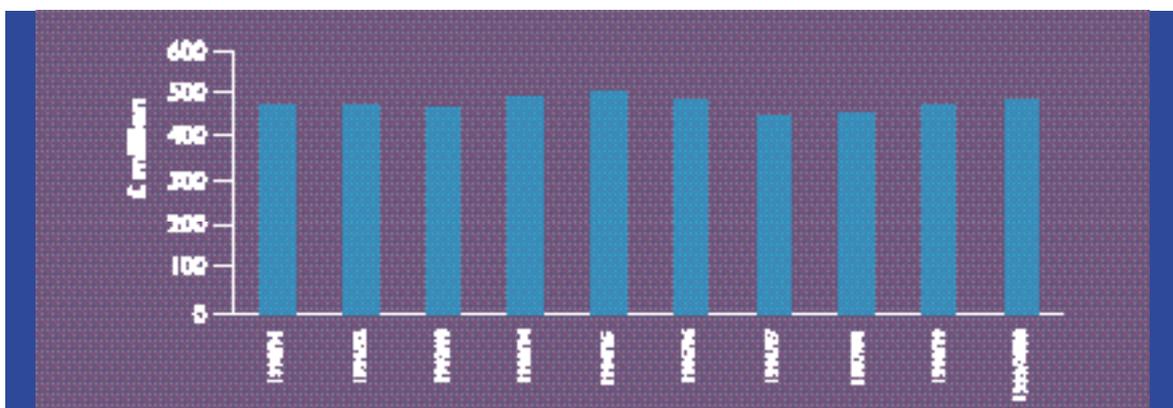
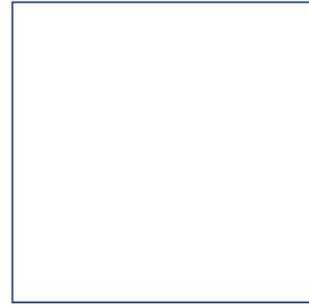


Figure 9.vi: Receipts from Betting Duty, 1990-2000

Source: Customs & Excise



investment regulation and is regulated by the Financial Services Authority.<sup>72</sup> The Financial Services Act 1986 covered spread betting where it is defined as a contract for differences.

- 9.54** Spread betting has a much higher level of risk attached to it because of the potential losses to the punter. Firms that wish to undertake spread betting have to be authorised by the Financial Services Authority prior to setting up in business. The authorisation process aims to establish that the firm and its key staff are fit and proper, that there is sufficient capital to support the business and that its controls are adequate. Spread betting firms are also subject to the FSA's "prudential and conduct of business rules." These address such things as the financial resources needed by the firm, as well as the fitness and propriety of its management.<sup>73</sup>

### Betting Duty

- 9.55** Only spread betting and off-course betting are subject to duty; on-course betting is not. In 1990, around £479m was paid in betting duty. By 1994-95 this had increased to £509m but decreased to £492m in 1999-00. Figure 9.v contains more details. The rate of duty has varied over the last decade. In the March 2001 Budget, it was announced that the duty would be replaced with a gross profits tax of 15%.
- 9.56** Spread betting has been taxed at 6.75%, the same rate as fixed odds betting. The tax is levied on the unit stake. In March 2001, Customs and Excise announced that spread betting firms would be subject to a gross profits tax: 3 per cent for financial spread bets and 10 per cent for other spread bets, including sports bets.<sup>74</sup> The level at which they are taxed will be different from the tax rate applied to general betting. IG Index estimated that had the gross profits tax been applicable in the calendar year 2000, they would have paid somewhere between £1.55m and £1.7m instead of the £625,000 which was actually paid in betting duty.<sup>75</sup>

### Illegal Betting

- 9.57** Not surprisingly, there are no precise figures available on the amount of illegal betting in Britain. Illegal bookmakers are reportedly still operating in pubs, clubs and factories. They are thought to account for about 10 per cent of betting turnover.<sup>76</sup> Customs and Excise estimate the value of the illegal untaxed market in betting to be worth approximately £500 million per year.<sup>77</sup>
- 9.58** Illegal betting has partly been a response to general betting duty and the levy, which amounts to a 9% deduction on the stake in the betting shop. The

abolition of betting duty will remove this discrepancy (although legal betting will still be subject to a 15% tax on gross profits).

