

# The British Racecourse Bookmakers' Association

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8<sup>th</sup> February 2021

Dear Tim,

I am contacting you on behalf of BRBA members to present a response on their behalf regarding the news item "A New Message for All Bookmakers" recently posted by AGT on its website.

You will perhaps recall I contacted you on behalf of BRBA members soon after the national lockdown was introduced in Mid-March of last year, requesting dialogue and information relating to plans AGT had for operating under lockdown conditions. Of course at that point in time none of us were aware of the length of time over which the lockdown would extend. However, I do recall my letter of contact was seen as bordering on insensitive. How ironic it is that some months later when conditions are far worse than they were in March 2020, and in fact far worse than ever imagined, AGT (just before Christmas) chose to announce to bookmakers they would be imposing significant increases in daily Betting Administration Fees (BAF's) as from 1<sup>st</sup> January 2021.

It would appear from the fact that you have tried to explain away the comment relating to replenishing AGT reserves initially made when first announcing the fee increases, that you are well aware of the feelings of the majority of bookmakers regarding your announcement. The fact you have now felt it necessary to post a detailed argument in support of the fee increases signifies you have had a number of irate bookmakers who are opposed to the fee increases taking the time to contacting AGT directly. I can assure you as a trade association we have been inundated with calls from members regarding their objection to the fee increases and questioning the rationale of the explanations made in your latest message attempting to justify the increases.

It is generally thought by on-course bookmakers, certainly by most members of the BRBA, that the AGT is out of touch with bookmakers and in fact most probably the rest of the UK's business community, racecourses included, who are experiencing conditions which are unprecedented in modern times. The current situation that we all share is not the fault of bookmakers, we too are victims.

The message for all bookmakers on the AGT website concerning the increase in (BAF's) has been discussed by the BRBA Board of Directors. The unanimous view was that the tenor of your message is based on the premise that the financial problems the AGT are experiencing are a consequence of the Covid-19 pandemic. However, examination of AGT's annual published accounts clearly show AGT's problems emanate from a lack of appropriate control over a number of years, well before the current pandemic took hold. At 31 December 2014 AGT's published accounts show that total costs for the year were £710,962 (administration expenses £275,246 and cost of sales £435,716), by the year end 31 December 2019 the

published accounts show that total costs were £825,049 (administration expenses £326,224 and cost of sales £525,825). In the period 2014 to 2019 AGT total costs had increased by almost 14%, with administrative expenses and cost of sales having increased by 16% and 17% respectively. Suffice to say, in terms of management control AGT epitomises all that is wrong with a business which is allowed to operate under monopolistic conditions.

Please find below a response to the various points you raise in your news item.

## **A New Message for All Bookmakers**

### **Background**

**AGT Message 1** - *AGT has received almost zero income from Betting Administration Fees (BAFs) since mid-March 2020. BAFs normally account for around 80% of AGT's income.*

**Response 1** – Perhaps it has escaped your notice but the vast majority of bookmakers (although some bookmakers were able to work one day at the Doncaster St Leger meeting, some have worked at meetings with reduced crowd numbers due to the tiering system, and a handful have been able to attend meetings behind closed doors), have also received zero income from racing in the period from mid-March 2020 when the first national lockdown was introduced.

**AGT Message 2** - *By association, all other AGT income has slowed to a trickle since the first lockdown.*

**Response 2** – By virtue of the fact that since mid-March 2020 there has been very little racing with crowds in attendance most bookmakers have also experienced zero income from their businesses. Given the current lockdown situation, and a probable reopening of businesses under a tiered system, the chances of on-course bookmakers returning to work for several months looks remote. For some bookmakers even a trickle of business income would be welcome.

A further harsh reality for on-course bookmakers is that due to the prolonged period of time over which racing behind closed doors has persisted, leading to the introduction of an industry based SP system, there is a strong possibility that bookmakers when attended racing returns could find an income stream (data money receipts) from which they have drawn benefit for several years will disappear. This loss coupled with significant BAF increases, will for most bookmakers have a negative effect on their profitability amounting to several thousands of pounds.

