

PO-CH/NL/0181 PT J

10/10
3.1

PART J

Chex
Lawson

CONFIDENTIAL

(Circulate under cover and
notify REGISTRY of movement)



PO -CH /NL/0181



PART J

CHANCELLOR'S :
PAPERS ON PRIVATISATION
POLICY

1810 /NL/0181

-CH

PART J

Begin : 24/5/89

Ends : 21/9/89



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

COMMERCIAL IN CONFIDENCE

CH/EXCHEQUER	
REC.	26 MAY 1989 ✓ 26/5
ACTION	FST
COPIES TO	

24 May 1989

1 can't vouch for FST, I think a special adviser. I am AT for the horse, I am hostile to the Lloyds proposal. There is considerable force in it.

Re greyhound racing, X is a book, Cash, No cost, & a

Winterson

Dr. H.

Dear Alex

**POSSIBLE PRIVATISATION OF THE TOTE;
INQUIRY INTO THE FINANCING OF RACING**

The Home Secretary would be grateful for the Chancellor's views, and those of the Secretaries of State for Trade and Industry and the Environment, on his establishing a Home Office Departmental inquiry into the financing of horseracing and of greyhound racing. The Home Secretary believes that such an inquiry is necessary and desirable in the light of the advice from Lloyds Merchant Bank on the possible privatisation of the Horserace Totalisator Board (the Tote) and of the dispute on the 28th horserace betting levy scheme.

Lloyds' advice

The Chancellor agreed last year that external advisers should be appointed to assess the feasibility of privatising the Tote, and last September the Home Secretary appointed Lloyds Merchant Bank to do that. We have now received Lloyds' advice. It is of course commercially sensitive, and we shall not be making it public. As a first step we are sending a copy of the report to Treasury officials.

Lloyds believe that the Tote can and should be privatised. But, certainly at first sight, their proposals for a privatisation seem unsatisfactory. They recommend the vesting of the Tote in the Racecourse Owners Association (the organisation which represents the interests of the British racecourse owners), with an exclusive licence to be administered by the Levy Board. Tote Bookmakers, the off-course betting arm of the Tote, would be sold. The outcome could appear as a substantial gift to racecourses (Lloyds value the racecourse and credit part of the Tote at between £25-30 million and Tote Bookmakers at over £30 million, although the figures could be substantially lower if

/the component

Alex Allan, Esq
Private Secretary to
the Chancellor of the Exchequer

the component parts remained together). The proposals do not, therefore, satisfy the customary main criteria for privatisation - the improvement of efficiency (although they might achieve this); the widening of share ownership; and raising funds for the Government. Although Lloyds discuss other privatisation methods, none is developed to provide an alternative model to set against their main proposals at this stage.

Part of the explanation for this outcome is that Lloyds assume that the Tote, in whatever form it emerges, should continue its contribution to racing. Lloyds also attach weight to the fact that no public money has ever gone into the Tote so that, its status as a statutory body aside, as a child of racing rather than of Government, arguably the proceeds of privatisation should remain in racing. These considerations have some substance, and the proposals resulting from them are likely to be seized upon by the racing industry.

The Home Secretary believes that the context of the financing of racing, in which to set Lloyds' proposals, is unclear, particularly because of the levy dispute (which arose after the appointment of Lloyds). That context could be established by an inquiry into the organisation, structure and funding of racing and the inter-relationship with betting. The results of such an inquiry should enable us to judge whether, when fully developed, Lloyds' proposals could form a logical development for the Tote, possibly as a quid pro quo for a restructuring of or move away from the levy, or if, in an altered broader context, another direction for the Tote can and should be set.

Horseracing Betting Levy

An inquiry into the long-term funding of racing has been called for publicly by the Chairman and the two other Government-appointed members of the Horserace Betting Levy Board on the back of the dispute between the Board (and the horseracing industry) and the Bookmakers' Committee about the 28th levy scheme, for 1989/90. That dispute publicised and sharpened an increasing divergence between the racing and betting industries in their respective perceptions of the character and proper scale of the levy. Racing regards the levy as an inadequate substitute for a fair, market price for the betting medium which it provides for the off-course betting industry, inadequate not least by claimed comparisons with the rates of return to betting from racing in other major racing countries. By contrast, the bookmakers portray the levy as a subsidy to racing, and reject the validity of international comparisons.

Under the levy legislation, because of the failure of the Board and the Committee to agree, the Home Secretary was required

/to determine

to determine the 28th levy scheme. He doubts if that determination, which he announced on 22 March, has done or could do more than provide temporary splints to a fractured consensus between racing and bookmaking. The current levy machinery presupposes such a consensus. The Home Secretary must take seriously the advice of the chairman of the Levy Board that, without the benefit of an inquiry, the future prospect is instead one of more disputes. The function of determining rates of betting levy, which dates from 1969, is arguably no longer proper to a Secretary of State, and is certainly difficult to discharge effectively. The task involves assessing respectively the financial needs of racing and the capacity of the bookmakers to pay. The Home Office is not well equipped to make such assessments independently, nor does the Home Secretary believe that it should become so. The ground was last covered comprehensively by the Rothschild Royal Commission on Gambling. The Royal Commission reported in 1978 and, as the commercial facts which it took into account become out of date, there is increasing unwillingness to accept some of the analysis and conclusions in that report. The principal ordinary source of objective, or at least agreed, advice on the financial relationship between racing and betting to the Home Secretary is the Levy Board. By definition, the Board is split during a levy dispute. The stage at which, via the Board or some other machinery, the two industries left to themselves could review their mutual interests and differences, is demonstrably passed.

When the Home Secretary announced the determination of the 28th levy scheme on 22 March, he said that the possible privatisation of the Tote was a relevant factor for him to have in mind in reaching a conclusion on the need for an inquiry into the financing of racing and that he would announce that conclusion when he had received and considered Lloyds' advice. Their report seems to the Home Secretary to confirm the relationship between this possible privatisation and an inquiry which he had anticipated. In addition, in the past Ministers both in the Treasury and in the Department of Trade and Industry have questioned the continuing justification for a statutory levy with provision for Government involvement. An inquiry offers the opportunity to put that justification to the test of modern circumstances.

Greyhound racing

X | There is no question whether the financing of greyhound racing should be included in an inquiry. A campaign by the Chairman of the British Greyhound Racing Board, Lord Newall, for an inquiry into the alleged manipulation and dominance of his industry by the bookmakers, and for a levy on off-course bets on greyhound races, has some Parliamentary support. It might be

/difficult to

difficult to consider off-course bookmaking without taking into account the relationship between greyhound racing and that industry, as bets on dog races now constitute some 20% of off-course betting turnover. Like horseracing, greyhound racing is both accorded financial privilege and subject to commercial restraints under legislation for which the Home Secretary is responsible. The 1978 report of the Rothschild Royal Commission provided similarly the last comprehensive and objective survey of the facts and issues. Perhaps the major single development since that report has been the advent of satellite television coverage, by Satellite Information Services (SIS), of racing in betting offices permitted by, and subject to, legislation for which the Home Secretary is responsible. The Levy Board looks to the development of satellite broadcasting of horseracing and payment for it as a possible alternative, or increasingly significant addition, to the levy. The recent growth in off-course betting turnover, which is likely to reach or exceed £4,000 million in 1989/90, is said disproportionately to be accounted for by betting on greyhound racing stimulated by SIS coverage, whilst SIS's payments to the greyhound industry are token compared to those paid to horseracing. The Home Secretary therefore suggests that the financing of greyhound racing should be included in an inquiry.

Direction and scope of inquiry: Annex

... The Annex enclosed with this letter summarises consultations between officials here and their counterparts in the other interested departments about the merits, scope and form of such an inquiry and lists the issues which an inquiry might address. The Home Secretary agrees with the view which Treasury officials have so far expressed, that Government involvement in racing and betting should be kept to the minimum. The Home Secretary's considered judgment is that we have reached an impasse and that an inquiry offers the best means of helping either properly to exercise the involvement which we have or to set a sensible course for reducing it.

Form of Inquiry

The Home Secretary believes that an inquiry should be conducted by a small departmental committee, with the power to appoint specialist consultants to cover some areas (for example, international comparisons). An inquiry by consultants alone could not, he believes, be sufficient. Only a committee would have the necessary authority and judgment to assess the scene as a whole. A chairman could be identified once the decision was agreed in principle. The Home Secretary's view is that we should look for someone with a degree of financial expertise, independent of the racing world, perhaps from the City, or an ex-

/Permanent Secretary.

5.

Permanent Secretary. The Committee would need to take into account Lloyds' recommendations on the Tote.

Terms of reference

Subject to any views which the Chancellor and colleagues may have, the Home Secretary suggests that the terms of reference of an inquiry might be on the lines of the following:

"To examine the current structure of the horseracing and greyhound racing industries and the means by which they are financed; to examine the relationship between both industries and the betting industry and its implications for the future funding of both forms of racing; without increasing public sector involvement in the three industries, to consider the scope for the better development of [redacted] relationships between racing and betting, and of the assets of racing; and to make recommendations."

Views of the Industries

Such an inquiry may not be welcome in all quarters. The big bookmakers may claim that it is unnecessary, as they have already been the subject of numerous inquiries. Horseracing, though eager for more money, may be coy about exposing its organisation, notably, perhaps, the Jockey Club, to independent scrutiny. Greyhound racing's ambitions centre on more Government involvement. The answer has to be that care for these sensitivities cannot be allowed to outweigh the need for a comprehensive and objective assessment of the context in which to discharge our responsibilities. If there is agreement in principle on an inquiry, the Home Secretary intends to prepare the way for a public announcement of it by alerting in advance Sir Charles Morrison (Chairman of the All-Party Racing and Bloodstock Industries Committee) and possibly the Chairman of the Bookmakers' Committee, the Senior Steward of the Jockey Club and Lord Newall.

Liaison with Lord Wyatt

There is also the question of informing Lord Wyatt of what is proposed. The Home Secretary has told Lord Wyatt that we will take no decision on Lloyds' report until he has discussed its proposal with him but that his first step must be to consider it with colleagues. The Home Secretary would like to be in a position to meet Lord Wyatt in confidence soon, as he says that the uncertainty is having a bad effect on the Tote. If there is to be an inquiry, the Home Secretary would emphasise to Lord Wyatt that no action on privatisation would be taken until it was

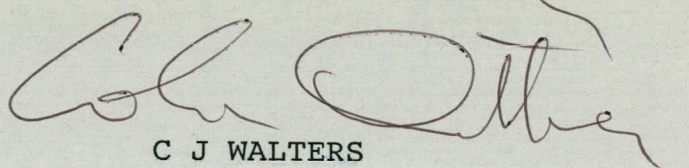
/completed. This

completed. This may help to avoid him going into battle against the proposed sale of Tote Bookmakers, with which he is likely to be most unhappy. Equally, he could otherwise become over-enthusiastic about others of Lloyds' proposals, notably that to vest the Tote in the Racecourse Association. The Home Secretary will also have to discuss with Lord Wyatt the need, identified by Lloyds, for a restructuring of the Tote Board, irrespective of privatisation, to include executive members, by analogy with such boards in the private sector.

Timing

We envisage that, dependent in part on the time taken in finding a suitable Chairman, an inquiry might start in the early autumn, with a view to a report on which there could be legislation, certainly as to the privatisation of the Tote, in the next Parliament. But the Home Secretary would like to make an announcement about an inquiry and the Tote before the summer recess and to see Lord Wyatt soon. The Home Secretary is ready to discuss the proposals in this letter if his colleagues believe that would be helpful. But decisions are needed fairly soon, in view of the current public uncertainty about the future of the Tote and Lord Wyatt's legitimate desire to know what is happening. The Home Secretary would therefore be grateful for an early response from the Chancellor and from the Secretaries of State for Trade and Industry and Environment.

I am copying this letter to Neil Thornton (DTI), Roger Bright, DOE and Trevor Woolley (Cabinet Office).

Yours sincerely

C J WALTERS



FROM: J M G TAYLOR

DATE: 31 May 1989

A handwritten signature in ink, appearing to be 'JMG'.

PS/FINANCIAL SECRETARY

cc Sir P Middleton
Mr Monck
Mrs Case
Mr P H Brook
Mr Call**POSSIBLE PRIVATISATION OF THE TOTE: INQUIRY INTO THE FINANCING OF RACING**

The Chancellor has seen the Home Secretary's letter of 24 May. He awaits the views of the Financial Secretary, officials and Special Advisers.

2. He has commented that, at first blush, he is less hostile to the Lloyds' proposal than is Mr Hurd. There is considerable force in the point that, as no public money has ever gone into the Tote, arguably the proceeds of privatisation should remain in racing.

3. As far as greyhound racing is concerned, it is most certainly the case that the bookmakers manipulate and dominate the industry, and a very unsavoury business it is.

A handwritten signature in ink, appearing to be 'JMG'.

J M G TAYLOR



[Handwritten initials]

FROM: S J FLANAGAN
DATE: 31 MAY 1989

MR P BROOK

cc

[Handwritten '2' in blue]
PS/Chancellor
Sir P Middleton
Mr Anson
Mr Phillips
Mrs Case
Mr Bent
Mr Mortimer
Mr Westwater
Mr Tyrie

POSSIBLE PRIVATISATION OF THE TOTE: INQUIRY INTO THE FINANCING OF RACING

The Financial Secretary has seen Mr Walters' letter of 24 May. He thinks there are strong arguments for including greyhound racing in the enquiry.

[Handwritten signature of S J Flanagan]

S J FLANAGAN
Private Secretary



CH/EXCHEQUER 2/6	
REC.	02 JUN 1989
ACTION	FST
COPIES TO	

The attached annex should have been circulated with the letter from Colin Walters to Alex Allan dated 24 May and entitled POSSIBLE PRIVATISATION OF THE TOTE: INQUIRY INTO THE FINANCING OF RACING. Apologies for the omission.

M.M. Rapaccioli. 2/6.
Home Secretary's Office

POSSIBLE INQUIRY INTO THE FINANCE OF RACING

This Annex:

- (i) Summarises the outcome of consultations by Home Office officials with officials in the Treasury, Customs and Excise, Office of Fair Trading and Department of the Environment (Sports and Recreation Division) about a possible inquiry into the financing of racing; and
- (ii) Helps to define the scope of such an inquiry by listing the issues which it might be expected to address.

Inter-departmental consultation

2. Treasury officials have entered some doubts about the desirability of an inquiry, on the view that Government involvement in betting and racing, as with any other service industries, should be kept to a minimum. In general terms, they have asked that the terms of reference of any inquiry should not in any way prejudice the possible privatisation of the Tote and, in due course, the Levy Board, and that any recommendations for an increase in Government involvement should be avoided. More specifically, they would wish it to be clear from the start that there is no question of expanding the public sector's interest in betting (ruling out, for example, a statutory levy on bets on greyhound racing), nor any question of putting either adjustment of the level, or any hypothecation, of general betting duty within the scope of an inquiry.
3. The Home Secretary is quite content that an inquiry should be structured and directed to avoid these options.
4. Officials in the Office of Fair Trading (OFT) (and Customs and Excise) see some merit in an inquiry. It is understood that the Minister for Sport supports the case for an inquiry, provided that it clearly did not concern itself with the funding of sport generally.
5. All these departmental interests seem to be met in the scope of an inquiry defined by the issues listed later in this Annex. On the OFT side, the Secretary of State for Trade and Industry's recent reference of Grand Metropolitan's acquisition of William Hill bookmakers to the Monopolies and Mergers Commission would possibly allow a Home Office inquiry to look to the

MMC's report to cover the alleged dominance of the "Big Three" bookmakers and their alleged manipulation of odds. It is understood that the Director-General of Fair Trading is in principle content that a Home Office inquiry should encompass issues, in bookmaking, which on other occasions are his preserve.