### Disputes

- 9.59** The Independent Betting Arbitration Service (IBAS) was formed in autumn 1998. IBAS offers an intermediary service between bookmakers and punters, "offering effective dispute resolution procedures free of charge to customers of bookmakers registered with the scheme." IBAS also works towards preventing disputes based on the number of common errors that occur and other general experience. It is funded by Trinity Mirror and Satellite Information Services (SIS). Previously the Mirror Group newspaper, *Sporting Life*, had provided the "Green Seal Service" but the paper was closed in May 1998 when the Mirror Group acquired the *Racing Post*.<sup>78</sup>

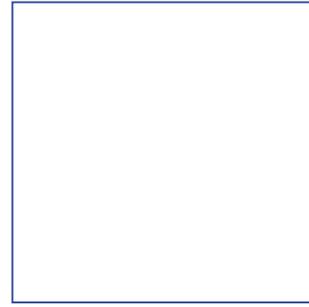
- 9.60** According to IBAS, over 90% of UK bookmakers have registered with the service. These bookmakers must accept the ruling of the IBAS arbitrators. Failure to do so results in a bookmaker being publicly de-registered from the scheme. This has happened only once.<sup>79</sup>
- 9.61** In its first year of operation (November 1998 to October 1999), IBAS responded to 923 requests for arbitration forms of which 670 were completed and returned. In its second year, IBAS received 1,124 requests for forms and 707 completed forms, an increase of 21% in requests and 6% in completed forms.
- 9.62** Most disputes related to horseracing (41%) and football (28%). Greyhound racing accounted for 9%. In relation to turnover, football and general sports were responsible for a disproportionate number of disputes. The main cause of horseracing and greyhound disputes was ambiguous bet instructions (17% and 26% respectively). In the football sector, it was coupon betting (31%).<sup>80</sup>

### Employment

- 9.63** The main area of direct employment resulting from off-course betting is the number of people employed in betting shops. Europe Economics reports that about 37,000 people are employed in the nation's betting shops.<sup>81</sup> This does not take account of the number of people employed by the telephone betting sector, said to be worth 10% of turnover, and betting on the internet. The main areas of employment in betting on-course are bookmaking and totes. The BISL report estimated that there are 700 on-course bookmakers and nearly 1,300 people employed by totes at horse racecourses and greyhound tracks.<sup>82</sup>



9.64 About 90% of betting is on horse and greyhound racing. According to the BGRB, greyhound racing itself employs 9,500 people in breeding, rearing, training and on the track.<sup>83</sup> The BHB estimate that horseracing and breeding supports 60,000 jobs.<sup>84</sup>



# chapter ten

## Lotteries

- 10.1 A lottery is a distribution of prizes by chance. A player makes a payment or consideration in return for the chance of winning a prize. There are a number of different styles of lottery but three are most common. In the first, a player chooses his or her own numbers from a selected range. In the case of the current National Lottery, a player chooses six numbers out of a possible forty-nine. The lottery operator then draws the numbers at a selected date and time to determine the winners. In the second, a player purchases a numbered ticket, with or without a counterfoil. Again, the operator then conducts a draw of counterfoils or numbers, or 'raffle', to determine the winner or winners. The third type of lottery is an instant lottery in which a player buys a ticket and scratches off the cover or removes the seal. The revealed numbers or logos show instantly whether the ticket is a winning ticket.
- 10.2 The National Lottery operate both draws and other products. Where a distinction between the draws and other products has been made in representations to us or in the information we have used, we have reflected that difference.

### Types of lottery

- 10.3 Five types of public lottery are legal in Great Britain:
- small, or one-off lotteries;
  - private lotteries;
  - societies' lotteries;
  - local authority lotteries; and
  - the National Lottery.
- 10.4 Small lotteries at one-off events, with prizes up to the value of £250, do not need to register with any statutory body. These would include, for example, raffles at events such as sports days and fetes. Private lotteries are not-for-profit lotteries, which may be run by an employer or society. Again there is no need for registration with any statutory body. Only societies which wish to run public lotteries with proceeds in a single lottery over £20,000 or cumulative annual proceeds of more than £250,000 need to register with the Gaming Board who publish their statistics annually. Societies intending to operate public lotteries with proceeds under £20,000 register instead with the local authority. These are to be distinguished from the local authority lotteries, which are run by and for local authorities, and are required to register with the Gaming Board. The National Lottery has been licensed

and regulated by the National Lottery Commission since 1 April 1999 and prior to that was regulated by OFLOT, the Office of the National Lottery. The National Lottery is the only type of lottery that is taxed.