**AGT Message 3** - *At that time, we took immediate action to minimise or stop all but essential business maintenance expenditure. Those controls continued throughout 2020 and will remain in place at least until crowd-attended racing resumes.*

**Response 3** – Given the lockdown conditions imposed by the Government AGT was unable to engage in its main operating activity (administration of bookmakers on racecourses). By default, therefore, the operating expenses associated with providing an on-course administration service would naturally fall in line with the level of activity/inactivity. As the lockdown has carried on from mid-March 2020, and now into 2021, it follows that AGT does not have to meet anything other than essential expenditure. Therefore, the controls referred to in Message 3 above were largely fueled by circumstances rather than direct action. Again the comment re AGT being out of touch with reality is relevant as, believe it or not, because on-course bookmakers are also faced with zero business income they too have had to take exactly the same steps as AGT in controlling and minimising expenditure.

**AGT Message 4** - *Like most businesses, however, AGT faces certain fixed and unavoidable costs, so it has not been possible to run the business at zero cost during the last ten months.*

**Response 4** – As AGT recognises, the need to meet on-going fixed costs is not something unique to AGT. To reiterate the response in 3 above, all businesses, including those of on-course bookmakers, faced with being unable to trade under lockdown conditions are in exactly the same position as AGT i.e. having to meet on-going costs from zero income. Note also that bookmakers are also faced with an 'invisible' cost, as a fixed cost must also be attached to a bookmakers investment in betting positions. As the license agreements bookmakers have with racecourses are subject to a fixed term the loss of at least one years' earning power from their investment(s) has significant financial implications for bookmakers.

**AGT Message 5** - *As a 'not for profit' company, we held financial reserves only sufficient to cover those costs that all businesses must reasonably account for. These business reserves have largely supported the reduced operating costs in the absence of income since March 2020.*

**Response 5** – The comment above regarding reserves held by AGT is not entirely true. Over the years AGT has manipulated it's income and financial resources, including building up reserves, to create a position of financial stability and liquidity that will support its case when negotiating to renew its contract to provide administration of gambling on tracks services to the RCA.

The final accounts of AGT Ltd for the year ended 31<sup>st</sup> December 2019, published on 18<sup>th</sup> December 2020, show that the company had reserves of £208,046. It had cash on hand of ££276,218, debtors of ££100,042 and creditors of £173,391.

No-one could have foreseen the coming of a pandemic (Covid-19) that would have such a devastating effect on individuals and businesses alike. During the period of lockdown AGT, like it or not, has had no alternative but to apply its reserves to cover its necessary costs. AGT can be assured that many on-course bookmakers are in exactly the same position. They too have had to meet on-going costs from cash reserves, many of them will also have been faced with paying business and personal tax for the year 2019/2020 from a zero cash flow in 2020 – a further drain on their financial resources.

### **Reducing business costs through the pandemic period**

**AGT Message 1** - *When the furlough scheme was first introduced, unlike some companies similar to AGT in our sector, we did not pay any 'top-up' of the basic furlough money to our staff. Apart from occasional days to cover business needs (e.g., when racecourses briefly re-opened), all AGT staff have been furloughed since March 2020.*

**Response 1** – On reading the statement in message 6 above many bookmakers are again left wondering how AGT can be so self-centred that they don't recognise that on-course bookmakers are in exactly the same position as themselves, or even worse. Bookmakers too have had to rely on Government support from the furlough scheme and self-employment income support scheme (SEISS) etc. to help them through these unprecedented times. However, there are a number of bookmakers who operate in the capacity of company Directors who, despite the fact that they work day-in-day-out in their business, because take profit from their company in the form of dividends have been unable to benefit from either furlough or SEISS.

AGT should look positively on the fact that 80% of its largest operating cost, wages and salaries, has since March of last year been met by the British taxpayer. As for the comment above *"unlike some companies similar to AGT in our sector we did not pay any top up of the*

*basic furlough*’, bookmakers are unaware of any companies like AGT in their sector. As far as bookmakers are concerned AGT enjoys a privileged monopolistic position within the industry whereas other businesses are subject to having to operate in direct competition with each other.

**AGT Message 2** – *“All business operating expenditure was reviewed in April 2020. Wherever possible, services were stopped or reduced to the minimum necessary to maintain data integrity, security and restart capability”.*

**Response 2** – As referred to in response 3 in the background section, the fact that AGT wasn’t able to operate from mid-March 2020 due to lockdown conditions it follows that operational activities were severely curtailed, other than in a much reduced off-course administration capacity. Its operational expenditure would naturally fall in line with its level of operational activity. This would be same for all businesses faced with a lockdown scenario. AGT will find that the vast majority of businesses are just like theirs ‘mothballed’ and hoping to survive until normality returns.

