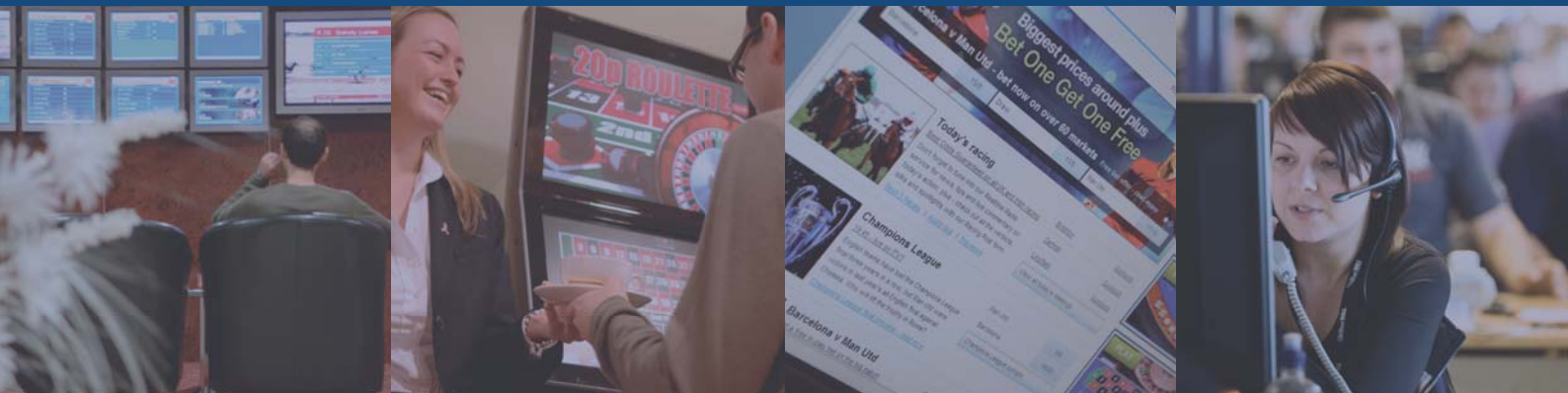




Betting on Britain

William Hill's Proposals for a New Approach to Gambling Policy



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Vision

The UK could be a world centre for responsible, well-regulated and profitable gambling: but only if it has the necessary support from government.

It does not currently – and there is a real opportunity for a future government to change that.

What is urgently required is a partnership between government, the gambling regulator, and gambling companies to ensure that this vision is realised while the interests of other stakeholders, especially the consumer, are fully protected. William Hill would be committed to such a partnership.

This paper sets out some of the steps an incoming administration could take in order to help the UK as a responsible gambling jurisdiction. The benefits would flow to all stakeholders: customers, the Government, racing and the UK as a whole.

Executive Summary

Set out below is a summary of the policy proposals:

- A new sponsoring department: the reallocation of responsibility for gambling industry sponsorship to Department for Business, Innovation and Skills (BIS).
- A tax system to allow remote gambling operators in the UK to be competitive in a global gaming market and proportionate taxation for land-based operators that will facilitate growth and increased tax yield.
- The proportionate regulation and taxation of betting exchanges, including requiring the Gambling Commission and HM Revenue and Customs to carry out a proper assessment of the risks posed by betting exchanges, the licensing of those who trade by way of business on betting exchanges and non-discriminatory taxation of all business users.
- An effective regulatory regime based on the implementation of a pragmatic, risk-based approach and an evidence-based approach to problem gambling – work informed by strategic risk assessments in line with regulatory best practice and a reduction in the budget of the Gambling Commission on the sums levied from the industry of 5% per year through efficiency savings.
- Support for a proper commercial relationship between racing and betting leading to the abolition of the Levy by 2013.
- Government to rule out the possibility of further subsidies funded by bookmakers to support sports governing body integrity functions or grassroots sport.
- Government should lead the way in seeking to establish a European framework for cross-border remote gambling and put political and legal resources behind a new push to overturn unlawful gambling restrictions in the European Union, rather than engaging in a domestic protectionist policy themselves.
- Because of the relative newness of the legislation, Department for Communities and Local Government (DCLG) and Department of Culture, Media and Sport (DCMS) to resist further calls for regressive changes to planning or gambling legislation from a limited number of London Boroughs on little or no evidence (through the Sustainable Communities Act process).