### Free lotteries

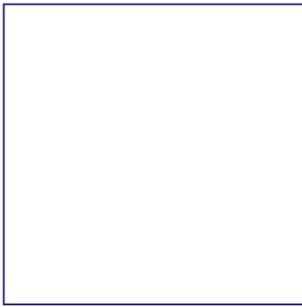
- 10.5 Lotteries where no payment, or "consideration", is made are also lawful and are subject to no regulatory conditions or controls. They are commonly used as a sales promotion or marketing device. We received evidence from websites offering free lotteries and promotions run by newspapers. As there is no legal requirement to register promotional or free lotteries, there are no data available on the numbers that are operated. Most consumers will be familiar with the common type of promotional lottery – 'no purchase necessary' – used by businesses to attract custom. However, merely offering a "no purchase necessary" option is not sufficient to make a lottery free if nobody uses it.

### Premium phone line lotteries

- 10.6 There have also been cases of lotteries using premium phone lines as a method of entry. The legal status of many of these is questionable. There is anecdotal evidence about them but no comprehensive data.

## Punters

- 10.7 Figures from the Prevalence Survey show that 68% of men and 62% of women surveyed had bought a National Lottery ticket in the past year. The latest survey by the National Lottery Commission shows that 82% of households had played in the National Lottery draw at some time since its launch in 1994. Data on those respondents who had played in the week before the interview showed that 71% had played in one or other of the midweek or Saturday draws and 41% had played in both.<sup>1</sup> The National Lottery report also found that 6% of respondents had played one of their instant lottery scratchcards in the seven days prior to interview. In comparison, the Prevalence Survey reported that 22% of both men and women had bought a scratchcard in the previous year, and 9% of men and 8% of women participated in other lotteries.<sup>2</sup>



- 10.8** A person must be over 16 to buy a chance in a lottery lawfully. According to the Prevalence Survey, the lowest levels of participation in the National Lottery Draw were found among the oldest (75+) and youngest (16-24) respondents (45% and 52% respectively). The youngest age group was the most likely to purchase scratchcards (36%).<sup>3</sup> The highest level of participation in the National Lottery Draw was 72% and was found among respondents aged 35-54.<sup>4</sup> The highest level of participation in lotteries other than the National Lottery was 9% and was found among 25-34 year olds and those aged between 45 and 64.<sup>5</sup>
- 10.9** Social class I scored the lowest level of participation for all types of lottery surveyed by the Prevalence Survey. It also had the lowest level of participation in the National Lottery at 56%. The highest level of participation was in social class IIIM. For other lotteries, participation levels average 8% but vary between 4 and 10%. The social class of those that had played scratchcards within the last year also shows a similar pattern: classes IIIM, IV and IIINM scored 24%.

### Average spend

- 10.10** Figures produced by the National Lottery Commission suggest that the average household expenditure on the Saturday and Wednesday National Lottery draws was £5.37 among households that had played both draws in the last 7 days (past week players). Nine out of ten households spent £10 or less.<sup>6</sup>
- 10.11** The Prevalence Survey calculated the mean stake for those respondents who had played a lottery in the last seven days. The average stake was £2.80 on the National Lottery draw and £3 for any other lottery. It found that 89% of past week gamblers had spent £5 or less on both the National Lottery draw and all other lotteries. Only 2% of past week players had spent more than £10 on the National Lottery draw and all other lotteries. The Prevalence Survey also found that the mean past week stake was higher among men than women; £3.10 and £3.30 by men on the National Lottery draw and other lotteries respectively, and £2.50 and £2.70 by women.<sup>7</sup>

| Type of activity                   | Age, % |       |       |       |       |       |     | Total |
|------------------------------------|--------|-------|-------|-------|-------|-------|-----|-------|
|                                    | 16-24  | 25-34 | 35-44 | 45-54 | 55-64 | 65-74 | 75+ |       |
| National Lottery draw              | 52     | 71    | 72    | 72    | 67    | 61    | 45  | 65    |
| Another lottery                    | 9      | 9     | 8     | 9     | 9     | 8     | 6   | 9     |
| Scratchcards                       | 36     | 33    | 29    | 17    | 16    | 11    | 6   | 22    |
| Any gambling activity in past year | 64     | 78    | 77    | 78    | 74    | 66    | 52  | 72    |

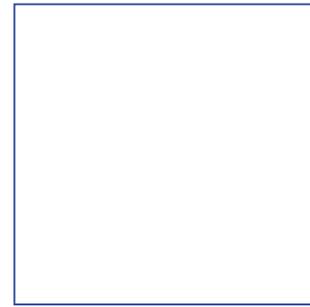
Figure 10.i: Participation in lotteries in the past year, by age