**AGT Message 3** - *Wherever possible, we investigated and took up government financial support (e.g., the furlough scheme and VAT deferment) and local government business support grants.*

**Response 3** – Unfortunately, unlike AGT, on-course bookmakers are exempt from VAT, as such they cannot register for VAT. They cannot reclaim any VAT they pay from HMRC and have to absorb VAT within their operating costs.

Again the AGT is not unique in taking steps to mitigate its losses by seeking government financial support. As on-course bookmakers do not operate from business premises with a rateable value they have been ineligible for some of the grants initially introduced to support small businesses. However, some bookmakers have been able to benefit from the local government ARG grants introduced in November of last year.

**AGT Message 4** - *While there is no clear timetable for the readmittance of crowds at racecourses, we remain committed to managing our finances such that we can resume operations at short notice when that time arrives. Obviously, the longer that crowds are not allowed, the more difficult it becomes to continue meeting fixed/unavoidable costs with little or no income. Nevertheless, based on current assumptions and expectations, we are confident that we can ride the storm.*

**Response 4** – Any business as a matter of course would be expected to manage its finances in such a way that puts it in a position whereby it can “ride the storm” and resume activities when business returns to normal.

By this time AGT may well see a theme developing in bookmaker responses as again on-course bookmakers are in exactly the same position as AGT. Bookmakers too are aware that there is no clear timetable for the readmittance of crowds to racecourses and many are finding it difficult to survive with little or no income, therefore they too are faced with having to “ride the storm”. However, messages from an independent supplier, which they have no option but to deal with, that it is going to significantly increase its prices when racing returns to cover its costs and make up for lost profits does little for bookmaker confidence or morale.

## **AGT - Points to Note**

**AGT Message 1** - *The expected future AGT fee structure that we have previously published on the website reported the Betting Administration Fee would be £26 in 2021 (£8 in Minor Rings) and £28 in 2022 (£9 in Minor Rings). The newly advised BAF figure of £30 (£10 in*

*Minor Rings) is necessary to support recovery from the unprecedented pandemic event and should be viewed in that context. We will do all we can to minimise costs to bookmakers whilst we manage the business recovery.*

**Response 1** – Many bookmakers believe that the model on which AGT is based is unsustainable, and is becoming unaffordable given all the negatives which bookmakers operating on-course have experienced over several years e.g. reduced levels of turnover, falling margins and ever increasing overheads.

Increases in costs at any time are unwelcome, but at this point in time in particular increases in BAF's of 30% in main rings and 25% in minor rings is an AGT strategy to which the majority of on-course bookmakers are vehemently opposed. The increases appear to contradict the statement that AGT are doing all they can to minimise costs to bookmakers. It smacks instead of self-preservation.

There has been a significant number of changes over the years since NJPC, the predecessor to AGT, was first formed in 1998 and we are asking in light of the changes a review of the administration of gambling on tracks model be conducted.

Bookmakers are also wanting to take steps to recover from this unprecedented pandemic. When racing resumes bookmakers anticipate what could be period of difficult trading conditions, but for how long who knows. Therefore, bookmakers are looking to reduce their costs in line with their reduced income expectations. The BAF increases introduced by AGT to get their business back on track and replenish their reserves is a measure that bookmakers feel exposes the flaws in the current administration model. Bookmakers are also of the opinion that the RCA of simply rolling over AGT's administration contract, as has been the case in the past, contravenes competition rules.

**AGT Message 2** - *AGT is a not-for-profit company and has never paid out a penny in dividends. Any operating surplus above the contingency sum has always been used to moderate fees/income.*

**Response 2** – AGT is a not-for-profit company which ultimately passes on its costs to bookmakers. In the year-ended 31<sup>st</sup> December 2019 AGT's costs were in excess of £850,000, bookmakers are expected each year to meet these costs, plus a further 20% in the form of VAT.

As a company limited by guarantee AGT has no shareholders and its legal constitution means it cannot pay dividends, therefore, it comes as no surprise that it has "*never paid out a penny in dividends*". If the guarantors of AGT Ltd were to take any 'profit' for themselves the company would no longer enjoy its not-for-profit status.

**AGT Message 3** – *The Independent Members on the Board agreed to claim no fees or expenses after March 2020 and will not do so until crowds return reliably to racecourses.*

**Response 3** – It is pleasing to see that at least the AGT Independent Board Members have shown some common sense and recognise the gravity of the Covid-19 situation. It would be inconsiderate not to support an organisation who's normal operating activities have been severely impacted by an event entirely out of their control.