Eight steps towards partnership

1. A new sponsoring department
2. A tax system for growth
3. Betting Exchanges, taxation, the Levy, and regulatory risks
4. Effective regulation
5. A new partnership between bookmaking and racing
6. Maintaining integrity in sport
7. Creating a properly functioning single European market for gambling
8. Supporting local communities

Background: Our contribution to the UK

William Hill – a long-standing UK business for over 75 years - makes an important social and economic contribution to the UK, operating over 2,300 retail outlets and employing over 16,000 people. Around 6,600 of these employees are retained on a part-time, flexible basis, and we are proud of the opportunities we have created to help people needing flexible working arrangements. In addition, we contributed £266 million to the Exchequer in the last financial year. Eighty per cent of William Hill's revenue comes from the UK business.

UK bookmakers as a whole contribute more than £900 million to the Treasury, including £370 million in gross profits tax and about £50 million in machine duty. Additionally, £100 million goes from our industry to support horse-racing through the Levy and picture rights (excluding substantial further sums in race and meeting sponsorship) and some £13 million voluntary funding to greyhound racing.

Contrary to perceived wisdom, betting shops make a positive contribution to sustainable communities, bringing vibrancy and employment to those communities and ensuring that the prevalence of illegal unregulated gambling is reduced by providing a range of gambling opportunities driven by customer preference in properly controlled premises.

Most countries where consumer choice is limited by state gambling monopolies have a higher incidence of illegal and problem gambling. The UK has low levels of problem gambling by international standards.

The eight steps in detail

1. A new sponsoring department

The gambling industry, originally overseen by the Home Office, has been sponsored by the DCMS since June 2001. Whilst this shift in responsibilities was welcomed by the sector as evidence that the Government saw gambling as a leisure activity rather than something to be restricted and policed, William Hill considers this arrangement to be no longer viable.

Put simply, with a portfolio already extending from tourism, licensing and sport to broadcasting, digital switchover and the Olympics, DCMS does not possess the capacity, influence or clout within government to represent the commercial interests of our industry, given its scale.

Ineffective representation of and support for the betting sector's interests has resulted in business growth becoming exceptionally difficult. For example, whilst William Hill is doing all a responsible company can to reduce its cost base and shield itself against a volatile economic backdrop, DCMS has failed to challenge HM Treasury on the disproportionate fiscal regime applied to the gambling sector – the annual industry contribution is £400 million more than an equivalent sized non-gambling sector – or to take due account of the impact that a cumbersome regulatory system has on growth and business success.

William Hill has already been forced, like other operators, to move its online sportsbook to Gibraltar for commercial reasons and faces difficult choices about the future of its telephone betting operations in Yorkshire where the current economic model is simply unsustainable, even in the short term.

DCMS has also consistently ignored appeals from UK bookmakers to pursue the enforcement of a single EU market for gambling, with protectionist policies among EU member states currently preventing British companies from expanding overseas (see section 7 below). DCMS has now gone further by announcing a consultation on a more regressive and protectionist regime for the UK.

We consider that the interests of a complex regulated industry would be better served by the Department for Business, Innovation and Skills acting as sponsor. BIS is a department with a scale, outlook and remit better tailored to do justice to the economic significance of the gambling industry, including the contribution it makes through tax revenue and employment, and to promote its competitive position. This would better enable the UK both to take advantage of the emergence of gambling as a huge global business – there exists, for example, a major opportunity to export British expertise to new gambling markets – and to sustain its position as a centre for gambling excellence.

Under DCMS, the industry is stagnating and this is no good for bookmakers, racing, jobs or the UK economy. As Better Regulation Executive (BRE) is also part of BIS, the better regulation credentials of the Gambling Commission could also be kept properly under review.

One consequence of the creation of the Gambling Commission is a dual (perhaps even tripartite) regulatory regime involving DCMS (strategic lead and legislation), the Commission (policy and operating licences) and local authorities (premises licences and planning, which has increased red tape for local authorities as well as operators). This has led to a dilution of efficient and effective policy making with the policy resources within the Commission too far removed from Government.