Source: Sproston, Erens & Orford (2000)

| Type of activity      | Social class % |    |       |      |    |    | Total |
|-----------------------|----------------|----|-------|------|----|----|-------|
|                       | I              | II | IIINM | IIIM | IV | V  |       |
| National Lottery Draw | 56             | 64 | 66    | 67   | 68 | 64 | 65    |
| Another lottery       | 4              | 7  | 9     | 10   | 10 | 8  | 9     |
| Scratchcards          | 17             | 20 | 24    | 24   | 24 | 18 | 22    |

Figure 10.ii: Lottery participation, by social class

Source: Sproston, Erens & Orford (2000)



- 10.12** According to the National Lottery Commission, the highest income households (over £25,000 pa), spent the most and the lowest income households (under £4,500 pa) spent the least on the National Lottery. Those in the lowest income bracket, spent £3.68 on average on the two weekly draws which is compared with £5.97 spent by those in the highest income bracket.<sup>8</sup>
- 10.13** The National Lottery Commission reported that the average expenditure by people who had played their instant lottery game in the last 7 days was £2.64. 92% had spent £5 or less.<sup>9</sup>

## The Industry

### Trade Association

- 10.14** The Lotteries Council is the main representative body for lotteries other than the National Lottery. It is a not-for-profit association which represents, regulates and instructs its member organisations. Membership is open to any person or organisation engaged in activities connected with the promotion of lawful lotteries.<sup>10</sup> The Council told us that it currently has 137 members.

### Small lotteries

- 10.15** Small lotteries are lawful provided they are incidental – not the main attraction – to an entertainment. Small lotteries, possibly more commonly known as ‘raffles’ or tombolas, are frequently found at school fetes, bazaars, dinners, dances or sporting events. The promoter can spend up to £250 on prizes and tickets must only be available at the event. There is no registration requirement so no information is available on the numbers operated. We did not receive any evidence questioning the validity of such arrangements.

### Private lotteries

- 10.16** Private lotteries are currently legal as long as they are run by and for the promoter. They are confined either to society members, or to people who work or reside at the same premises. There are no limits on stakes, but every chance must cost the same, and there are no limits on prizes. There is no allowance for expenses other than printing and stationery costs, so all the proceeds, after expenses, could be spent on prizes. Again there is no legal requirement to register so no data are available on the numbers being operated.

## Societies’ lotteries

- 10.17** The operators of societies’ lotteries tend to be registered charities or sports clubs, particularly football clubs. Organisations can run the lotteries themselves or employ external lottery managers, who are registered with the Gaming Board. There are six companies and one individual registered with the Gaming Board as external lottery managers, together with 644 societies.<sup>11</sup> According to the Lotteries Council, the funding of an important number of good causes is crucially dependent on the ability of society lotteries to compete effectively in the market place.<sup>12</sup> Income from such lotteries may form virtually all, or only part, of a society’s income.

- 10.18** Societies which wish to run lotteries with proceeds in a single lottery of over £20,000, or cumulative annual proceeds of more than £250,000, must first be registered with the Gaming Board. There was a change in the arrangements for society lotteries at the time of the introduction of the National Lottery. This caused a discontinuity in the figures, particularly for numbers of lotteries. Looking only at the latter half of the decade, there is an upward trend. A peak in registrations in 1999-00 was largely due to the returns of the rapid draw Pronto games, which were later withdrawn from the market. In 1999-00, 4,321 lotteries were registered with the Gaming Board. This is a reduction on the previous two years but still a 75% increase on the number registered in 1996-97. Figures 10.iii and 10.iv show the numbers and turnover of societies’ lotteries.

- 10.19** Societies intending to operate lotteries with proceeds under £20,000 must register with the local authority. However, the hundreds of local authorities receiving the registrations are not required to maintain statistics, making it virtually impossible to obtain reliable information on the number of small society lotteries being operated.<sup>13</sup>

## Societies’ Lotteries Turnover

- 10.20** The turnover of the Gaming Board registered societies’ lotteries follows a very similar pattern to the overall numbers being operated. The amount taken by societies’ lotteries doubled from £24.4m in 1990-91 to £53.7m in 1991-92. After a fall, they doubled again to £78m in 1995-96 and continued to increase to £160m in 1998-99 but fell by more than a third in 1999-00 to £103.5m. DCMS report that in 1999-00, for every £1 spent on the National Lottery draw, only 2 pence was spent on societies’ lotteries.<sup>14</sup>