Issues which an inquiry might address

Key: RC = issue considered by the Rothschild Royal Commission on Gambling, which reported in 1978

LB = as proposed by the Government-appointed members of the Levy Board

BGRB = as proposed by the British Greyhound Racing Board

A. BOOKMAKING - PRIVATE SECTOR

1. Bookmakers' profits (ie are bookmakers capable of paying more to racing)
(RC + BGRB + LB)
- [2. Alleged dominance of the "Big 3" - Ladbrokes, Mecca/William Hill and Corals (RC + BGRB)
3. Bookmakers' alleged manipulation of odds (BGRB)]*
4. Bookmakers' alleged dominance of Satellite Information Services (SIS)
(BGRB)
5. Incidence, amount and 'fairness' of bookmakers' deductions from punters (RC + BGRB)

B. BOOKMAKING - "STATE"

6. Proposed privatisation of the Horserace Totalisator Board

* As to items 2 and 3, a Home Office inquiry might be able to rely on the MMC report on Grand Metropolitan's acquisition of William Hill.

C. BETTING OFFICES/AVOIDANCE OF ILLEGAL BETTING

7. Extended weekday evening opening hours of betting offices (RC and Betting Office Licensees' Association (BOLA))
8. Sunday opening of betting offices (RC Jockey Club and BOLA)

D. HORSERACING

NB. Paragraphs 9.4-9.5 of the report of the Rothschild Royal Commission:

"Although racing now receives far greater financial assistance from betting than it did [in 1949], the racing industry is unanimously of the view that more money is required. It has asked us to recommend how such extra money could be raised. We have thus become involved in an inquiry into the financial needs of racing. [9.5]. This inquiry inevitably led us to examine the organisation of racing. Finance and organisation are inextricably connected. We could not determine whether more money should be taken from betting or how this should be done without considering the arrangements for deciding how the money should be spent. So we have had to examine the relationships between the Horserace Betting Levy Board and the Jockey Club as well as the numerous other organisations interested in racing. At first sight these matters may seem remote from the terms of reference of a Royal Commission on Gambling. But the financial case made by the racing industry has left us with no alternative."

9. The economics and economic efficiency of racing (LB)
10. Principle of, and continuing justification for, a levy (RC + LB)
11. Is the levy a subsidy or an -inadequate - price (LB)
12. The role and effectiveness of the racing organisations: Jockey Club, Racecourse Association, Horseracing Advisory Council (LB)
13. The role and effectiveness of the Levy Board (RC)
14. Prize money as the means of enhancing the incomes of owners, breeders and trainers and jockeys' and stable lads' wages (RC, Jockey Club and Horseracing Advisory Council)

E. GREYHOUND RACING

17. The financial position of greyhound racing (RC/BGRB)
18. Significance of growth in off-course betting on greyhound races (BGRB)
19. A [non-statutory] levy for greyhound racing (RC/BGRB)
20. Acquisition/ownership of greyhound tracks by bookmaking companies (RC/BGRB)
21. Bookmakers' alleged dominance of Bookmakers Afternoon Greyhound Services (BAGS) (BGRB)
22. "Fairness" of SIS payments to greyhound tracks (BGRB)
23. Statutory limit on track owners' charges to on-course bookmakers (BGRB)

F. POSSIBLE ALTERNATIVES TO THE LEVY

24. Possible development of SIS or other satellite TV, eg. as a domestic service (LB)
25. Possible application of copyright law to market relationship between bookmakers and racing (LB)

G. INTERNATIONAL COMPARISONS

26. Comparisons with rates of return from betting to racing in other racing countries (LB, Jockey Club/Horseracing Advisory Council)

H. LEGISLATION

27. (In addition to any legislative implications of 1-26 above) possible reform of levy legislation (a) to correct Bookmakers' Committee's alleged current upper hand (b) "to take the issue out of the political arena" (LB)



the department for Enterprise

COMMERCIAL IN CONFIDENCE

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

C J Walters Esq
Private Secretary to the
Secretary of State
Home Office
London
SW1H 9AT

CH/EXC/REQUER	
REC.	26 JUN 1989 ✓ 26/6
ACTION	FST
COPIES TO	

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5422
Our ref PS5CPH
Your ref
Date 23 June 1989

See Coli-

POSSIBLE PRIVATISATION OF THE TOTE : INQUIRY INTO THE FINANCING OF RACING

Thank you for copying to us your letter to Alex Allan of 24 May, seeking approval for a Home Office inquiry into the licensing of horse and greyhound racing.

My Secretary of State welcomes the Home Secretary's conclusion that Government involvement in racing and betting should be kept to a minimum. In particular, he believes there are strong competition grounds for concluding that the statutory betting levy should be repealed, leaving horse racing to rely on its own resources.

It follows that he does not believe that there should be a statutory levy for betting on greyhound racing.

Nevertheless, these conclusions might lack credibility unless backed by a Committee of Inquiry, as your Secretary of State suggests. My Secretary of State thinks there would be merit in the Committee having at least two independently minded members who had direct experience of racing and betting respectively. But the small majority, including the Chairman, should be chosen primarily for their expertise in competition policy, economics, or finance. He would be grateful if your officials would continue to discuss candidates with ours.

We are also broadly content with the proposed scope of the enquiry, although we should be grateful if officials here were consulted over the drafting of the detailed terms of





the department for Enterprise

reference. In particular, we should like to see a reference at the outset to examination of the issues involved against the background of the Government's competition and privatisation policies.

The terms of reference should also cover, where relevant, the Home Office regulation of the betting industry particularly those rules restricting advertising which the DGFT believes to be an important obstacle to competition. My Secretary of State recognises that there may be wider reasons justifying the regulations, but the MMC have recently found a broad range of restrictions on advertising to be anti-competitive and against the public interest.

There will need to be a careful evaluation of the application of existing competition legislation (and of the proposed new Restrictive Trade Practices legislation) to any major changes which the inquiry might suggest, such as a switch from levy funding to the sale of copyright in racecards.

With these qualifications, my Secretary of State believes the Home Secretary should set up the enquiry.

A copy of this letter goes to Alex Allan (Treasury), Roger Bright (DOE) and Trevor Woolley (Cabinet Office).

Yours

BEN SLOCOCK
Private Secretary

FROM: P H BROOK (HE1)
DATE: 29 JUNE 1989
EXTN: 4708

PS memo of 31/5

AJC 29/6

- 1. MRS CASE
- 2. FINANCIAL SECRETARY

- cc: Chancellor
- Sir P Middleton
- Mr Anson
- Mr Monck
- Mr Bent
- Mr Gilhooly
- Mr Mortimer
- Mr Michie
- Mrs Chaplin
- Mr Tyrie

OK - This is the
 1. ~~points out~~ ~~the~~ ~~fact~~ ~~is~~ ~~in~~
 2. ~~no~~ ~~was~~ ~~for~~ ~~concern~~ ~~is~~ ~~in~~
 3. ~~no~~ ~~was~~ ~~for~~ ~~concern~~ ~~is~~ ~~in~~

Ch/ This advice has been a long time coming.

Contact for FST to write in terms drafted?

The advice does not reflect your earlier comments that, as no public money has gone into the Tote, the proceeds of privatisation should arguably remain in racing.

POSSIBLE PRIVATISATION OF THE TOTE: INQUIRY INTO THE FINANCING OF RACING

The Home Secretary's Private Secretary's letter of 24 May seeks the views of the Chancellor and the Secretaries of State for Trade and Industry and the Environment on the establishment of a Home Office Departmental inquiry into the financing of horseracing and greyhound racing. He believes that this is necessary in the light of the dispute on the 28th horserace betting levy scheme and to enable the advice of Lloyds Merchant Bank on the possible privatisation of the Tote to be properly judged.

Lloyds' Advice

2. Following a meeting between the Chancellor and the Home Secretary, Lloyds Merchant Bank were appointed last September to assess the feasibility of privatising the Tote.

3. Lloyds main recommendations are:

- the Tote is profitable and should be privatised.
- Tote Bookmakers (the off-course betting arm of the Tote), valued at £30 million, should be sold by private tender, preferably to its management and/or employees.
- the remainder of the Tote, valued at around £25-30 million, should be given to the Racecourse Owners Association (a private company limited by guarantee representing the interests of the British racecourse owners).

4. A fuller summary of the recommendations is at Annex A.

Background to the Tote

5. Briefly, the Tote is a statutory body governed by the Betting, Gambling and Lotteries Act 1963. It was set up in 1928 with monopoly powers over pool betting and a statutory duty to apply its profits for the benefit of racing. No public funds have ever gone to the Tote and the responsibilities of the Home Secretary are limited to the appointment of Board members, approving their pay, and laying their annual report before Parliament.

6. The total turnover of the Tote in 1987-88 was £147 million with net profits before contribution to racing of £7 million and contribution to racing of £3.2 million. The Tote's contribution to racing was divided £0.8 million betting levy, £0.4 million sponsorship, £2.0 million payment to racecourses, mainly in lieu of rent for on-course facilities. The Tote's activities fall into three sections:

(a) The Racecourse division - consisting of the on-course side of the business. Turnover in 1987-88 was £43 million.

(b) Tote credit - providing a credit betting business. Turnover in 1987-88 was £28 million.

(c) Tote bookmakers - its off-course betting shops (100+). Turnover in 1986-87 was £75 million.

7. Annex B is a summary of the trading record of the Tote and its constituent parts over the last three years.

Horserace Betting Levy

8. The Horserace Betting Levy Board is a body corporate with perpetual succession and a common seal set up by the Betting, Gaming and Lotteries Act 1963 to take over from the Racecourse Betting Control Board the distribution of betting levy and that Board's other duties (apart from running the Tote).

9. It levies the contribution from bookmakers under a scheme agreed and announced annually. Under the 1963 Act, it is required to apply its income "for purposes conducive to any one or more of the following:

- (a) the improvement of breeds of horses;
- (b) the advancement or encouragement of veterinary science or veterinary education; and
- (c) the improvement of horseracing."

10. Under the levy legislation the Home Secretary is required to determine a scheme if the Board and the Bookmakers' Committee cannot agree to a scheme. A dispute occurred this year and the Home Secretary had to determine the 28th levy scheme in March. The prospect for the future is one of more disputes and the Home Secretary is concerned that the Home Office is ill equipped to make determinations and that it is arguably no longer proper for them to do so. The Levy Board has called publicly for an inquiry into the long-term funding of racing and the Home Secretary announced, in parallel with his determination of the 28th levy scheme, that he was considering the need for an inquiry. Mr Hurd believes that an inquiry would offer the opportunity to put the justification for the statutory levy "to the test of modern circumstances".

Greyhound Racing

11. Greyhound racing is subject to Home Office legislation, for example there are statutory limits on the profits of greyhound totes and on the amount that greyhound tracks can charge bookmakers for admission. There have been a number of developments since the last comprehensive look at greyhound racing as part of the 1978 Rothschild Royal Commission on Gambling, for example the advent of satellite television coverage of racing in betting offices by the Satellite Information Services (SIS) and the growth in off-course greyhound betting. The Chairman of the British Greyhound Racing Board, Lord Newall, has called for an inquiry into the alleged manipulation of greyhound racing by the bookmakers, and for a greyhound levy similar to that for horseracing. The Home Secretary therefore thinks that the financing of greyhound racing should be included in the inquiry.

Form and timing of Inquiry

12. Mr Hurd proposes that the inquiry be conducted by a small departmental committee, chaired by someone with financial expertise and independent of the racing world. He suggests a former Permanent Secretary or someone from the City.

13. He suggests the inquiry might start in the early Autumn with a view to report, on which there could be legislation in the next Parliament. He would like to make an announcement of the inquiry before the summer recess and to see Lord Wyatt soon.

Discussion

14. There are two main questions:

- should an inquiry into the financing of horseracing and greyhound racing be established; and
- should the Tote be privatised?

The second is linked to the first because the Home Secretary believes that the context of the financing of racing, in which to set Lloyds' proposals, is unclear. He would therefore prefer to suspend judgement on those proposals until the inquiry is completed.

15. The underlying case for the inquiry rests on the Home Secretary's desire to see consensus on the levy restored and to inform decisions on matters such as the possible evening opening of betting. There are no strong Treasury arguments against an inquiry taking place. The case for greyhound racing being included is convincing. The terms of reference are satisfactory provided that it is clear that the objective is to minimise public sector involvement in racing. It seems sensible for the inquiry to be conducted by a Home Office departmental, rather than an independent, committee. It will be important that the Chairman is independent of the racing world. The Secretary of State for Industry's comments on the committee and scope of the inquiry are constructive.

16. Home Office Ministers consider Lloyds' proposals to be unsatisfactory as they do not satisfy the customary main criteria for privatisation:

- the improvement of efficiency (although they might achieve this);
- the widening of share ownership (except in the case of Tote Bookmakers); and
- the raising of funds for the Government.

X | I understand that their key concern was the third of these, the lack of proceeds for the Exchequer.

17. Given the size of the Tote, privatisation could not contribute significantly to the main objectives of the privatisation programme. The rationale for privatising the Tote is that it is a profitable enterprise operating in a commercial environment and there is little if any justification for it being in the public sector. We consider that these are good grounds for pursuing privatisation.

18. In preparing their proposals Lloyds have made two fundamental assumptions about Government policy:

- that the public should continue to have the opportunity to bet on Tote pools as an alternative to fixed odds betting; and
- that Ministers would not want the significant contribution that the Tote makes to horseracing reduced; on the contrary if feasible, it should be enhanced.

19. Given these basic assumptions Lloyds conclusions have some merit. The assumed policy requirement that the Tote's contributions to horseracing should not be reduced led Lloyds to propose the Tote (apart from Tote Bookmakers) should be vested in a body associated with horseracing. The obvious candidates are the Levy Board or the Racecourse Owners Association (ROA). The Levy Board was discounted as it is a statutory corporation. The advantages of vesting the Tote in the ROA are that it would be a relatively straightforward process, the Tote would be protected from the influence of bookmakers, horseracing would remain the sole beneficiary, it would be likely to receive widespread support and possible conflicts between future shareholders and racecourses would not arise.

20. The Tote Bookmakers arm is separated out for private sale because it is a commercially viable and profitable organisation and is large enough to be sold in its own right. Its operation is distinct from the operations of the Tote, for example it does not rely to any significant degree on Tote odds. Only about 4 per cent of its bets are taken at Tote odds (compared with an average for all bookmakers, who offer Tote odds under licence, of around 2-3 per cent). The major advantages of the sale of Tote Bookmakers would be that the sale would raise a large sum for the Tote's on-course activity and it would enable the Tote to concentrate on its core business of pool betting rather than competing with conventional bookmakers and it would resolve the dispute that Lloyds' report exists between the management of the Tote Bookmakers and the rest of the Tote.