Strengthening the core by moving policy back to the centre and leaving the Gambling Commission to deal with the functions of licensing, compliance and enforcement and acting in an advisory role on technical matters to the sponsoring department is now the right option. This makes even more sense now that the Responsible Gambling Strategy Board (RGSB) is in place, with this RGSB being able to report directly to the sponsoring department (as opposed to the Gambling Commission). This will enable a more streamlined regime with government being able to deliver a more co-ordinated overall policy on gambling.

Whilst we recognise that the whole regime cannot be dismantled, there may be opportunities for local authorities to take a greater role in premises-based regulation, whilst reducing general compliance resources at the Gambling Commission. If the Commission were to follow a more risk-based approach, it could retain specialist staff to deal with the most serious regulatory and integrity breaches whilst reducing overall headcount.

There are also efficiencies and economies of scale to be achieved by forming a single regulator for the National Lottery and commercial gambling.

Proposed policy commitment: a machinery of government change to separate the role of industry sponsor and the responsibility for regulatory policy by transferring the sponsoring role to BIS.

2. Create a tax environment for growth

The UK's current regulatory framework is more progressive and technology-proof than just about any other regime. Little has been done in other European states to open markets through the application of robust commercial regulatory models and, whilst the UK must not revert to a closed model (which it is in danger of doing), there are complexities created by a global gambling market that is so easily accessed through remote technology platforms.

Mobile global businesses with strong brands will naturally migrate to competitive tax jurisdictions, provided that they can still access their markets. Policing the internet and cross-jurisdictional enforcement are very difficult objectives to achieve and it is more sensible for government to create a competitive tax environment and to encourage the growth of other technology businesses and the nurturing of a talented and technologically competent workforce.

However, the UK is no longer competitive in tax terms for gambling companies and there is little of the remote gambling industry left in the UK. Government should not react to this situation by being protectionist and restricting markets but by creating the right corporation and betting tax environment (if not permanently then by means of tax breaks) to encourage inwards investment in the technology sector and particularly location of firms within the UK. Likewise, any government must take care to get the balance right between facilitating growth and maximising tax revenues. Overtaxing premises-based gambling will result in falling tax yield, premises closures and job losses.

On this basis, there is room for a new deal between government and the industry based on competitive tax rates for remote operators, which will encourage companies to repatriate their online operations and, over the long term, boost the return to the Exchequer as successful businesses pay more tax. This would parallel the innovative thinking that moved the industry from Betting Duty to Gross Profits Tax (GPT), which allowed expansion of British companies and substantial value creation for the Treasury, shareholders and customers.

Other aspects of our operating environment, including the availability of an educated, English-speaking workforce, a recently-updated legislative and regulatory framework and a strong domestic consumer base, are all favourable to the long-term future of a vibrant UK industry. Tax is the key to help build that environment.

Proposed policy commitment: the Treasury should consult on creating a competitive tax regime to attract remote gambling operators to the UK and to examine the potential for increased revenue from a broader base of companies.

3. Betting Exchanges, taxation, the Levy, and regulatory risks

Betting exchanges provide an online technology platform which allows private individuals to both back and lay bets. This is a familiar process even to those with a rudimentary knowledge of betting through their yearly flutter on the Grand National. Simplistically, the layer of the bet acts in the capacity of the bookmaker and the backer as the punter.

Whilst laying a price on a selection to win has traditionally been the domain of the bookmaker, betting exchanges effectively allow unlicensed and unregulated individuals to run a bookmaker-like gambling business by acting as a layer without the associated regulatory and tax costs.

The betting exchange acts as an intermediary, bringing together a punter and a layer, and makes money by charging “winners” (both layers and backers) commission (say 2-5% of winnings) for facilitating the transaction. Generally, the more money one feeds into the exchange the lower the commission rate.

This model is innovative and is predicated on the basis of allowing recreational punters the opportunity to bet against each other, but there is significant tax, integrity and regulatory risk in this process.

Both bookmakers and exchanges pay tax (15%) and horseracing levy (10%) at the same rates. However, there is a fundamental difference: the bookmaker makes payment on the basis of gross profit whereas the exchange makes payment on the basis of its commission charged on customers’ gross profits. This means that betting exchanges are taxed and levied at rates that do not appropriately reflect the volume of betting transactions flowing through the exchange.