**AGT Message 4** - *All AGT staff, without exception, have agreed to take a voluntary pay cut in 2021. This helps to support business recovery and puts all staff significantly beneath the industry benchmark for the roles they perform.*

**Response 4** – Bookmakers will likewise, no doubt, have to face a cut in income when attended racing resumes. However, bookmakers don't just work in their business they have

also had to make a financial investment in their businesses and, unlike AGT, have little or no control over the cuts they may be facing.

Would it be possible to provide details of the industry model against which AGT is benchmarking its salaries. Can AGT also reveal the extent of the salary cuts it will implement in percentage terms and also in terms of overall annual cost savings. Can AGT confirm whether the cuts are permanent and also whether the cuts include removing/reducing some of the 'frills' from the packages of salaries paid to some staff e.g. over generous contributions to pension pots, private health and death benefit insurance, car allowances in addition to generous mileage allowances, subsistence allowances etc. Can we take it that the salary cuts have been implemented on a sliding scale basis, with those on higher salaries bearing the brunt of the cuts in an effort to save their jobs, with those such as the administration office staff being faced with little or no cuts to their salaries.

When asked to do so in the past AGT has consistently refused to disclose Directors salaries, this would be an ideal time for the Managing Director of AGT to provide such information so that bookmakers can benchmark their own return on their investment in their business in terms of capital, time and effort, against the salary of the MD and other Directors.

**AGT Message 5** – *Other than the Cheltenham Festival and Royal Ascot – where at least two BRM's need to be permanently deployed in the Minor Rings – we have rescinded the 'Premium Minor Ring' fee at all other racecourses including York, Chester, Cartmel, Aintree, Epsom and Goodwood.*

**Response 5** – Bookmakers believe there was never a case for the premium fee increases AGT initially planned to introduce in minor rings and we raised our objection to the increases at the time they were announced. The racecourses where increases were planned have vibrant minor rings and the BFA contributions made by bookmakers working in those rings more than covers the associated BRM cost. Bookmakers also believe that the AGT U-turn on this matter may to some extent have been influenced by the fact that the increases planned by AGT were met with opposition from some of the racecourses concerned.

At Royal Ascot where more than one BRM is deployed in minor rings bookmaker minor ring attendances in 2019 totalled 558 over the five day period of the Royal meeting. Had the premium fee of £30 been in place at that time BAF's contributed by bookmakers working in minor rings would have totalled £16,740. At the Cheltenham Festival, where around 300 minor ring bookmakers attend over the four day festival period, at premium fee rates this would generate BAF's totaling £9,000. Would it be possible for AGT to provide a figure relating to the cost of manning-up the minor rings during the Royal Ascot and Cheltenham Festival meetings.

**AGT Message 6** - *to clarify our website statement in which we mentioned the need to rebuild our financial reserves, the new BAF does NOT enable us to build up reserves to a significant amount at bookmakers' expense. It enables us to achieve the minimum amount of reserves to carry on as a going concern, which is a legal requirement.*

**Response 6** – There is no legal requirement as to the extent of reserves a company must hold. As a not-for-profit organisation can AGT disclose what it level of reserves it currently holds and, based on the message above that it is not the intention of AGT to build up significant reserves at the expense of bookmakers, is AGT able to quantify what it sees as a "minimum amount of reserves", and can AGT also provide evidence of the fact that its latest BAF's are set at break-even point and not at a level to build up reserves.

Going concern is an accounting concept that implies a company, or any other business entity, will continue its operations in the future and will not liquidate or be forced to discontinue operations due to any reason. In preparing financial statements accountants make

judgements on the assumption that the going concern basis is valid, unless it is inappropriate to assume that a business is set to continue as a going concern.

It is a legal requirement that company Directors take steps to prevent a company trading 'wrongfully'.

**AGT Message 7** - *If our income is higher than projected when attended racing resumes, largely influenced by bookmaker attendances, and/or business savings are greater than calculated, then of course we will review the BAF downwards as soon as we are able to do so. We have a proven track record of waiving or deferring projected price increases where circumstances allow.*

**Response 7** – To assure bookmakers that the increased BAF's are realistic will AGT please disclose the income and associated cost projections on which the increased BAF's are based.