21. There are good competition grounds for ensuring that pool betting continues but the assumption that all the proceeds of the Tote must continue to go to horseracing strictly limits the options for privatisation. If this stipulation were relaxed then other possibilities open up which Lloyds' have not discussed in any detail in their report; for example a straight sale.

22. In order for a sale to be a viable option dividends would need to be paid out of the Tote profits. But the majority of the Tote's contributions to racing (around £2.8 million in 1987-88) are made via betting levy and contributions to racecourse mainly in lieu of rental charges. These would continue even if the Tote were sold. There is an argument for preventing the Tote falling into the hands of the big bookmakers which, as Lloyds point out, are the most likely buyers. However, it is not clear that there would not be sufficient demand from other sources, for example punters, racecourses etc, if the large bookmakers were excluded from taking a major share in the Tote.

23. Lloyds' conclusions about the necessity to retain an exclusive licence to conduct pool betting with a single entity, are also not entirely convincing. They argue that a free market in pool betting is undesirable in that this would lead to a rapid collapse in the racegoing public's confidence. They consider therefore that an exclusive licence must be retained and conclude that this must be granted to a single entity because separate Totes at individual courses would not be viable. This conclusion must be questionable. Tote's are run profitably by individual greyhound tracks and although certain of the small racecourses with few meetings may not be able to support their own Tote, it is not clear that pool betting must necessarily be provided at every racecourse.

24. A possible alternative to granting an exclusive licence to a single body would be to auction, possibly for a fixed period, the monopoly rights to run Tote pools at individual course. A limit could be set on the number of franchises that any one body could take up to prevent big bookmaker domination. Lloyds have not considered this option.

25. There seems to be a good case for questioning the assumptions underlying Lloyds' recommendations and in the light of that looking further at other privatisation options. The suggestion that further consideration of Lloyds' proposals await the results of the inquiry appears to have few merits. The inquiry is unlikely to shed much light on the recommendations and it is not clear that the policy questions posed by Lloyds' conclusions would be best addressed by such a committee. Waiting for the inquiry to be completed could simply delay privatising the Tote.

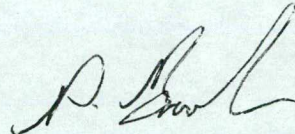
26. We suggest that Lloyds report is followed up in parallel with the inquiry, ensuring that any read across is made as necessary.

Conclusions

27. We conclude that:

- the inquiry should take place with the aim of minimising public sector involvement in racing
- greyhound racing should be included within the scope of the inquiry
- the assumptions underlying Lloyds' recommendations should be questioned and other privatisation options considered
- privatisation of the Tote should be pursued in parallel with the inquiry.

28. A draft Private Secretary letter is attached making these points.



P H BROOK

cc: Mr Pritchard-Woollett (C&E)

DRAFT LETTER PS/FINANCIAL SECRETARY TO PS/HOME SECRETARY

POSSIBLE PRIVATISATION OF THE TOTE: INQUIRY INTO THE FINANCING OF RACING

Thank you for your letter of 24 May inviting views on establishing a Home Office departmental inquiry into the financing of horse and greyhound racing.

The Financial Secretary is content for an inquiry to be set up and that greyhound racing should be included within its scope. He is also content with the proposed terms of reference provided that an objective should be to minimise public sector involvement. He supports the Secretary of State for Trade and Industry's view that that the issues should be examined against the background of the Government's competition and privatisation policies. He would be grateful if Treasury officials could be consulted about the selection of a Chairman.

Given the size of the Tote, privatisation would not contribute significantly to the main objectives of the privatisation programme. However, the Tote is a profitable enterprise operating in a commercial environment and there is little if any justification for it being part of the public sector. The Financial Secretary considers that these are good grounds for pursuing the privatisation of the Tote.

In forming their proposals, Lloyds have made two fundamental assumptions about Government policy. First, that pool betting should continue as an alternative to fixed odds betting and second, that the Tote's contribution to horse racing should continue and if feasible be enhanced. The Financial Secretary

considers that the second of these assumptions is questionable. If the presumption that all the available profits of the Tote should go to horseracing were relaxed then other privatisation options open up which were not considered in any great detail by Lloyds, for instance a straight sale.

Most of the Tote's contributions to racing are made via betting levy or in the form of payments in lieu of rents for on-course facilities. These would presumably continue even if the Tote were sold and the overall contribution to racing might increase if profitability improved. It is also not clear that there would not be sufficient bidders for the Tote even if the big bookmakers were excluded from taking a major stake in the Tote.

The Financial Secretary does not consider that the arguments for the retention of an exclusive licence to conduct pool betting with a single entity are entirely convincing. A possible alternative would be to auction, possibly for a fixed period, the monopoly rights to use Tote pools at individual courses.

To sum up, the Financial Secretary believes that Lloyds' underlying assumptions need to be probed and other possible options for privatisation considered further in the light of that. He thinks that this should be pursued in parallel with the inquiry rather than ^{be} ^{ed} delay until the inquiry is complete. It is not clear that the inquiry will throw much light on Lloyds' recommendations nor does it seem to be the best forum for considering the policy questions raised.

I am copying this letter to Ben Slocock (DTI), Roger Bright (DOE),
and Trevor Woolley (Cabinet Office).

P H BROOK



EXECUTIVE SUMMARY

In summary, the conclusions we have reached (subject to the caveats and on the basis of the key policy assumptions mentioned in the body of this paper) are as follows:

- * the Tote is a profitable and cash generative business which could be privatised;
- * the Tote's exclusive right to conduct pool betting on horseraces is essential to ensure the provision of a popular and successful alternative form of betting to SP odds;
- * the maintenance of good relations between the Tote and racecourses is vital to the continuing success of the Tote's on-course operations, and the Tote's payments in return for the use of its on-course facilities are a major source of funds for racecourses;
- * the Board's Tote Bookmakers subsidiary is effectively an independent, medium-sized chain of betting shops with few operational or organisational links with the rest of the Tote;
- * it will not be possible for the Tote to expand Tote Bookmakers in the future by purchasing a significant number of betting shops except at prohibitively high prices;
- * we have been unable to identify any capital projects planned which cannot be funded from the anticipated cashflows of the existing operations or from potentially available commercial banking facilities;
- * a new management structure along the lines of those adopted by public companies is required, whether or not privatisation goes ahead;
- * substantial improvements in the administrative efficiency of the support functions could be achieved by decentralisation and the introduction of computers to perform a variety of support tasks;
- * the Tote could be sold either by a flotation or by a private sale to a single purchaser but this is unlikely to be to the benefit of racing and could damage the vital relationship with racecourses;
- * the vesting of the Tote into a body connected with racing is a simple alternative. The sport of racing would remain the principal beneficiary of the Tote and the conflicts between shareholders and racecourses of the kind that might result from a sale are less likely to arise;



- * Tote Bookmakers could be sold either to the public by means of a flotation or to a private buyer. We do not believe that it is a viable option for either the racecourse division or Tote Credit to be sold separately;
- * the Tote's operations could be contracted out to a private sector organisation but such a move would seem to have few advantages;
- * we believe that the Tote is suitable for privatisation and that it would benefit from the introduction of private sector incentives. We therefore recommend privatisation at the earliest opportunity;
- * the Tote should be vested in the Racecourse Association, which, as the association representing the primary beneficiaries of the Tote's operations, is the most appropriate body in the racing industry to "own" the Tote;
- * vesting in the Racecourse Association will both provide a strong incentive to improve the Tote's performance and minimise disputes between the Tote's new "owners" and the racecourses on which it operates, since these would, in effect, be one and the same. Such vesting will protect and foster the Tote's current good relationship with racecourses which is the key element in the success of the Tote's on-course operations;
- * Tote Bookmakers should be sold by means of a private tender process, but the Tote should retain a minority stake to allow it to participate in the future growth of the business, receive cash from dividends and maintain a share in its off-course betting shop network, currently its largest asset;
- * provided a reasonable bid is forthcoming, Tote Bookmakers should be sold to its management and/or employees. This would maintain the independence of the business and further Government policy objectives on employee share ownership; and
- * the statutory right to authorise pool betting on horseraces should be transferred to the Levy Board, and an exclusive licence to operate pool betting facilities at racecourses for an initial period of not more than 10 years should be granted to the privatised Tote, possibly in return for a fee.

ANNEX B

THE TOTE'S TRADING RECORD

The Tote (all three divisions)

Trading Record - Years ended 31st March

	1986	1987	1988
	£000	£000	£000
Turnover	<u>109,968</u>	<u>125,548</u>	<u>146,668</u>
Revenue	24,984	30,297	32,182
Betting duty and levy	(8,001)	(8,924)	(8,049)
Operational costs	<u>(14,194)</u>	<u>(16,081)</u>	<u>(18,699)</u>
Contribution from divisions	2,789	5,292	5,434
Central administration and other costs	(1,277)	(1,211)	(1,197)
Sponsorship and marketing	<u>(378)</u>	<u>(431)</u>	<u>(584)</u>
Profits before taxation	<u>1,134</u>	<u>3,650</u>	<u>3,653</u>
Racecourse Division			
Turnover	<u>27,446</u>	<u>34,167</u>	<u>43,236</u>
Revenue	7,068	8,795	9,414
Betting duty and Levy	(1,098)	(1,362)	-
Operational costs	(4,252)	(4,889)	(5,468)
Payments to racecourses	<u>(836)</u>	<u>(1,170)</u>	<u>(1,586)</u>
Contribution	<u>882</u>	<u>1,374</u>	<u>2,360</u>
Net Margin	3.2%	4.0%	5.5%

UNCLASSIFIED

Tote Bookmakers

Trading record - Years ended 31st March

	1986	1987	1988
	£000	£000	£000
Turnover			
- off-course	54,201	60,572	69,182
- on-cours	<u>4,581</u>	<u>5,155</u>	<u>5,948</u>
	<u>58,792</u>	<u>65,727</u>	<u>75,130</u>
Revenue			
- off-course	12,372	14,395	15,734
- on-course	<u>904</u>	<u>1,237</u>	<u>1,109</u>
	<u>13,276</u>	<u>15,632</u>	<u>16,843</u>
Betting duty and levy	(4,997)	(5,531)	(6,067)
Operational costs	(6,396)	(6,956)	(8,237)
Payments to racecourses	<u>(162)</u>	<u>(290)</u>	<u>(331)</u>
Contribution	<u>1,721</u>	<u>2,855</u>	<u>2,208</u>
Net Margin	2.9%	4.3%	2.9%

Tote Credit

Turnover			
- off-course	17,887	18,992	20,087
- on-course	4,569	4,968	5,855
- ante-post	<u>1,274</u>	<u>1,694</u>	<u>2,360</u>
	<u>23,730</u>	<u>25,654</u>	<u>28,302</u>
Revenue			
- off-course	3,856	4,604	4,604
- on-course	752	1,094	1,080
- ante-post	<u>32</u>	<u>172</u>	<u>241</u>
	<u>4,640</u>	<u>5,870</u>	<u>5,925</u>
Betting duty and levy	(1,906)	(2,031)	(1,982)
Operational costs	(2,485)	(2,704)	(2,982)
Payments to racecourses	<u>(63)</u>	<u>(72)</u>	<u>(95)</u>
Contribution	<u>186</u>	<u>1,063</u>	<u>866</u>
Net Margin	0.8%	4.1%	3.1%



FROM: D I SPARKES
DATE: 30 June 1989

PS/FINANCIAL SECRETARY

cc Sir P Middleton
Mr Anson
Mr Monck
Mrs Case
Mr Bent
Mr Gilhooly
Mr Mortimer
Mr Michie
Mr Brook
Mrs Chaplin
Mr Tyrie

ponp
RF 4/7

**POSSIBLE PRIVATISATION OF THE TOTE:
INQUIRY INTO THE FINANCING OF RACING**

The Chancellor has seen Mr Brook's advice of 29 June on the proposed inquiry into the financing of racing and possible privatisation of the Tote. He would be generally content to proceed as Mr Brook proposes but, as he has already pointed out (Mr Taylor's minute of 31 May), a privatisation route which raises no money for the Government is not a cause for concern.

A handwritten signature in dark ink, appearing to read 'D.I. Sparkes'.

DUNCAN SPARKES

COMMERCIAL - IN - CONFIDENCE



cc: CHX, Sir P. Middleton,
Mr Anson, Mr Monck,
Mr Bent, Mr Gilhooly,
Mrs Case, Mr P.H. Brook,

Treasury Chambers, Parliament Street, SW1P 3AG

Mr Mortimer, Mr Michie,
Mrs Chaplin, Mr Tyrre.

Catherine Bannister
PS/Home Secretary
Home Office
50 Queen Anne's Gate
London SW1H 9AT

fm p

30 June 1989

Dear Catherine,

POSSIBLE PRIVATISATION OF THE TOTE: INQUIRY INTO THE FINANCING OF RACING

Thank you for your letter of 24 May inviting views on establishing a Home Office departmental inquiry into the financing of horse and greyhound racing.

The Financial Secretary is content for an inquiry to be set up and that greyhound racing should be included within its scope. He is also content with the proposed terms of reference provided that an objective should be to minimise public sector involvement. He supports the Secretary of State for Trade and Industry's view that the issues should be examined against the background of the Government's competition and privatisation policies. He would be grateful if Treasury officials could be consulted about the selection of a Chairman.

Given the size of the Tote, privatisation would not contribute significantly to the main objectives of the privatisation programme. However, the Tote is a profitable enterprise operating in a commercial environment and there is little if any justification for it being part of the public sector. The Financial Secretary considers that these are good grounds for pursuing the privatisation of the Tote.

Since no public money has gone into the Tote, the Financial Secretary would not rule out the approach underlying the Lloyds proposal under which proceeds did not come to the Exchequer. However, before any decision is taken, some of the arguments in the Lloyds report, eg on the retention of an exclusive license to conduct pool betting by a single entity, need to be explored further and the other options, eg straight sale on a basis which continued the Tote's contribution to horse racing, need to be considered.

COMMERCIAL - IN - CONFIDENCE

This work should however be pursued in parallel with the inquiry rather than be delayed until the inquiry is complete. It is not clear that the inquiry will throw much light on Lloyds' recommendations nor does it seem to be the best forum for considering the policy questions raised. It will of course be important that any necessary connections are made between the two strands of work.

I am copying this letter to Ben Slocock (DTI), Roger Bright (DOE), and Trevor Woolley (Cabinet Office).

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'S J Flanagan', with a stylized flourish underneath.

S J FLANAGAN

Private Secretary

mp

FROM: P H BROOK (HE1)
DATE: 17 JULY 1989
EXTN: 4708

- 1. MRS CASE
- 2. FINANCIAL SECRETARY

At 17/7

cc: Chancellor
Sir P Middleton
Mr Anson
Mr Monck
Mr Bent
Mr Mortimer
Mrs Chaplin
Mr Tyrie

Ch/ To be aware that conclusions are to be published this week.