Some of the gross profit of the bookmaker is represented by the commission of the exchange and some by the returns to the punter or layer. The odds offered by either the punter or the layer, therefore, take into account the commission paid to the exchange.

The table below sets out a simplified illustration of the issue:

Bookmaker	Betting Exchange
Bookmaker’s winnings = £1000	Backers/ Layers Winnings = £1000
Gross Profit =£1000	Commission at say 3% = £30
Tax@ 15% = £150	Tax@ 15% = £4.50
Levy@ 10% =£100	Levy@ 10% = £3.00
Total =£250	Total = £7.50

The advent of the betting exchanges has devastated the traditional telephone betting business model and caused the migration of other more sophisticated retail customers.

William Hill is not naïve in its outlook and appreciates that the advent of the internet and the current recession will have both taken their toll on our telephone business but the current exchange model receives an unfair tax treatment that makes it impossible to compete.

We are certainly not alone in this experience, as is demonstrated by Ladbrokes' recent announcement of its proposed closure of its Aintree call centre with the potential loss of over 250 jobs. If government is not prepared to take positive action then the likely outcome is clear: the Treasury and horseracing will lose further income and jobs will also be lost.

The current way in which betting exchanges are taxed means that unregulated bookmakers trading on exchanges can offer prices that undercut traditional bookmakers' prices. It is a distorted market which results in large volumes of betting transactions being taken outside the scope of tax. This needs to be corrected, either by properly regulating and taxing those who trade by way of business on exchanges or taxing betting exchanges at a higher rate of GPT on their commission (a proxy for taxing business users if it is argued that individual identification and administration is too difficult).

Proposed policy commitments: William Hill is not campaigning for the abolition of betting exchanges, merely a level tax, horseracing levy and regulatory playing field. We suggest the issues could be addressed by:

- **the Gambling Commission and HMRC carrying out a proper thematic assessment of the risks posed by betting exchanges;**
- **the licensing of all those who trade by way of business on betting exchanges; and**
- **the taxation of all business users of exchanges (or exchange commission to be taxed at a higher rate of GPT as a proxy).**

4. Effective regulation

The Gambling Act offers a foundation for a successful and responsible industry.

The industry is committed to cracking down on any compliance failure, which is not in any stakeholders' long term interests including under-age gambling. We are proactive in regulating our own industry and would like acknowledgement for it. We do not believe that there are major unaddressed issues that need to be tackled.

We support the role of the Gambling Commission. However, we would like to see a clear commitment that it will seek to reduce its costs (over £16 million per year) and manpower over time and to avoid placing unnecessary burdens on the industry. We believe also that it should increase its expertise by recruiting people with an industry background. It could then play a role in encouraging economic growth, responsible innovation and developing skills, rather than focusing exclusively on compliance.

Proposed policy commitment: a reduction in the budget of the Gambling Commission on the sums levied from the industry of 5% per year, with efficiency savings delivered through implementation of a pragmatic risk based approach – visits reduced and work informed by strategic risk assessments in line with regulatory best practice.

Problem gambling exists but its scale is relatively small by international standards and all evidence (of which there is not a great deal) indicates that problem gambling is not increasing, even though the opportunities to gamble have increased.

The 2007 Prevalence Study showed that there had been no rise in problem gambling since 1999 despite gambling spend increasing significantly in this period and the arrival of B2 gaming machines (previously FOBTs) in betting shops in 2002.

The 2010 Prevalence Study (reporting in autumn 2010) is now underway and the Responsible Gambling Strategy Board (RGSB) has now published its research priorities. We support this further research and will work with the Gambling Commission and the RGSB to resolve any issues as they arise. We also reaffirm our commitment to the three licensing objectives and our social responsibility obligations.

In return, we expect politicians to develop policies and statements that reflect what is established as fact and not to resort to alarmist statements about problem gambling for which there is no substantial evidence.

It is also essential that the freedom of people to choose to gamble for enjoyment should not be unduly hampered in order to protect a small minority who have a problem.

We are active participants in GREaT (Gambling Research Education and Treatment Foundation) and have led efforts to ensure that all gambling companies play their part on a voluntary basis. We believe that the voluntary approach should continue and the focus in the future should be on using the new funds that GREaT has received to ensure effective action and credible research into problem gambling issues.