We are led to believe that the increases in BAF's AGT have imposed are following negotiations with several bookmaker associations and that AGT initially proposed larger BAF increases than those finally agreed on. Given that there is a degree of uncertainty regarding attendances when racing returns and that the factor most influencing income from BAF's is bookmaker attendances which have been in decline in recent years, could you please clarify the contingency plans AGT have in place should income from BAF's be lower than projected, or costs higher than projected. If the projected income and costs do not come up to The AGT's projected expectations can bookmakers expect further fee increases, rather than fee reductions.

**AGT Message 8** - *AGT's infrastructure is well-established and includes numerous activities that might be described as 'unseen' or 'taken for granted,' for instance: -*

- *Late Pay: 2,221 Late Pay claims were administered centrally in 2019.*
- *List Position Transfers: approximately 900 transfers are administered in a normal year, comprised of processing of payments, notification to racecourses, maintaining/updating the Bookmaker Lists database, logging of transfer details, issuing receipts, etc.*
- *Provision of updated Bookmaker Lists to racecourses for every raceday.*
- *Recording of bookmaker attendances.*
- *Maintenance of an up-to-date website.*
- *Management of Tattersalls Committee (involving compulsory maintenance of a website, reports to the GC, administration of disputes, arranging hearings, etc.).*
- *(This list is not exhaustive.)*

**Response 8** – Rather than bookmakers taking the AGT for granted, bookmakers see the reverse as being the case, many feel that over the years AGT's culture is such that bookmakers have become a 'gravy train'.

The reference above to the fact that AGT's infrastructure is well established is seen as part of the current problem. Much has changed over the period since 1998 when AGT's predecessor was formed, these changes have for one reason or another led in a number of instances to a decreased workload. Reforms are required to reflect those changes and other changes the industry has experienced.

While the list above is detailed is it by error or design that the information provided omits any mention of the annual cost to bookmakers of the administration service. For example, the list position transfers fees referred to in the list above would cost bookmakers £54,000 (900 x £60 – bookmakers are not able to reclaim the VAT element of the transfer fees), in fact in the

year ended 31<sup>st</sup> December 2019 the published accounts of AGT Ltd show that administrative expenses of £326,244 (excluding any VAT) were passed on to bookmakers as charges/fees in one form or another. Presumably the administration costs include the salary of the MD and other independent Directors.

Many of the activities listed (above) are based on a mechanised system where reports are generated automatically. As the website is the property of AGT it would be in their best interests to ensure that it was up-to-date and secure.

Would it be possible to provide details of the work involved by AGT in the management of the Tattersalls Committee. With reference to the mention of administration of disputes, arranging hearings etc., would it be possible to quantify the number of disputes/hearings involved as the ADR reports displayed on the Tattersalls Committee website show that in the year 1<sup>st</sup> October 2018 to 30<sup>th</sup> September 2019 there were zero disputes on which the Committee adjudicated, in the year 1<sup>st</sup> October 2019 to 30<sup>th</sup> September 2020 the Committee adjudicated on only one (1) occasion.

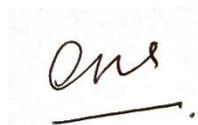
Reference is made to the fact that the list of activities above is not 'exhaustive', in fact there is an important AGT activity that is not included on the list on which AGT may like to provide some detailed information. Several years ago AGT gifted, at a transfer value of £1, rails joints business which had originally cost £1.6million, to RBA (Joint Management) Limited. Since the time of the transfer AGT has acted in the capacity of agent for RBA (Joint Management) Limited, collecting joint hire fees by invoicing rails bookmakers according to their usage of rails joints and distributing those fees to RBA (Joint Management) Limited.

The published accounts of RBA (Joint Management) Limited at the year-end 30<sup>th</sup> April 2020 show the company had reserves of £230,351, cash on hand of £189,730, debtors of £19,448 and creditors of £293 at that date.

As the administration workload in carrying out the fees collection and distribution service would be time consuming for AGT staff it is necessary for bookmakers to establish that AGT is pricing the work it undertakes for RBA (Joint Management ) Limited competitively and realistically, and that bookmakers are not subsidising RBA (Joint Management) Limited. There were just over 10,000 rails bookmaker attendances in 2019, which would generate an income from joint hire in excess of £50k that year to RBA (Joint Management) Limited. Can AGT, therefore, please disclose the revenue it itself generates each year from the administration service it provides directly to RBA (Joint Management) Limited.

In conclusion, bookmaker members of the BRBA look forward to hearing your responses to the points raised and receiving the further information we have requested.

Yours Sincerely,



Christopher Hudson

The British Racecourse Bookmakers' Association