015

POSSIBLE PRIVATISATION OF THE TOTE

The Home Secretary intends to make public the conclusions of the Lloyds' report this Thursday 20 July. I attach a summary prepared by Lloyds and a short draft covering statement by the Home Office. The statement stresses that the Government is still considering the report and has yet reached no firm conclusions on it.

2. The Home Secretary wishes to make Lloyds' findings public in order to end current speculation. 20 July is an appropriate date for the press release as it is the day on which the Tote's annual report and accounts will be published, which would be likely to lead to renewed speculation about the Tote's future.

3. The Home Secretary is due to meet Lord Wyatt at 6.00pm tomorrow Tuesday 18 July and intends to hand over a copy of the summary of the report in advance of its publication.

4. These arrangements seem sensible and we would be grateful for your approval to them.

P H BROOK

*417
17/7*

CONCLUSIONS OF LLOYDS MERCHANT BANK ON FEASIBILITY STUDY ON PRIVATISING THE TOTE

The Home Office today authorised the release of a summary of the report made to the Home Secretary by Lloyds Merchant Bank on the privatisation of the Tote.

Lloyds Merchant Bank were appointed in September 1988 and made their report to the Home Secretary at the end of April. The Government are presently considering the recommendations and no decisions have yet been made on the future of the Tote.

In authorising the release of the summary the Home Secretary said that he felt this was appropriate to end speculation and uncertainty over the contents of the report. He welcomed the agreement of Lloyds Merchant Bank to this action.

The Home Secretary said:

"I am pleased to be able to make the principal conclusions of the feasibility study public in this way and I am grateful to Lloyds Merchant Bank for their co-operation and for the careful and detailed work they have put into their report. I must stress that the summary of the recommendations represents the views of Lloyds Merchant Bank and the Government has as yet reached no conclusions on them; but I consider that it is right to end speculation over the recommendations at this stage, in particular for those whose future may be affected by any changes."

The full text of the report will not be published because of the commercial sensitivity of some aspects. A copy of the summary prepared by Lloyds is attached to this press release. The Government will announce its conclusions on the report and on the question of a possible inquiry into the future funding of racing in due course.

NEWS RELEASE

FOR IMMEDIATE RELEASE

Thursday, 20th July, 1989

THE HORSERACE TOTALISATOR BOARD

Announcement of conclusions of Lloyds Merchant Bank's feasibility study on privatising the Tote

SUMMARY

Lloyds Merchant Bank was appointed by the Home Secretary to conduct a feasibility study on privatising the Tote in September, 1988. The Bank completed its work in March, 1989 and presented its study to the Home Office at the end of April.

The main conclusions of Lloyds Merchant Bank's study are that:

- the Tote should be privatised by vesting it in the Racecourse Association, Limited ("the RCA"), the private sector association of British racecourse owners. Vesting would involve the conversion of the Tote into a private sector body under the control of the RCA through legislation;
- the Tote should keep its exclusive right to conduct pool betting at British racecourses but this power should be exercised under licence from the Horserace Betting Levy Board;
- the Tote's network of approximately 125 off-course betting shops should be sold off as a discrete business prior to privatisation of the rest of the Tote; and
- the Board of the Tote should be restructured to resemble the board of directors of a public company, irrespective of any other decisions on the future of the Tote.

LLOYDS MERCHANT BANK'S CONCLUSIONS

Introduction

The study carried out by Lloyds Merchant Bank addresses three main areas:

- the businesses and structure of the Tote, including its financial record, prospects and its position within the racing industry;
- the options for privatisation of the Tote, or elements of the Tote; and
- a recommended course of action to be taken.

The study incorporates the findings of the Bank's thorough investigation of the Tote and details of its discussions with all interested parties. Because of the commercial sensitivity of some of the matters included, the full details of the study and of Lloyds Merchant Bank's report to the Home Secretary are, and will remain, confidential. The information provided below represents an extract of that material which can properly be released without breaching commercial confidences.

Business

The Tote operates three main types of business: on-course pool betting (the racecourse division), on and off-course credit betting (Tote Credit) and on and off-course bookmaking (Tote Bookmakers).

The study concludes that:

- the Tote's pool betting operation at racecourses provides a popular and successful alternative form of betting to SP odds;
- the maintenance of good relations between the racecourse division, the on-course bookmaking and credit operations and the racecourses is vital to the continuing success of the Tote's on-course operations;
- the Tote's contributions to racecourses, in payment for the use of the facilities it occupies, are a major source of funds for racecourses;
- Tote Credit is expected to derive substantial benefits from the technologically advanced central operation at Wigan. This new facility is essential to the planned future development of the racecourse division;
- Tote Bookmakers' off-course operations effectively form an independent, medium-sized chain of betting shops with few links to the on-course operations;

- the integrity of the pools must be maintained to retain the confidence of the punter; and
- the management structure of the business is inappropriate and, in particular, the links between the Board and the senior managers in each division are not strong.

Prospects

The study considers the Tote's prospects at some length. In particular, it looks at the possibilities for substantial expansion of the off-course betting shop business. The study concludes that Tote Bookmakers will not be able to purchase a significant number of betting shops except at a prohibitively high price.

In the absence of a major expansion of the off-course betting shop network, the study concludes that there are no capital projects planned which cannot be funded from the anticipated cashflows of the existing operations, or from potentially available commercial banking facilities. Indeed, the Tote could use its existing assets and cash flows to raise funds considerably in excess of the borrowing requirements currently anticipated and thus the Tote has no requirement for equity funding.

Options for privatisation

The study looks at a range of options for privatisation, including flotation, sale, direct vesting of the business into a private sector entity, franchising, contracting out and partial privatisation and break up possibilities.

On 16th September, 1988, at the time of the announcement of the Lloyds Merchant Bank study, Mr John Patten, Minister of State at the Home Office, said "The Government recognises the special position of the Tote. The study will accordingly take account of the implications of privatisation for the regulation of gambling and the health of horseracing". In accordance with this general approach the study is predicated on the basis that:

- the Tote should continue to fulfill its original role as a source of funds for racing by at least maintaining its current level of contributions to racecourses and, if feasible, by enhancing these; and
- the public should continue to have the opportunity to bet on pools as an alternative to fixed odds betting.

In the light of the requirement to maintain pool betting as an alternative to fixed odds betting, the study concludes that an exclusive nationwide licence to conduct pool betting at racecourses should be continued, since:

- a free market in pool betting is undesirable in that it would lead to a multiplicity of small pools, paying out erratic and conflicting dividends. The study concludes that this could lead to a rapid collapse in the racegoing public's confidence in pool betting; and
- there is conclusive evidence that it is impractical and undesirable for separate totes to be operated at individual racecourses. There would be an insufficient number of racing days at each course to make the necessary fixed asset investment viable, there would be difficulties in obtaining operators for totes at the smaller and potentially less profitable courses and the high expenses of individual totes on each course would be an inefficient basis of operation and there would be pressure to recentralise. In addition, the dissolution of the existing nationwide Tote would complicate and might preclude the introduction of course to course betting.

The study therefore concludes that an explicit, exclusive licence to conduct pool betting at racecourses is a necessary feature of privatisation and that the licensing authority would also have to ensure that a privatised Tote does not abuse its powers under such a licence.

Following consideration of the specific options available with regard to the possible privatisation of the Tote, Lloyds Merchant Bank concludes that:

- the Tote could be privatised either by flotation or by private sale to a single purchaser, but such a move would be unlikely to be to the benefit either of racing or of the Tote. In particular, the presence of outside shareholders could lead to disputes with racecourses over the level of payments for the use of its on-course facilities and the consequent disruption of the Tote's relationship with racecourses;
- the direct vesting of the Tote into a body connected with racing would be a simple alternative. Racing could remain the sole beneficiary of the Tote and the conflicts between shareholders and racecourses of the kind that might result from a sale could be avoided;
- Tote Bookmakers could be sold either to the public by means of a flotation or to a private buyer, irrespective of what happens to the rest of the Tote. It would not be a viable option either for the racecourse division or for Tote Credit to be sold separately, as these businesses are closely connected with each other; and
- the Tote's operations could be contracted out to a private sector organisation, but this would have few advantages.

The study notes that privatisation of the Tote would involve legislation to effect the necessary changes to the constitution of the Tote, to regularise its ownership and to establish the recommended licensing regime.

Recommended course of action

Lloyds Merchant Bank expresses a preliminary view on a possible course of action to be followed, if a decision is taken to proceed with the privatisation of the Tote. The Bank recommends that:

- the Tote should be privatised. Privatisation would be in line with overall Government policy objectives and would provide a means of introducing external performance incentives for the Tote;
- the Tote should be vested in the RCA which, as the association of the primary beneficiaries of the Tote, is the most appropriate body in the racing industry to own the Tote. Vesting in the RCA would minimise disputes between the Tote's owners and the racecourses on which it operates, since these would, in effect, be one and the same henceforth. This would protect and foster the Tote's current good relationship with racecourses which lies at the heart of the Tote's on-course operations;
- Tote Bookmakers should be sold prior to privatisation. Sale would help to refocus the Tote on its core business of pool betting at racecourses and allow both Tote Bookmakers and the Tote itself to develop independently in the most effective way. Sale should be by means of a private tender process, which would be simpler and cheaper than a flotation. The Tote should retain a minority stake to allow it to participate in the future growth of the business and maintain a share in its off-course betting shop network, currently its largest asset;
- in any event, the private tender sale of Tote Bookmakers should be open to all comers, including a management/employee consortium if one were to emerge;
- the on-course operations of Tote Bookmakers should be transferred to the Tote prior to the sale;
- the statutory right to authorise pool betting should be transferred to the Horserace Betting Levy Board. This would then grant the privatised Tote an initial nationwide licence to operate pool betting facilities at racecourses subject to specified conditions and for a limited period of time; and
- the Board should become a proper instrument of executive control and should be restructured to resemble the board of directors of a public company as soon as possible and irrespective of any other decisions regarding the future of the Tote.

Conclusion

Lloyds Merchant Bank concludes that such a structure for privatisation would:

- refocus the Tote on its core business of pool betting, by splitting off the off-course business;
- secure the long term future of pool betting at racecourses, as an alternative to fixed odds betting;
- protect the level of the Tote's contributions to racing; and
- provide stronger performance incentives for the Tote.

Enquiries

Home Office

Press Office

01-273 4600

Lloyds Merchant Bank

Stephen Barrett

01-248 2244 ext. 3260

JR/SAV/3548s
14th July, 1989



FROM: S J FLANAGAN
DATE: 18 July 1989

MR P H BROOK

cc

Chancellor
Sir P Middleton
Mr Anson
Mr Monck
Mrs Case
Mr Bent
Mr Mortimer
Mrs Chaplin
Mr Tyrie

PHB

POSSIBLE PRIVATISATION OF THE TOTE

The Financial Secretary was grateful for your minute of 17 July. He is content with the arrangements you suggest, and with the draft press release.

A handwritten signature in black ink, appearing to read "S J Flanagan", with a long horizontal flourish extending to the right.

S J FLANAGAN
Private Secretary

E.R

From here on all will be clear lead for HMT movement.

*On)
You asked for a record of the Hurd/Wyatt meeting. It has been passed to us in confidence so reactions will have to be circumspect (eg margins of Cabinet). But it does appear that Mr Hurd has capitulated rather too readily.*

CH/EXCHEQUER	
REC.	21 JUL 1989
ACTING	
COPIES TO	

- cc. Miss Screeton
- Mr Yates
- Mr Langdon
- Mr Fries
- Mr Malone Lee
- Mr Diamond
- Mr Devon
- Mr A W Wilson
- Miss L Breton
- Mr Honour
- Mr Godfrey
- Mr Lidington

Mr Pratt

**MEETING WITH LORD WYATT:
PUBLICATION OF SUMMARY OF TOTE REPORT**

The Home Secretary saw Lord Wyatt yesterday, and handed him a copy of the draft Home Office press notice and appended news release by Lloyds Merchant Bank. The Home Secretary explained that it was intended to publish the Lloyds news release under cover of the Home Office press notice on Thursday, 20 July. In deciding to make available the summary of the report, the Home Secretary had taken into account the damaging effect on the morale of Tote staff of the existing uncertainty, and the fact that there could be no discussion about the contents of the report until its findings were published. It was not possible to publish all of the report since it had been produced in conditions of commercial confidentiality. This was the reason why a summary had been produced. The Government's conclusions would not be announced yet, however: it was right that there should be a time for discussion of the report, and the Home Secretary invited Lord Wyatt to take the summary away and let him have considered reactions after he had been able to consider the findings. The Home Secretary then described briefly the contents of the report.

2. In response, Lord Wyatt said that the betting shop operation was an integral part of the Tote, and he would be bound to oppose selling it off. There appeared to be some value in the proposal that the Tote itself should be vested in the Racecourse Association: however, the Racecourse Association had no clear structure and was not in suitable shape to take on this responsibility. He could not accept that the Tote Board as presently constituted was lacking in sufficient experience to carry out its responsibilities effectively: individual members had a great deal of knowledge

/of the racing

of the racing scene. There were considerable dangers in allowing those with a greater degree of involvement too large a say in the affairs of the Tote. Lord Wyatt had from the start been critical of the conduct of the inquiry by Lloyds Merchant Bank but no-one had listened to him. Lloyds had not understood the task before them at all.

3. In conclusion, the Home Secretary invited Lord Wyatt to let him have a reasoned critique of the Lloyds recommendations when he had been able to consider them. The Home Secretary added that he had been considering the possibility of an inquiry into the finances of racing, but was cooling from the idea. The result of such an inquiry could be the opposite of what proponents intended for it. Lord Wyatt agreed that an inquiry was not an answer to the financial problems of racing, which in his view lay in the exercise of greater control over the copyright of race cards, in line with the arrangements made by the football authorities to derive maximum income from football fixtures.

4. Later yesterday evening, Lord Wyatt telephoned me, and subsequently the Home Secretary, to say that he had now read the Lloyds summary. It would be disastrous for this summary to be published. It represented a breach of undertaking that the inquiry findings would be kept confidential. It would create turmoil among staff and have a highly damaging effect on the reputation of Lord Wyatt and the staff of the Tote Board. If the summary was published, Lord Wyatt would be compelled to state publicly that in his view the inquiry had been a failed exercise, but that his views had been ignored. The Home Secretary invited Lord Wyatt to offer amendments to the summary for urgent consideration.

5. Lord Wyatt rang the Home Secretary again this morning. He had consulted colleagues on the Tote Board and they fully agreed with him. He was not prepared to offer amendments to the press release and wanted it stopped altogether. The Home Secretary promised to telephone him by lunchtime today with a reply on this point.

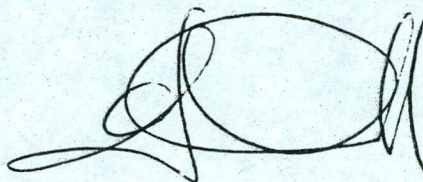
6. In the light of these exchanges the Home Secretary has reached the following conclusions:

- (i) there is clearly no point in publishing the Lloyds findings in these circumstances; publication was intended to clear up the misunderstandings, not to multiply them. We should therefore tell Lloyds to suspend publication;

/(ii)

- (ii) in view of colleagues' reactions, the idea of an inquiry into the finances of racing should be dropped;
- (iii) we should now aim to obtain a measured Tote reaction to the Lloyds proposals. When we have this officials should work out the Government's own privatisation proposals with the Treasury.