Proposed policy commitment: government should commit firmly to an evidence-based approach to problem gambling and ensure that action to tackle it is proportionate to the scale of the problem and the future enjoyment of gambling by the responsible majority.

5. A new partnership between bookmaking and racing

The Horseracing Levy is an anachronism. It was originally introduced to compensate racing for the expected loss of gate receipts following the legalisation of off-course betting and should now be replaced with a modern, mature commercial relationship negotiated between racing interests and bookmakers. Up to now, no government has been bold enough to take the step of announcing the repeal of the Levy. The UK racing industry could be well placed to compete with other racing industries across Europe and elsewhere but is not able to do so because the Levy funding removes the necessary incentive to restructure. Following a branding review, racing is currently pursuing a change agenda but this is not yet dealing with the fundamental issue of structural change, which would allow racing to stand on its two feet.

Bookmakers, like William Hill, are prepared to pay fair value for the racing product and to assist in its promotion. However, bookmakers are not prepared to pay for a product whose value (primarily the value of TV picture rights) is artificially enhanced by claims on other unconnected revenue streams or the call for additional subsidies funded from bookmakers' profits (see below).

Currently, racing's income from picture rights is steadily rising but there are still calls for Levy payments to be increased. Discussions need to take place which accommodate transitional arrangements, taking into account racing's steadily increasing income from picture rights. We believe that a new relationship will only develop if there is a clear understanding that the Levy will cease. To that, end we believe that the next government should announce that it intends to abolish the Levy system within three years in order to create the right environment for change.

In the meantime, we pledge to work with racing to ensure that the transition to a post-Levy system is managed in a way that protects the essential interests of racing, including owners and courses, the race-going public, bookmakers and their customers.

Proposed policy commitment: government should announce the abolition of the Levy by 2013 and clear the way for a proper commercial relationship between racing and betting.

6. Maintaining integrity in sport

There have been some recent well documented (non-betting related) breaches of sporting integrity but British sport is largely free from corruption and betting-related corruption in the UK or involving UK companies is extremely rare.

Gambling companies have a strong interest in making sure that it remains so and we work closely with sporting bodies, the Gambling Commission and the Police to that end. Where isolated incidents occur, we support tough enforcement action by the Gambling Commission, which has extensive powers to undertake that task.

Bookmakers' own risk management systems are developed to identify unusual betting patterns (which may or may not be suspicious) and there is no suggestion of betting operators under-reporting (in fact, the number of Commission cases which do not proceed to full investigation suggests over-reporting).

Where there is need for the Gambling Commission to make enquiries outside the jurisdiction, this should be supported by a robust mutual co-operation framework (already in place for criminal enquiries) and bilateral agreements between regulators. A dual licensing system, e.g., a requirement to be licensed in both Gibraltar and the UK is disproportionate and concerns about access to relevant information can readily be met by bilateral agreements for information sharing through regulators. These arrangements already exist for financial services regulation.

Sports governing bodies, whilst producing little or no evidence of a widespread problem, continually call for additional funding for integrity issues, while some governing bodies have done little to put their own houses in order through the issuing of clear rules on betting for participants in their sport. Sports are seeking to exercise more control over betting because, put simply, they see it as one route to increase revenue for their sports. Requests for additional funding from bookmakers predicated on integrity grounds should be resisted by government.

Co-operation is working and needs to be bolstered by a more proactive approach by the Gambling Commission, with the industry facilitating knowledge transfer and expertise. Sport has little or no expertise in this area but there needs to be a collaborative approach, with the issue of funding being dropped by sport. It is merely detracting from the substantive issue.

There is no justification for using integrity as an additional income stream for sport, nor for the invention of a spurious right to bet which gambling companies should pay sports to enjoy. In any event, this is likely to be challengeable as state aid. The Gambling Commission should be in charge, avoiding replication in different sports governing bodies and ensuring that the objective to keep crime out of gambling is upheld.

Grass-roots sport funding

No relationship exists between grass-roots sport and betting. Grass-roots sport is funded through a combination of some very limited funding from professional sport, the Big Lottery fund (which is having to divert around £600 million to the Olympics between 2009 and 2013) and Sport England, but sport is still due to receive over £400 million of funding in the next four years.

It is very hard for sport to make any sustainable intellectual case that the betting industry should be funding grass-roots sport as it does not even appear to be a priority for them. Most sports governing bodies in the UK currently spend only relatively modest amounts (between 4% and 16% of their budgets) on the issue.