7. You have kindly agreed to provide a draft letter to Lord Wyatt which could form the basis of the Home Secretary's telephone conversation with Lord Wyatt today before being despatched to him. Following this, you will provide a press line to take and line for Prime Minister's questions on publication of the Tote Board results tomorrow; and you will also provide advice on the further handling of the question of an inquiry into racing finances.



Private Office
19 July 1989

C J WALTERS
Principal Private Secretary

FROM: P H BROOK (HE1)
DATE: 20 JULY 1989
EXTN: 4708

Afz 2077

- 1. MRS CASE
- 2. FINANCIAL SECRETARY

cc: Chancellor
 Sir P Middleton
 Mr Anson
 Mr Monck
 Mr Bent
 Mr Mortimer
 Mrs Chaplin
 Mr Tyrie

*cu/ Despite this, the Lloyds
 summary is bound to
 leak now.*

dis

POSSIBLE PRIVATISATION OF THE TOTE

The Home Secretary met with Lord Wyatt on Tuesday night and gave him a copy of Lloyds' summary of findings. Lord Wyatt's reaction was very unfavourable. The Home Secretary has invited Lord Wyatt to submit a measured response to Lloyds' proposals. Pending receipt of that he has decided not to issue the press release.

P. Brook

P H BROOK

*18 → then
 into → present??
 → for it.*

*513
 20/7*



FROM: D I SPARKES
DATE: 21 JULY 1989

PS/FINANCIAL SECRETARY

cc Sir P Middleton
Mr Anson
Mr Monck
Mrs Case
Mr Bent
Mr Mortimer
Mr Brook
Mrs Chaplin
Mr Tyrie

POSSIBLE PRIVATISATION OF THE TOTE

... Mr Brook's minute of 20 July recorded that Lord Wyatt's reaction to the conclusions of the Lloyd's report on the Tote, which the Home Secretary showed him last Tuesday, was most unfavourable. I attach a record of the Home Secretary's meeting with Lord Wyatt which has been passed to me on a personal basis by the Home Office. I would be grateful if copy recipients would not disclose to the Home Office that I have circulated this record.

A handwritten signature in dark ink, appearing to be 'D. Sparkes'.

DUNCAN SPARKES



24 JULY 1989

PS/FINANCIAL SECRETARY

cc Sir P Middleton
Mr Anson
Mr Monck
Mrs Case
Mr Bent
Mr Mortimer
Mr Brook
Mrs Chaplin
Mr Tyrie

BF 18/9
[what progress?]

POSSIBLE PRIVATISATION OF THE TOTE

The Chancellor has now read the record of the meeting between Lord Wyatt and the Home Secretary which I circulated undercover of my minute of 21 July. He commented that, from here on out, there will clearly need to be much greater Treasury involvement.

D.S.

DUNCAN SPARKES

~~PPP (note - eg X below)~~



COMMERCIAL - IN CONFIDENCE

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

FINANCIAL SECRETARY	
REC.	7 AUG 1989
ACTION	Mr P.H. Brook
COPIES TO	PPs, Sir P. Middleton
	Mr Anderson
	Mr Manek Mr Cuthbert
	Mrs. Case Mr. Moore

4 August 1989

BF 18/9

[progress?]

Dear Steve

POSSIBLE PRIVATISATION OF THE TOTE:
INQUIRY INTO THE FINANCING OF RACING

Mr. Maxtree

Mrs. Chepter

Mr. Michie

Mr. Tyrie

Thank you for your reply of 30 June to Colin Walters' letter of 24 May, inviting views on the suggestion that there might be established a Home Office inquiry into the financing of horseracing and of greyhound racing. The Home Secretary has taken careful account of that reply, together with the replies on behalf of the Secretary of State for Trade & Industry (Ben Slocock's letter of 23) June and from the Secretary of State for the Environment (Mr Ridley's letter of 21 June).

Your reply has caused the Home Secretary to reconsider the approach envisaged in our letter of 24 May. In the light of Treasury Ministers' readiness to entertain the premises on which Lloyds Merchant Bank have founded their proposals for the privatisation of the Tote, the Home Secretary agrees that further work on Tote privatisation can be undertaken without an inquiry.

Officials here will, therefore, soon be in touch with officials in the Treasury and the Department of Trade & Industry to arrange a meeting with Lloyds, to pursue the reasoning behind Lloyds' proposals. Among other things, this will help us to explore, with a view to recommendations to Ministers, the two policy issues raised in your letter, i.e. whether pool betting should be preserved in its present form on all racecourses as an alternative to Starting Price (SP) betting; and whether racing should enjoy at least the existing level of financial benefits from the Tote post any privatisation.

I should add for information that as envisaged in our letter of 24 May, the Home Secretary has in confidence provided Lord Wyatt with a summary of Lloyds' proposals. Also as we expected, Lord Wyatt's initial reactions, in particular to the proposed sale of Tote Bookmakers, were adverse. But he has undertaken to provide a measured reaction, agreed by the Tote Board, in mid-September.

Proceeding with inter-Departmental work on Tote privatisation removed a principal reason for an inquiry into racing's finances; and that work will take resources which might otherwise have serviced an inquiry. In view of this, the Home Secretary has concluded that an inquiry should not be established for the present, although the need for it should be kept under review.

Subject to any views from colleagues, the Home Secretary proposes to make a Parliamentary announcement to this effect in the autumn.

We will in the interim address some of the other issues, Tote privatisation apart, which an inquiry might have covered. This will include, as to horseracing's concerns, a discussion between the Home Secretary and the Chairman of the Levy Board. In addition, the Home Secretary has registered the DTI interests, including in aspects of the regulatory regime on bookmaking. Some of these could have come within an inquiry into racing's finances, but it is arguable that they might better be looked at squarely and separately. There is a focus for them in the recent, as yet unpublished, report by the Monopolies and Mergers Commission into Grant Metropolitan's acquisition of William Hill Bookmakers. Home Office officials are already in touch with Treasury, DTI and OFT officials about the handling of that report.

I am copying this letter to Ben Slocock (DTI), Roger Bright (DOE) and Trevor Woolley (Cabinet Office).

Yours

Catherine Bannister

MISS C J BANNISTER

S J Flanagan, Esq.
Private Secretary to the Financial Secretary
Treasury Chambers
Parliament Street
LONDON, S.W.1.

FROM: P H BROOK (HE1)
DATE: 11 AUGUST 1989
EXTN: 4708

CHIEF SECRETARY

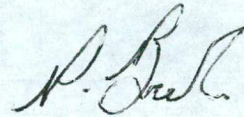
cc: Chancellor
Financial Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr Gilhooly
Mrs Case o/r
Mr Moore
Mr Bent
Mr Mortimer o/r
Mr Michie
Mrs Chaplin
Mr Tyrie

BF 18/9

POSSIBLE PRIVATISATION OF THE TOTE

1. The Home Secretary's Private Secretary's letter of 4 August responds to your previous Private Secretary's letter of 30 June.
2. Mr Hurd has reconsidered his approach in the light of your comments. He agrees that Tote privatisation can be pursued without an inquiry and has accepted that both Treasury and DTI officials should be involved in the further work necessary. This is to be welcomed.
3. Mr Hurd has also concluded that the other issues do not warrant the establishment of an inquiry at present, although the possibility should be kept under review. He proposes to announce this in the Autumn. In the light of the Home Secretary's agreement to pursue Tote privatisation separately there is no strong Treasury interest in an inquiry taking place and I recommend that you agree to the Home Secretary's proposal.
4. The Home Secretary intends to address directly some of the other issues that would have been covered by an inquiry. He mentions the MMC report on Grand Metropolitan's acquisition of William Hill Bookmakers as being a possible focus for DTI's concerns about the current regulatory regime on bookmaking. The key relevant conclusion of the MMC report is that the current licensing system is anti-competitive (there are close links with the MMC report on the supply of beer). I understand that DTI Ministers intend to write to colleagues soon about the report and proposing a review of the licensing system. IAE Division will provide further advice in that context.

5. I attach a short draft Private Secretary letter welcoming the involvement of Treasury officials in the further work on Tote privatisation and agreeing to the Home Secretary's proposal to defer an inquiry.



P H BROOK

DRAFT LETTER FROM PS/CHIEF SECRETARY TO PS/HOME SECRETARY

POSSIBLE PRIVATISATION OF THE TOTE: INQUIRY INTO THE FINANCING OF RACING

Thank you for your letter of 4 August.

The Chief Secretary is pleased that the Home Secretary has agreed that Tote privatisation should be pursued without an inquiry. He welcomes the proposal that Treasury officials should be closely involved in the further work necessary on Lloyds' recommendations.

The Chief Secretary is also content that an inquiry should not be established at present and that the Home Secretary should announce this in the autumn.

I am copying this letter to Ben Slocock (DTI), Roger Bright (DOE) and Trevor Woolley (Cabinet Office).

cc - CX, FST,
Sir P. M. ... Mr. ...



Mr. ... Mr. ...
Mrs. ... Mr. ...
Mr. ... Mr. ...
Mr. ... Mr. ...
Mrs. ... Mr. ...

Treasury Chambers, Parliament Street, SW1P 3AG

Miss C J Bannister
PS/Home Secretary
Home Office
Queen Anne's Gate
LONDON SW1H 9AT

16 August 1989

Dear Catherine

POSSIBLE PRIVATISATION OF THE TOTE: INQUIRY INTO THE FINANCING OF RACING

Thank you for your letter of 4 August.

The Chief Secretary is pleased that the Home Secretary has agreed that Tote privatisation should be pursued without an inquiry. He welcomes the proposal that Treasury officials should be closely involved in the further work necessary on Lloyds' recommendations.

The Chief Secretary is also content that an inquiry should not be established at present and that the Home Secretary should announce this in the autumn.

I am copying this letter to Ben Slocock (DTI), Roger Bright (DOE) and Trevor Woolley (Cabinet Office).

Your sincerely

S I M KOSKY

dti

the department for Enterprise

COMMERCIAL IN CONFIDENCE

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Trade and Industry

Miss C J Bannister
Private Secretary to the
Secretary of State for the Home Department
Home Office
Queen Anne's Gate
London SW1H 0ET

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Enquiries
01-215 5000

Telex 8811074/5 DTHQ G
Fax 01-222 2629

CH/EXCHEQUER	
REC.	- 4 SEP 1989 ✓ 4/9
ACTION	FST
COPIES TO	

Direct line 215 5623
Our ref PE5AAW
Your ref
Date / September 1989

See Catherine

POSSIBLE PRIVATISATION OF THE TOTE: INQUIRY INTO THE FINANCING OF RACING

Thank you for sending me a copy of your letter of 4 August to Steve Flanagan. I have also seen the reply of 16 August from Sheldon Kosky in the Chief Secretary's office.

My Secretary of State supports the decision to proceed with early consideration of the recommendations by Lloyds Merchant Bank on privatisation of the Tote, and is pleased to note the intention to involve his officials in this work.

My Secretary of State particularly welcomes the proposal to review the maintenance of pool betting in its present form on all racecourses, and the question of the level of financial benefits to racing from the Tote in the period following any privatisation of the Tote.

The decision not to proceed with an inquiry into the financing of racing does, however, remove a locus for consideration of one of the more fundamental aspects of Government involvement in racing, the operation of the statutory horse race betting levy.

While recognising the sensitivities of the industry, my Secretary of State believes that this levy does not square with the Government's wider competition and non interventionist policies and should therefore be reviewed. The Government has removed other statutory levys, for example, the Eady levy which supported British film makers.

If the issue is not to be considered by an external enquiry, he suggests the Home Secretary should prepare an early paper

the
Enterprise
initiative





the department for Enterprise

COMMERCIAL IN CONFIDENCE

for consideration by colleagues in E(CP) setting out the options for the future of the levy so a clear view can be taken on its future. Any decisions on the future of the levy may well need to be taken before public announcement of the detailed decisions on the format of the Tote privatisation.

I am copying this letter to the private secretaries of E(CP) Ministers, and to Trevor Woolley (Cabinet Office).

Yours ever

Ben Slocock

BEN SLOCOCK
Private Secretary



CH/EXCHEQUER	
REC.	15 SEP 1989 ✓ 1519
ACTION	FST
COPIES TO	

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

14 September 1989

Dear Ben

**POSSIBLE PRIVATISATION OF THE TOTE:
FUTURE OF THE HORSERACE BETTING LEVY**

Thank you for your letter of 1 September conveying your Secretary of State's support for the Home Secretary's decision that the possible privatisation of the Tote should be pursued without an inquiry into the financing of racing. The Home Secretary is grateful for that support.

Your Secretary of State also suggested that, in the absence of such an inquiry, the Home Secretary might soon circulate to E(CP) a paper reviewing the options for the future of the horserace betting levy.

The Home Office does not have sufficient information on which to conduct an effective review of the levy. That would require external consultations, including with the racing and bookmaking industries. Our understanding is that overall both of those industries support the principle of the levy, which was not imposed by Government but introduced at their joint request and which the legislation provides should ordinarily be settled between them. The focus of external consultations would be on the possible abolition of the levy. Unless it formed part of a wide-ranging inquiry such as that which Ministers have now decided against, the prospect of abolition would excite very strong opposition, including in both Houses of Parliament. The Home Secretary's judgment is that it would be politically unwise to stimulate such a controversy at this stage in this Parliament. He believes that this would also compromise progress on the possible privatisation of the Tote, and the defensibility of the decision not to establish an independently-chaired inquiry.

Apart from leaving the levy as it is for the present, there would be two broad options for a review to consider. The first would be that the legislation should be restructured or re-interpreted to provide a significant increase in the levy, both in cash and as a percentage of off-course betting turnover. The Home Secretary has already signalled to the racing industry that its ambitions for this option were unacceptable, by the terms of the levy scheme which he determined for the current financial year. Those ambitions rested in part on claims that racing in other countries enjoys a higher rate of return from betting than the levy here has delivered. The bookmakers disputed the validity of these international comparisons. The Home Secretary proposes to invite the Chairman of the Levy Board to commission an independent objective study of these comparison.

2.

We know that, because of the statutory composition and purposes of the Levy Board, the second option - abolition of the levy arrangements - would be likely to affect the horseracing, training, breeding and bookmaking industries, and the administration and character of racing. But we could not establish what the particular effects of abolition would be without consulting the organisations and bodies concerned.

In the Home Secretary's judgment, it follows that the only practicable working assumption to make, in consideration of the options for any possible privatisation of the Tote, should be that the levy arrangements are to be taken as they are, like racing's other sources of finance. The alternative would be to revert to the earlier suggestion of a wide-ranging inquiry, including the Tote as well as the levy. The Home Secretary continues to prefer instead to proceed with the work on the possible privatisation as, on this basis, it seems does the Chief Secretary.

I am copying this reply to the Private Secretaries to the other members of E(CP), to the Private Secretary to the Secretary of State for Scotland, and to Trevor Woolley (Cabinet Office).

Yours
Attorne

MISS C J BANNISTER

B Slocock, Esq.
Private Secretary
Department of Trade & Industry
1-19 Victoria Street
LONDON S.W.1.



FROM: S J FLANAGAN
DATE: 18 September 1989

MR P H BROOK

cc

PS/Chancellor

PS/Chief Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mrs Case
Mr Moore
Mr Bent
Mr Gilhooly
Mr Mortimer
Mr Michie
Mrs Chaplin
Mr Tyrie
Mr Lightfoot

**POSSIBLE PRIVATISATION OF THE TOTE: FUTURE OF THE HORSERACE
BETTING LEY**

The Financial Secretary has seen Catherine Bannister's letter of 14 September to Ben Slocock. He has commented that it must be clearly understood that the Government cannot be committed to emulate foreign examples, even though they may be of interest.

A handwritten signature in black ink, appearing to be "S J Flanagan", written in a cursive style.

S J FLANAGAN
Private Secretary

CHANCELLOR

*Mr. [unclear] [unclear]
[unclear] [unclear] [unclear] [unclear]
[unclear] [unclear] [unclear] [unclear]*

FROM: A G TYRIE

DATE: 19 September 1989

cc: Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Judge
Ms Wallace
Mrs Chaplin
Mr Lightfoot

BRYAN GOULD AND PRIVATISATION

David Cameron, from the Research Department, has sent me a very useful letter setting out Gould's position.

2. I think his remarks leave Labour wide open to the charge that they are going to engage in another "share grab", this time by rendering the shares valueless and then, if they feel like it, buying them up.

3. Incidentally, I am told that Clifford Chance, who are advising the DoE on the water sale, think that Bryan Gould's "advice" not to buy or hold utility stocks (both in the interview and in the attached article), might contravene the Financial Services Act, since Gould is not authorised to give advice. All good entertainment, but worth following up?

XI

4. No doubt you also saw Kinnock's attempt to repair some of the damage on all this reported in, for example, the Times today, also attached.

Rj.
A G TYRIE

Pug

BF 9/11

FROM: P H BROOK (HE1)
DATE: 20 SEPTEMBER 1989
EXTN: 4708

PS/FINANCIAL SECRETARY

cc: PS/Chancellor
PS/Chief Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mrs Case
Mr Bent
Mr Mortimer
Mrs Chaplin
Mr Tyrie

ch/ you might care to read Lord Wyatt's "considered reaction". It is robust, long-winded & in Lonrho style, although not without merit.

DIS

✓
✓

POSSIBLE PRIVATISATION OF THE TOTE

When they met in July, the Home Secretary invited Lord Wyatt to provide a considered reaction to Lloyds' proposals on the possible privatisation of the Tote. Lord Wyatt has now done so and I attach a copy of his comments for information. Lord Wyatt is not aware that these have been passed to the Treasury and has asked specifically that his views should not be revealed to Lloyds.

2. Treasury, Home Office and DTI officials have met with Lloyds to discuss the detailed reasoning behind their proposals and the substantive points in the Tote's comments. In the light of that, the Home Office are drafting a paper for further discussion by officials before putting advice to Home Office Ministers. The Home Secretary will no doubt wish to consult colleagues further at that stage. I will provide further advice as necessary.

P. H. Brook

P H BROOK

tote

HORSERACE TOTALISATOR BOARD

Tote House
74 Upper Richmond Road
London SW15 2SU
01-874 6411

From the Chairman:
Lord Wyatt of Weeford

STRICTLY PRIVATE AND CONFIDENTIAL

* ultra attached

*
Mr. Pratt - for advice and
a draft reply please.

cc Ms. Sreeton
Mr. Yates.
Mr. Langdon
Mr. Moriarty.
Mr. Malone Lee. } who ends.
Mr. Fries.
Mr. Rawsthorne.

Gannote
7/9

7th September 1989

Mr. Diamond.
Mr. Fleisher.
...
Mr. Sandiford. } Miss Grace
Mr. Devon. } Mr. Lidington
Mr. A.W.D. Wilson } Mr. Godfrey.

Dear Douglas,

Following on your letters of 2nd and 3rd August the Board has asked me to send you its considered reaction to the Lloyds' proposals. We would be glad of confirmation that this will not be shown to or discussed with Lloyds Merchant Bank as the Lloyds Merchant Bank report was not shown to us or discussed with us before a very full press statement was about to be issued.

The Board also requests that the recommendations of Lloyds Bank or any summary of them will not be published. The publication of their unwarranted and unjustified attack on the Tote Board and of their ill conceived threats to Tote Bookmakers would lower morale to such an extent that the performance of the Tote as a whole would suffer considerably. We must ask that there is no publication of anything connected with the future of the Tote without full prior consultation with the Tote.

I am sure you will appreciate the Board would be bound to issue a counterblast if the objectionable parts of Lloyds' recommendations were published or if implementation of them were seriously contemplated.

I think it is likely that senior representatives of racing interests would seek an interview with you if they had any inkling that some action might be taken on the lines of the Lloyds' recommendations as they would be regarded as highly damaging to the health of horseracing.

I hope we can meet soon and also that adequate consideration will be given to the simple and preferred solution of the racing interests and the Tote.

Yours ever

Woodrow



The Rt.Hon Douglas Hurd, CBE, MP,
Secretary of State for the Home Department,
50 Queen Anne's Gate, SW1H 9AT

7 September 1989

T O T E P R I V A T I S A T I O N

Lloyds Merchant Bank

Feasibility Study

GENERAL

The Board was surprised at the appointment of Lloyds Merchant Bank. The Home Office doubtless chose them in preference to a recognised merchant bank such as Schroeders or Warburg or Barings because theirs was the cheapest tender and this may have seemed more important than the lower quality of the product likely to be achieved compared with that from well established merchant banks with first class reputations.

Lloyds Merchant Bank began operations only in the mid-1970s. It is very low rated in any published league tables of merchant banks. Acquisitions Monthly does not rank it in the first fifteen. There are only 24 employees in the Corporate Finance Department where Mr. Barrett is head of the main transaction team, compared with the 80 plus in first class merchant banks. Lloyds Merchant Bank has not been involved in any major bid in recent years which it would have been if its talents had been at a level to attract serious clients in the City.

From the outset the Board found the behaviour of Lloyds peculiar. On 4th October 1988 the Board, after being informed of interviews which had taken place with middle and senior staff, instructed me to write to Mr. Richard Fries, Assistant Under Secretary of State, that "They were greatly disturbed at some of the questions that had been asked and remarks made by Mr. Barrett of Lloyds Merchant Bank - for example "Do the staff hold the Board in contempt?" "You can take it from me the government does own the Tote." "If strong opinions are expressed one would tend to take the opposite view". The last evidently meaning that whatever the Tote from its long experience of the racing world, and highly successful operations, proposed Lloyds would recommend the opposite which turned out to be approximately the position.

It was evident from the very beginning of their inquiry that Lloyds were determined on some pre-conceived proposals in order to make a striking impact which would show them to be more original thinkers than the established leaders in the merchant banking field who would not have produced such a poor quality report full of gimmicks.

The inordinate delay in producing the report judging from the interviews conducted with senior and middle grade personnel was caused by the total lack of understanding of the industry which remained until the end. The Business Review, which we were allowed to see, was shot through with ridiculous mistakes, unacceptable bias and misinterpretation of the facts in the service not of objectivity but of fortifying recommendations which evidently had been decided beforehand.

The interview with Peter George, Chairman of Ladbroke Racing published in the Sporting Life on 30th December 1988 (copy attached) contained the foundation of three of the major recommendations and in some respects almost word for word. To accept Ladbroke as the arbiter of the Tote's future and of the interests of racing may seem original thinking to an immature merchant bank but it would seem bizarre to more serious people, either in racing or in the City. It is very much in the interests of this fledgeling bank that its report and the conclusions should never be published, apart from the undertakings given to the Tote by the Home Office that it would not be, because it would be instantly discredited.

The Ladbroke-Lloyds proposals are commented on below at the appropriate places.

THE INEXCUSABLE OMISSION

Nowhere among the options was listed the preferred path of racing interests which included, of course, the Racecourse Association. It was completely ignored though it had the backing and was the preferred option of those steeped in racing and with its interests deeply at heart.

It was fully explained at a number of meetings with Lloyds. An outline of it was contained in my letter to the Home Secretary on 6th December 1988. Broadly it was that racing interests should set up a trust which would take over the responsibility of the Home Office of appointing the Tote Board. The trustees would have at their disposal an income of at least £150,000 per year initially and rising thereafter achieved by paying them the equivalent of the on-course Tote levy which ended some years ago. The increasing income would be used for charitable purposes within racing and would be greatly welcomed as filling a large void. The main Charity

involved is the Racing Welfare Trust which principally comprises The Injured Jockeys Fund and The Stable Lads Benevolent Association. It would also include other national charities involved with racing such as the St. John's Ambulance, the Spinal Injuries Association and the Red Cross. All these charities receive claims or requests for assistance far in excess of available funds. For the first time a regular and guaranteed source of funds would be available to them, paid in a tax efficient manner, which would enable them to assist those greatly in need for whom there is very little provision at the present time. This is very much in the public interest, a factor completely ignored by Lloyds. The arrangement would be linked with the undertaking, already given by the Racecourse Association and the Jockey Club, to make available long term money (initially £20 million) at very low interest, unobtainable elsewhere, with the interest rising to 20% in accordance with the increased profit resulting.

Having appointed the members of the Board the trustees would be at arm's length from the conducting of Tote business as the Home Office is now. This would avoid the danger of racing interests seeking to make too much instant use of the profits of the day which should be the seedcorn of expansion tomorrow. The Royal Commission on Gambling of 1978 made this comment at 8.40 (page 72):

"It may even be that the racing industry has in the past had too great an influence on the affairs of the Tote and induced it to pay over to racing money which should have been retained for its own business".

The racing interests plan for the future of racing has been ignored by Lloyds presumably because it is too simple and sensible and would not fit in with the more sensational publicity seeking proposals Lloyds had decided to use the inquiry to find credibility for. The promise Lloyds made to the Chairman to discuss with him their proposals before final submission was broken. At all times Lloyds were reluctant for our merchant bank Hambros to be involved.

THE PROPOSAL THAT TOTE BOOKMAKERS SHOULD BE SOLD

As mentioned above Lloyds proclaimed on its arrival at the Tote and maintained for some time after that the government owned the Tote. When it came to the Business Review it had to concede that it had been utterly wrong and lawyers at the Home Office had told them that the government did not own the Tote. If Lloyds had originally accepted that (when told by me) it might, though it is unlikely, have convinced them that the Tote is not a mere creature and plaything of the government to be moulded by Lloyds. It is an indication of the shallowness of the report that acceptance of the truth of our ownership has not changed

Lloyds' approach to its conclusion. "Tote Bookmakers should be sold prior to privatisation" Lloyds says. This will not be done by the present Board and the government has no power to give it such instructions. No Tote Board could responsibly do such a foolish thing, even though Lloyds has supporters in the Chairman of Ladbroke Racing and other bookmakers who advocate the sale vigorously.

In arguing for the sale Lloyds "concludes that Tote Bookmakers will not be able to purchase a significant number of betting shops except at a prohibitively high price". This is nonsense as shown by the fact that when Lloyds began their inquiry the Tote had 125 betting offices off-course. By July 1989 it had 139 open or about to open, an increase of 12% in nine months. It is obvious that with the availability of initially cheap money from the racing industry Tote Bookmakers could expand much faster and that the business will become an increasingly valuable asset to the Tote. Also the bookmaking industry is now in a state of flux with sales and purchases taking place giving the Tote a favourable opportunity to acquire more betting offices.

It is true that at one period there was a reduction in the number of betting offices owned by the Tote. The ones sold off were those bought from Mecca soon after the 1972 Act wisely allowed the Tote to run ordinary betting offices. They were a junk lot Mecca wished to offload and they incurred heavy losses for the Tote. Disposing of them has led to the Tote having, in what is the fourth most important chain, a much higher rate of turnover and profitability per shop than average.

If the naive suggestion of compelling the Tote to sell the betting offices were to be implemented there would have to be new legislation first which would be opposed by the Tote Board. It would be greeted with consternation, not only in the racing world. It could also result in a further inquiry by the Monopolies and Mergers Commission who have recently reported on the Hill-Mecca merger. The government would look extremely foolish. Already the Big Three have nearly 60% of the turnover of the betting offices. The highest bidder would obviously be Ladbroke or one of the other majors, thus accentuating a monopoly trend against general government policy. Attached is a copy of the letter I wrote to the Monopolies and Mergers Commission when the Tote was asked for its views on the Hills-Mecca merger. Their report has now been published and concludes that in certain areas of London, Hill / Mecca have a monopoly and as a result have ordered that around 20 betting offices should be sold.

If the sale were not to the highest bidder then it would be a legal rape preventing the Tote realising a fast improving asset at its full value by a fixed forced sale. The reason why the Tote Board is adamant that the bookmaking

business must be retained is the reason why others wish to get hold of it. It is producing an ever rising revenue for the Tote. Tote Bookmakers contributed over £2.6 million in profit for the financial year to 31st March 1989 and profits for the following four months to the 31st July 1989 are 81% up on the comparable last year period. Any proceeds from a sale would be hit severely by capital gains tax and the money remaining when invested in the stock market would not produce a dividend income equivalent to that now being received from Tote Bookmakers and the certain growth returns from this valuable asset. This is, of course, on the assumption that the Tote is allowed to keep the proceeds of the sale of its own assets as Lloyds make no mention of it. They say the Tote should have a minority stake though it is not clear whether this would be in Tote Bookmakers or the purchasing company. Either course is an unsound solution to a most unwise proposal. The very suggestion that we should sell the betting shops and retain a minority stake with no effective management over a significant asset is commercially lunatic and underlines the unsoundness of the entire proposal. It would give the Tote few rights and dubious benefits.

We could comfortably add 100 betting offices which we are on the way towards doing without significantly increasing the overheads thus making the overall profit return better. This would also augment the instant cashflow, already significant, from Tote Bookmakers which is so vital to the rest of the business of which two thirds (Tote Bookmakers and Tote Cash on-course) produce the immediate cashflow to which the Tote financial operations are geared. The loss of any major part of this cashflow would cause severe cutbacks throughout the Tote and it is surprising that Lloyds overlooks this factor. The prospects for Tote Bookmakers are rosy and would be even more so with the injection of the long term cheap money envisaged from racing interests.

The sale of Tote Bookmakers would destabilise the Placepot and other Tote pools with drastic consequences. During the first three months of 1989 Tote Bookmakers transmitted to the racecourse Placepot pools 31% of the total. Betting shops punters are shrewder than the on-course punters and back a higher proportion of winners. Consequently the larger pools combining both on and off course stakes are more representative of national betting patterns and enable Tote Authority holders (other bookmakers) to accept Tote bets profitably which they neither wish nor are able to place in the racecourse pools. We calculate that they are achieving gross revenue of 26.5%. If Tote Bookmakers did not transmit their bets, the pools would be smaller and unrepresentative and the Authority holders would suffer a drastic drop in income and would only retain a gross revenue of less than 16%. The pools would become smaller and vulnerable to manipulation. Bookmakers would stop accepting Tote bets on horseracing in the same way as they do not accept bets at tote odds on greyhound racing. This would result in a dramatic drop in Authority income currently running in excess of £450,000 per annum. The public would be

denied the opportunity to bet at Tote odds. Racing would suffer a loss of income and the off-course punter a lack of choice.