Sport England's figures show that, through a combination of Lottery and DCMS funding, sports governing bodies and the sports they represent will benefit to the tune of £213 million in 2009/10, with sport in Scotland receiving a further £133 million over two years. The total funding for sports governing bodies from 2009-2013 is estimated by Sport England to be £470 million, excluding such additional commercial revenues as the individual sports may generate.

Grass-roots sport and betting are not related and any argument to say that they are is simply an attempt by sports governing bodies to raise additional funds without justification.

Proposed policy commitment: government should definitively rule out integrity-related compulsory funding or the introduction of a legal 'right to bet'. It should require the Gambling Commission to agree information-sharing arrangements with other regulators to allow effective cross-border action in the few cases where action needs to be taken. Grass-roots sports funding should come from the proper funding sources: professional sport, the Big Lottery Fund and Sport England.

7. Creating a properly functioning single European market for gambling

There is no single European market for gambling and this is generally to the detriment of consumers. Member countries have abused derogations intended to discourage harmful social effects of gambling to protect national positions and stifle competition. Consumers are voting with their feet and seeking value outside those state monopolies.

Recent proposals by the UK Government to license all operators advertising into the

UK or contracting with UK customers on the grounds of “consumer protection” are disproportionate, regressive, anti-free market and commercially restrictive. There are already well regulated jurisdictions (e.g., Gibraltar) that focus on consumer and other protections (including social responsibility) and once licensed in an European Economic Area (EEA) state, gambling operators should be allowed to passport services into other EEA states.

It would be far better if Government created a competitive tax and regulatory regime to encourage inward investment by a wider base of operators and the associated growth of UK technology businesses.

UK gambling operators or jurisdictions with equivalent gambling regimes are well placed to provide a safe environment for consumers and yet are being thwarted by protectionist activity across Europe. They have done so without a great deal of pressure being applied by the UK Government (see references to industry sponsorship above). A more visible presence will assist in getting consumers a better deal and assisting UK companies to compete effectively.

As well as supporting infringement proceedings, we want government to take the lead in establishing a European gambling framework similar to that operated for financial services. Gambling should be included in the Services Directive as well as the Consumer Protection Directive and there should be encouragement for all EEA states to set up robust regulatory regimes which facilitate the licensing of commercial operators, both land-based and remote.

This is a missed opportunity given the strength of UK gambling brands which face competition in an open market from European rivals. European consumers suffer from the perpetuation of inefficient monopolies. The Government should take a more activist stance on this free-market issue.

Proposed policy commitment: government should resist a disproportionate, protectionist remote gambling regime for the UK and instead put political and legal resources behind a new push to overturn unlawful gambling restrictions in the European Union.

8. Supporting Local Communities

Under a process set up under the Sustainable Communities Act, local authorities are allowed to put forward proposals under this Act to a Selector Panel which then decides whether or not suggestions should be taken forward to central government to change legislation.

Some London boroughs (Hackney, Islington and Lewisham among them) have made suggestions which, if enacted, would limit the ability of bookmakers to apply for betting premises licences where (a) the Licensing Authority believed there was saturation or (b) allow local objectors greater powers to object. Lewisham want the return of the demand test. This would represent a fundamental reversal of the principles of the Gambling Act.

These proposals seem to be based on little more than a view that betting shops are a negative feature of local communities. We strongly dispute this. Betting shops provide vital,

flexible employment opportunities, and in many cases, betting shops are a valuable meeting place and promote regular use of the high street. Their presence is welcomed by other retailers and their absence encourages illegal gambling.

Proposed policy commitment: the existing licensing and planning regime has an entirely proportionate balance between the powers of local authorities to make licensing/planning decisions and of people to have a choice of where to bet. It should remain as it stands with 'demand' or moral prejudice not playing a part in licensing decisions. The localised concerns of some London boroughs should not be able to dictate national licensing and planning policy.

Conclusion

Betting is part of British life and we have some outstanding betting operators resident here. Yet public policy on gambling generally is still stuck in the last century. This is a major missed opportunity which partnership with socially responsible operators would remedy. We offer these suggestions as a way of ensuring that the UK benefits from a strong and expanding gambling industry.

**William Hill
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