The rapid development of our computer system at Wigan is already enabling Tote bets in our betting offices to be transmitted directly to the pools as well as giving a comparative Tote and SP show of betting which attracts customers to the Tote betting offices who are able to bet either at Tote or SP odds in the same place. The sophisticated modern communications which we are fast introducing make a nonsense of ripping out Tote Bookmakers from the rest of the organisation.

Tote Cash on-course, to which all bets on Placepots and Jackpots in the betting offices are transmitted would find these pools on-course lamentably reduced and losing almost all their attraction to the racegoer. A survey of almost 1,200 members of the Racegoers Club revealed that 56% bet with the Tote on-course because they liked the speciality bets including the Placepot. The potential damage to the Tote of destabilising these pools would be extensive.

Tote Credit would be badly savaged also. All ante-post bets and day-of-the-race bets accepted at Wigan are combined with the larger bets accepted by Tote Bookmakers by the modern Wigan based computer to produce a race by race statement of stakes and liabilities. The larger amounts of "field" money enables Tote Credit to accept larger bets without upsetting the stakes / liabilities ratio. Needless and expensive hedging is avoided and customers are not disappointed and receive an excellent service. Without the benefit of Tote Bookmakers stakes, Tote Credit would be forced to refuse or significantly reduce bets offered which would have a long term adverse effect on the future prospects of Tote Credit and the prospects of those employed at Wigan. It is significant that no major bookmaker acts as a credit bookmaker without owning betting shops.

The overhead savings would not be proportionate to the ripping out of Tote Bookmakers as many overlapping staff relevant to Tote Bookmakers would have to be retained in respect of the remaining two arms of the Tote. Even Lloyds might be expected to understand that the larger the organisation the lower the unit costs of the overheads. When an organisation contracts the unit costs of the overheads increase.

The on-course bookmaking offices form part of Tote Bookmakers. They are supported by Tote Bookmakers operational management who regularly supply them with staff. If the on-course offices are separated from Tote Bookmakers they will need to recruit additional full time operational and administrative staff which would needlessly reduce profitability and the contribution received by the Tote and

therefore racing.

In every way the sale of Tote Bookmakers would be a calamity except for the bookmakers. The Royal Commission on Gambling of 1978 strongly opposed the notion, saying of the Tote bookmaking activities "So long as they are profitable and enable the Tote to support racing and maintain its other facilities, they are to be encouraged. We also think that the existence of competition from the Tote is beneficial to the bookmaking industry and might inhibit the development of restrictive practises among other bookmakers" (page 73. 8.45).

The betting information and statistics supplied by the Tote are an invaluable independent guide to the Horserace Betting Levy Board in assessing levy and the Jockey Club in planning fixtures. Figures supplied by the bookmakers are not always so well researched. The Levy Board were being advised by the Bookmakers Committee in the first part of the current Levy year beginning April 1st that bookmakers turnover was rising by at least 10%. I warned that the actual figure, based on the Tote's experience and its knowledge of the market place, was nearer 5%. One major bookmaker has now told the Tote that on a "like for like" basis their figure is 5%. Increases in total turnover which might include acquisitions are misleading. In the first six months of the calendar year 1989 Tote Bookmakers off-course turnover rose by 19.7%. For the same period Ladbroke reported an increase of 17%. I also reported to the Levy Board that there is a marked swing from horserace to greyhound betting caused by live coverage of greyhound racing on SIS. This is obviously important information for the Levy Board and they have repeatedly stressed that if the Tote were dispossessed of its betting shops the Levy Board would be severely damaged in exercising its functions. The importance of this has been overlooked by Lloyds. The monthly figures supplied by the Tote to the Levy Board are far more precise than the vague statements provided by the Bookmakers Committee. It is hardly surprising that they would like the Tote to sell its betting offices.

It should be noted that even when the big bookmakers take the Tote Authority to offer Tote dividend bets they do not offer the whole range. Also they put limits on the amounts which can be won by such bets though there are no such limits in Tote betting offices.

The explanation as to why Tote Bookmakers should not be sold has been given in full to Lloyds and to the Home Office. The Tote Board was shocked to learn the Home Office were intending nonetheless to publish the Lloyds recommendations and options without full consultations with the Tote Board first in spite of assurances to the contrary. It was also surprised that no attention has been paid to the consequences of such an action; and to the implication of rejecting the

views of Parliament and Government in 1972, without any explanation being given for the reversal of policy. Nor is there any explanation as to why the Home Office has agreed to listing the sale of Tote Bookmakers as an option in complete contradiction to its own statement in paragraph 9 of Cmnd. 7216, May 1978, "the government accepts that the Tote's viability, and its ability to generate funds to be channelled into horseracing, in future will depend upon its being able to have access to a greater share of the off-course cash betting market".

THE SUGGESTION THAT THE TOTE'S RIGHT TO CONDUCT POOL BETTING ON COURSE SHOULD BE EXERCISED UNDER LICENCE FROM THE HORSE RACE BETTING LEVY BOARD

This is a misunderstanding of the legal position. The Tote has the exclusive right to conduct pool betting on horseracing both on and off the racecourse.

The proposal that the Levy Board should authorise on-course pool betting is not compatible with the earlier proposal that the Tote would be vested in the RCA. In the words of Lloyds "the Tote's owners and the racecourses.....would in effect be one and the same". The Tote do not accept that proposition but if it should be vested in the RCA it would be illogical to give the Levy Board the right to grant a licence subject to conditions and for a limited period of time. If the licence were then transferred to some other operator there would be considerable difficulty in getting the consent of the Tote to give up its valuable buildings. Moreover the Levy Board's future as a permanent feature in racing is by no means assured.

The Board has long accepted that there is a need for an audit independent of its pool operations to ensure that they are being run properly and such audits have been in place for over ten years. The Levy Board would have to construct an elaborate machinery for the surveillance of the Tote and the Government would still be involved as the Home Office is responsible for the Levy Board. There would almost certainly be a conflict of interest with the bookmaking representation on the Levy Board. Furthermore the Levy Board could hardly be said to be independent as its sole function is to raise money for the sport of horseracing. The Board would not oppose the type of independent audit already applicable to registered pools promoters under the provisions of Schedule 2 of the Betting, Gaming & Lotteries Act 1983. The Jockey Club has the responsibility of maintaining the integrity of racing and the Board would not object to it being responsible for appointing independent auditors to ensure the integrity of the racecourse pools and for acting upon any discrepancies which may be revealed.

The Lloyds recommendations are a recipe for the total emasculation of the Tote in the long term involving:

- (1) The disposal of the betting shops;
- (2) The loss of the licence to operate on-course pool betting and,
- (3) The inevitable decline of Tote Credit and its Wigan operation which to quote the Home Secretary's letter of 2nd March 1989 "...is a good example of how a local authority can co-operate with outside employers to bring new jobs and prosperity to a region".

THE PROPOSAL THAT THE TOTE SHOULD BE VESTED IN THE RACECOURSE ASSOCIATION

The suggestion seems to derive from the statement by Mr. Peter George of Ladbroke, "The on-course operation, involving pool betting, should go back to the racecourses, individually or collectively. Racecourses would have more incentive than a third party in maximising turnover. The Racecourse Association proved, in its discussions with bookmakers over SIS, that it can organise collective agreements. That experience will stand it in good stead now".

The Racecourse Association is a trade association comprising 59 racecourses, only a few of which are in groups. Racecourses are privately, publicly, local authority or Jockey Club owned and have a variety of non profit and profit making private and public authority shareholders. All these must be consulted before any major decision can be made. Mr George knows this well, having impatiently waited as a Director of SIS for over four months for the arguing racecourses to come to an agreement on the placing of SIS shares. The confusion and the difficulties of dealing with the Racecourse Association on any important matter is immense as there is no central authority empowered to give the separate parts instructions. Agreement among the racecourses can be frustrated by a tiny number in opposition and some of the racecourse governing bodies meet only once a quarter, causing further delays, even if all the governing bodies were professionally efficient which they are far from being. The Racecourse Association does not even have separate representation on the Levy Board but is represented by the HAC among a multitudinous group of racing interests.

Operational control by the RCA would be totally impracticable and could lead to a failure to make major decisions quickly and to conflicts of interest. For instance, the Tote helps racecourses' building programmes by providing more money than is actually needed for the

provision of the Tote facilities therein. This frequently enables a building programme to be completed which it would not have been without the extra Tote help which is strictly controlled by the Tote Board. The Tote has in mind limits beyond which it knows it cannot go without damaging investment for the future in its own business. Or to give another example, the Tote may decide it is essential to raise minimum bets or else lose profitability. The racecourses, usually on a short term reaction of temporary irritation from racegoers, often resist this and then a year or so later they are very glad it has been done as their own receipts from the Tote increase.

The RCA is incapable of having a vertical structure and the various committees or boards managing racecourses vary in efficiency with all having an equal voice. The inefficient tend to be blinkered and particularly strong on short term interests without understanding the deleterious long term effects. Today each racecourse receive 56% of the net profit of the Tote cash division on its course. The Tote enjoys excellent relations with racecourses and has been the sole instigator in the increased income they derive from the Tote. It is difficult to see how RCA control could improve that position, but through lack of understanding of pool betting would almost certainly reverse it. Each racecourse receives a daily report on turnover on a race by race basis together with explanations for any abnormalities. We fail to understand the Lloyds Bank suggestion that ownership by the RCA would provide a means of introducing external performance incentives for the Tote.

There is no need for such an unsuitable arrangement other than to satisfy the desire of Mr. Peter George of Ladbroke and other bookmakers who agree with him, as shown in the statement of BOLA in the Sporting Life of 15.02.89 attached, to emasculate the Tote as a competitor. The Tote Board finds it odd that the Home Office should endorse as one of the options the bookmakers' proposition that the RCA should take over the Tote as though it were unaware that the bookmakers paramount concern is to maximise what they can take out of racing and to minimise what they have to put back.

The Lloyds' proposal that the remnants of the Tote should be vested in the RCA is not merely destructive but irrelevant. The RCA in conjunction with the Jockey Club strongly support racing's solution and has guaranteed half of the long term £20 million at initially cheap interest rates to be provided on privatisation by the preferred racing interest route of privatisation for the faster development of the Tote operations.

THE RECOMMENDATION THAT THE TOTE BOARD SHOULD BE RESTRUCTURED

The Tote Board considers that the Lloyds report is highly offensive and damaging in making unjustified statements about the Tote Board structure and management. If it were published the Board would be bound to consider taking legal advice. The Tote differs only from commercial companies in that none of its senior executives are on the Board itself. There is a perfectly good reason for this and it is not confined to the Tote. British Airways, for instance, acted in similar fashion until after privatisation.

Had the Chief Executive of the Tote or other senior executives within the business been on the Board, their salary levels would have had to be approved by the Home Office. This would have precluded us from competing in the market for the best talent available. By not having senior executives on the Board, their remuneration levels are not a matter in which the government can be involved.

In other respects the Board is well representative of the talents required for the conduct of the business. They include a property expert (the Tote has significant need of advice on real estate). The most experienced entrepreneurial professional within the racing industry who runs racecourses and is fully aware of the relationship the racecourses have with the Tote and the bookmakers. A former trades union leader whose advice on labour relations is of the highest quality. An active member of the Jockey Club who is also a director of a Group I racecourse. And a businessman who has been Chairman and Chief Executive of two major banks, Chairman of many investment trusts and served on a wide range of industrial boards over many years including boards in telecommunications, television, newspapers and construction. He is now Executive Chairman of a multi-national consumer product company, the seventh largest in the UK.

Such non-executive talents are seldom accumulated on a board of directors which has such a direct bearing on the activities of the company concerned.

The Chief Executive is Executive Chairman of each of the three divisions of the Tote. Apart from frequent day to day meetings and discussions with the management of these divisions there is a more formal monthly management meeting at which each division is represented by its senior management, and the very full minutes are copied to the Chairman. All important decisions in the three divisions are subject to consultation with and approval of the Chief Executive who with the relevant executives discusses them fully with the Chairman of the Tote. All major innovations which have contributed so much to the benefit and advantage of the Tote have emanated from initiatives of the Chairman or the Chief Executive of the Tote and from the Board with which

they have been fully discussed and amended when necessary before implementation.

Lloyds never understood or wanted to understand this because it discounted anything which went against its obsession from the start that Tote Bookmakers should be hived off. This is illustrated quite simply by the interview Lloyds planned for 31.01.89 with the Chief Executive to discuss the Tote which would include the system of buying betting offices and other related matters. Before that interview the Secretary, Mr. John Heaton, had an appointment with Mr. Barrett which he supposed to be to discuss legal matters. Instead of which Mr. Barrett converted it in to a long interview about the purchase and sale of betting offices and how they were run, though Mr. Heaton told him he was not fully conversant with the subject as this was the area of responsibility of the Chief Executive. However, Mr. Barrett insisted on talking to Mr. Heaton so long that time was left only for a brief discussion, which did not centre on the betting offices, with the Chief Executive. Mr. Barrett then said he had to leave as he had a lunch appointment in the City. He did not return.

The recommendation that the Board should be restructured on lines suggested by the team from Lloyds who have no experience of running a business is closely linked to the observations of Mr. Peter George in the interview in Sporting Life attached. He said, inter alia, "if there is a future for the Tote off-course it must be a long odds national pool". He said that Ladbroke had put a lot of time and effort into trying to develop such a pool with the Tote about three years ago "but unfortunately they had some problems with the concept we proposed". We did indeed. Our auditors and security staff were dismayed by the lack of security envisaged in the Ladbroke shops which would have come up to the necessary standards of security if Ladbrokes had fulfilled their promise to install the necessary electronic equipment. They originally suggested that terminals be installed in the betting shops and linked by telephone lines to a central office to ensure details of all stakes were notified before the start of the relevant race. This was, of course, acceptable to us but Ladbroke discovered that the cost would be uneconomic and proposed to rely on a system of notifying winners after the result was known. Both the Board's auditors and solicitors advised that Ladbrokes scheme should not be accepted.

The Ladbroke response to the Tote reaction was that under the proposed system only the punter would suffer if the number of winners was wrong, not the promoters and other participating bookmakers and therefore the security provisions required by the Tote were unnecessary. The Tote could not agree. This remains utterly against Tote policy. It also contravenes the Aglionby report of 4.02.80. Consequently this national pool never took place. And such a national pool cannot succeed if it is operated from only the

Tote's 139 betting offices out of the 9,500 betting offices all over the country.

Ladbroke thought us non commercial in our proposal. And in the interview in the Sporting Life Mr. George took another swipe at the Tote when defending the Ladbroke decision not to offer Tote odds in its betting offices, "first there is only very small demand and, secondly, pools are open to rigging".

This was a strange comment as recently Ladbroke have taken out the Tote Authority to offer Tote bets in all its 1,810 betting offices while, unlike the Tote betting offices, limiting the amount that punters can win from them.

Incidentally, the major bookmakers show scant regard for the views of the Home Office and Monopolies and Mergers Commission on the advertising of free bets for use in the betting shops. Enclosed are copies of advertisements placed in the News of the World on 25th August and Daily Mirror on 31st August by Coral and Ladbroke respectively. Similarly it would be naive to assume that they have the best interests of racing at heart.

The Lloyds report which owes so much to the influence of the bookmakers and has an almost total lack of understanding of the Tote which it was supposed to be studying, recommends that the Tote Board should be restructured before privatisation. The Tote Board deplors the ready acceptance by the Home Office of such an outlandish recommendation as a serious option.

It is an unacceptable insult to the Board in the light of the Tote's remarkable progress under its direction. The Tote's profits were just under £9 million before contribution to racing in the year 1988/89, an increase of 24.2% on the previous year and are showing a further increase of 29% in the first four months of this year. The Tote made contributions to racing totalling £4,317,000, an increase of 36% on last year's figure. Payments to racecourses show spectacular growth, up from £2,018,000 to £3,020,000, an increase of nearly 50%. Cash turnover on-course has risen from £17.8 million in 1982 to £55.126 million in 1989. The Tote has continued its policy of contributing to joint racecourse projects that benefit the racegoer and racecourses thereby received an additional £580,000. The cost of the sponsorship programme which comprises a Tote sponsored event on every course in the country with the exception of Liverpool increased from £380,000 to £448,000, nearly four times larger than the Ladbroke sponsorship programme and at this time the largest of any betting organisation. All this makes nonsense of Lloyds desire "to refocus the Tote on its core business of pool betting at racecourses".

Does this sound like a business with a Board which needs restructuring according to the opinion of Lloyds team unacquainted with the racing industry and clearly anxious to say something unpleasant and at the least impertinent? Or like a Board which should be publicly denigrated? It would be a pity ~~that~~ if the Home office, who are frequently invited but have taken little interest in the workings of the Tote, ~~gave could give~~ countenance to such frivolity.

Woodrow White

7 Sep 1989

The Lord Wyatt of Weeford

Sell off Tote shops says Ladbrokes chairman

By MARK POPPIM

RACECOURSES should take over the Tote's on-course activities, and the Tote's off-course interests should be sold off.

That is the view Ladbrokes chairman Peter George will be putting to Lloyds Merchant Bank, which is investigating the feasibility of privatising the Tote.

George, in overall charge of Ladbrokes' 1,770 betting shops in Britain as well as extensive overseas interests, believes it would be a mistake if a privatised Tote tried to take on bookmakers by buying up more betting shops.

He points to the fact that the Tote currently has only 120 betting shops, down from a high of 240 in the early eighties, and even in those shops over 90 per cent of business is transacted at starting prices rather than Tote prices.

George said: "The Tote was set up in 1928 to offer on-course pari-mutuel (pool) betting facilities and benefit racing.

Failure

"After the 1963 Betting Act, this was extended to cover off-course betting. I don't expect many people will remember that there were a number of Tote-only shops set up in the early sixties. They were a miserable failure because people didn't want to bet at Tote prices."

"In the seventies, the Tote moved into the betting-shop market but have not made a great success of it. The most logical thing that could happen to the Tote is that it returns to its roots.

"The on-course operation, involving pool betting, should go back to the racecourses, individually or collectively. Racecourses would have more incentive than a third party in maximising turnover.

"The Racecourse Association proved, in its discussions with bookmakers over SIS, that it can organise collective agreements. That experience will stand it in good stead now.

"The racecourses, if they owned the Tote, would be best advised to license Tote odds off course. If there is going to be some special off-course betting pool run by the Tote, then that should go through all betting shops.

"The Tote's betting shops should be sold off. It doesn't make sense for the Tote to be in the betting shop business, it never has. It is a contradiction in terms for the Tote to hold a monopoly on pool betting on course and then act as bookmakers off course.

"The shops, if sold to the highest bidder, would raise £35-£40 million. These shops would continue to pay levy when in private hands."

George dismissed as a pipe-dream Tote chairman Lord Wyatt's stated ambition to take on the bookmakers off course.

He declared: "Lord Wyatt has said the reason for privatisation is to raise money to buy betting shops. That is rubbish.

"He has bought and sold shops for years and there is nothing to stop him buying more now.



PETER GEORGE ... "let courses run Tote"

"Privatisation is a political decision. The Home Office no longer wants to have responsibility for the Tote.

"The betting system here is unique. It has developed over the years, and I don't think any tote system can compete with it.

"That's why if there is a future for the Tote off course, it must be a long-odds national pool. Racing has a unique advantage in this respect, paying only eight per cent betting tax while pools companies pay 42.5 per cent."

George added: "The Government has brought up the privatisation issue and, as far as I can see, everyone in racing except Lord Wyatt wants racecourses to run the Tote.

"It won't help racing if the money raised from privatisation goes towards buying betting shops. All it would mean is that there is another expanding company called Tote Bookmakers.

"The main thing that has to be determined is who owns the Tote and, therefore, who gets the proceeds from any privatisation.

"Australia is often quoted as the perfect example of a betting system, but it is not. For every £1 bet legally with the off course monopoly, TAB, £2 is bet illegally.

Attractive

"Tote or pari-mutuel betting is not appealing enough to the off-course consumer here. Our betting system is so attractive to the punter because it is flexible and offers such a wide range of bets."

Ladbrokes are the only firm among the major bookmakers not to offer its clients the option of betting at Tote odds.

George explained: "Firstly there is only very small demand and, secondly, pools are open to rigging."

George cannot understand why the Tote has not come up with a major pool which would be attractive to the average punter and the general public.

He revealed that Ladbrokes put a lot of time and effort in trying to develop such a pool with the Tote about three years ago.

He said: "We were working with the Tote for some time but unfortunately they had some problems with the concept we proposed.

"I remember the Tote Roll-Up. It failed, not because it was a bad concept, rather because the marketing and distribution did not work.

"It is in this area that the Tote has failed itself and failed racing."

Board best for Tote — bookies

BOOKMAKERS have called for the Levy Board to be able to take over the running of the Tote's on-course betting operation, writes COLIN VICKERS.

At yesterday's BOLA AGM in London, chairman Don Bruce also said that, if the Tote privatisation did go ahead, the Tote's betting offices and credit business should be sold off to the highest bidder.

Bruce said the recommendation had been made in a submission made to Lloyds Merchant Bank, which is carrying out a feasibility study into the possible privatisation.

Relations

Bruce said: "We appointed independent consultants to report on this issue for us, with particular emphasis on the public interest aspects, and we have submitted that report with our views to Lloyds Merchant Bank.

"We have said the Tote's betting offices and credit business should be sold off to the highest bidder and that the on-course pool operation should be run by the Levy Board.

"This recommendation may come as something of a surprise considering the current state of relations with the

Board. But the Tote was brought into being to provide funds for racing and we believe there is logic in what has been proposed."

Tom Kelly, BOLA's director general, added: "We feel that if each individual course were allowed to run its own Tote, the economies of scale would be lost.

"We believe that the Tote came into being to provide funds for racing. To us the off-course side is just another bookmaking operation, but the on-course side could be run by the Levy Board. We think this would be better than handing it over to vested interests such as the Jockey Club.

"It would not mean a fundamental change in the way it is run, but profits could go back into racing as a whole and not just to the racecourses, which is the case at the moment."

Another matter discussed at the BOLA meeting was the heavier VAT burden for off-course bookmakers which will be introduced later this year.

Bruce said he felt bookmakers were being unfairly treated by the Treasury in this respect, which it is estimated will double bookmakers' overall VAT contributions from £10 million to £20 million.



HORSE RACE TOTALISATOR BOARD

Tote House
74 Upper Richmond Road
London SW15 2SU
01-874 6411

From the Chairman:
Lord Wyatt of Weeford

12th May 1989

P.W.J.Buxton, Esq.,
Reference Secretary,
Monopolies and Mergers Commission,
New Court,
48 Carey Street,
London WC2A 2JT

Your ref: M112/3/1

Dear Mr. Buxton,

Grand Metropolitan plc/
William Hill Organisation Ltd. Merger Inquiry

The view of the Tote Board is that the concentration of betting shops in fewer ownerships is a danger and ought to be diminished because:

1. Independent bookmakers outside the big three whether they have one shop only or, say, a hundred are unable to compete with the big three in acquiring existing shops because they cannot offer anything like the amount being paid by the big three backed not only by the money they make out of betting but by the huge non betting resources of the companies which own them. This means that the large concentrations of betting shops in very few hands is bound to increase and cannot be diminished. Also there is no reason to suppose that Coral or Hill/Mecca for example might not prefer to get out of betting in return for a very large cash sum which no one but the other two of the big three could afford.
2. A concentration of betting shops in very few owners means the punter has less choice in his bets. For instance, though the Tote Authority is available to all betting shops which care to pay £1.50 a week for the use of it, Ladbrokes at present only have the authority for a three month trial period for a hundred shops. Hill/Mecca have the authority for all their shops but do not give the same facilities to their punters as the Tote shops do. They do not offer the popular Tote Jackpot, though they could. On the Tote dual forecast bet they limit payout to four times half the ordinary bookmakers' computer straight forecast. This means that frequently a punter winning a Tote dual forecast in a Hill/Mecca shop gets nowhere near as good a deal as a punter in a shop where the Tote dividend is paid out in full. Corals take the Tote Authority in all their shops but they limit any win on the Placepot to £5,000.

Contd.....

3. We believe that the example of the recommendations of the Monopolies and Mergers Commission on the supply of beer is a good one. There are some 10,000 betting shops in Great Britain. The three main chains with their higher than average turnover shops have something in the order of 56-60% of turnover of all the horserace betting transactions in all betting shops. We believe that it is unhealthy and menacing to the future for any one chain in the same ownership to have more than 700 shops. The big three would still be holding much the same proportion of shops that the Monopolies Commission recommends the breweries should hold of pubs.

4. It should be noted that the number of shops is restricted by the licencing magistrates who once they have given a licence cannot take it away unless there is bad conduct in the betting shop. This means that the big three are putting increasing purchase power pressure on what shops come on the market unnaturally forcing their prices up. It is theoretically possible to open a new betting shop if the licencing magistrates agree but the number of new shops created outside the existing ones is negligible.

5. In chain owned shops there is no independence allowed to any betting shop manager as to what antepost prices or early morning prices he should offer. They are all dictated to him from central office. This, ipso facto, increasingly denies the punter a real choice because though the big chains and the shops outside the big chains can and do offer different antepost and early morning prices the prices are all the same in any given chain.

6. If there were a rule that no betting chain should own more than 700 shops there would be no difficulty in selling off the surplus of those who own more.

Yours sincerely,

Wyatt of Weeford

The Lord Wyatt of Weeford



BANK ON US FOR A HOLIDAY WINNER

FREE!
£1 BET

Have a flutter
on TV's Big 7

ROLL up folks, we're under starter's orders for our greatest-ever Bank Holiday betting bonanza.

Your Sunday best News of the

World has got together with top bookies Coral to give you a FREE chance to strike it rich on a £1 accumulator.

What's more, if it's your lucky day, you can watch your winnings mount up on TV.

All you have to do is pick your fancy in each of the seven televised horse-races tomorrow—three are on BBC and four on Channel 4.

This voucher entitles you to a free £1 TV Seven bet with Coral.

If you need a hand picking winners, just look at Pegasus's racing tips on Page 42.

Then your TV Magnificent Seven could win you a Funday fortune.

CORAL
BOOKMAKERS



THIS voucher entitles the holder to one FREE £1 accumulator on the seven televised races on Bank Holiday Monday, August 28. It is valid only tomorrow with Coral.

Only the races shown on BBC and Channel Four will count. Only original News of the World vouchers will be accepted and only ONE voucher per person. Coral TV Seven rules apply.

NAME

(Block capitals)

ADDRESS

(Block capitals)

You must be over 18 to take part.
In Eire statutory tax rules apply.

£1 FREE BET

YOU'RE on to a winner with our fantastic **FREE BETS** offer!

Our stablemates are Ladbroke's, Britain's leading bookmakers, and here's the **EXCLUSIVE** deal:

We're offering you a £1 Straight Forecast Free Bet on this Saturday's top race — the Ladbroke Sprint Cup at Haydock Park.

Complete the voucher below and hand it in at any Ladbroke's shop where you will be given a betting slip for your free bet.

Last year, a £1 Straight Forecast would have netted you £57.04... and it could be even better this year.

Your winnings will be worked out by the Computer Straight Forecast return, which is declared to a £1 unit stake.

To help you make your selections for the Ladbroke Sprint Cup, check out the form guide in Saturday's Daily Mirror.

Ladbroke's make Pat

Strike it lucky

Eddery's mount Danehill 6-4 favourite for the race followed by 9-4 Silver Fling, 5-2 Cricket Ball, 6 Kerrera, 10 A Prayer For Wings, 14 Handsome Sailor, 16 Holst, 33 Shuttlecock Corner, 50 Run To Jenny, 66 Mansion House.

Keep up to date with all the latest news from Haydock Park by dialling the Ladbroke Sprint Cup hotline on 0898 222 566, prepared specially for Daily Mirror readers.

Your completed bet together with the voucher must be with Ladbroke's no later than 2pm on Saturday, September 2, 1989. They will do the rest.

You can post it, but there can be no guarantee your bet will count if there are any postal delays.

Don't forget: this **FREE** flutter with Lad-

broke's is **ONLY** available to readers of the Daily Mirror — which is always a winner!

WATCH out, too, for a great chance to win a trip for two to see France's famous Arc de Triomphe at Longchamp.

CONDITIONS:

● Offer limited to one voucher per person.

● Valid only when name, address and signature are on voucher.

● Voucher not transferable or redeemable for cash.

● Redeemable only against a £1 Straight Forecast on the Ladbroke Sprint Cup, September 2, 1989, and subject to Ladbroke Fair Play Rules.

● Employees and families of Ladbroke Group plc and Mirror Group Newspapers are not eligible to use this voucher.

● You can post voucher to: Ladbroke Racing Ltd, Hanover House, Lyon Road, Harrow, HA1 2ES, to arrive no later than 5pm on Friday, September 1, 1989.

- FREE BET VOUCHER -

My £1 Straight Forecast selections for the 1989 Ladbroke Sprint Cup are:

1st.....

2nd.....

Name.....

Address.....

.....Postcode.....

Tel.....

I confirm I am over 18 years of age.

Signature.....

Ladbroke's your best bet



pmf

FROM: J M G TAYLOR
DATE: 21 SEPTEMBER 1989

MR A G TYRIE

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Judge
Ms Wallace
Mrs Chaplin
Mr Lightfoot

BRYAN GOULD AND PRIVATISATION

The Chancellor was most grateful for your note of 19 September.

2. He was interested to read about the views of Clifford Chance. He is afraid, however, that he does not think this point is worth following up.

A handwritten signature in dark ink, appearing to be 'J M G Taylor'.

J M G TAYLOR