

PO-CH / NL / 0297

part A

Part #.

CONFIDENTIAL

(Circulate under cover and notify REGISTRY of movement)

Begins: 25/6/86.

Ends: 22/12/87.



PO -CH /NL/0297



PART A

Chancellor's (Lawson) Papers:

PRIVATISATION OF THE TOTE

Disposal Directions: 25 Years

20/10/95

PO -CH /NL/0297

PART A

PART A

CST
 FST
 Sir P Middleton
 Mr F E R Butler
 Mr Anson
 Mr Monck
 Mr Gilmore
 Mr D J L Moore
 Mr Judd
 Mr Colman
 Mr Grimstone
 Mr Robson
 Mr McIntrye
 Mr Hood
 Mr Knight
 Mr Revolta
 Mr Sutton
 Mr Cropper
 Mr Tyrie
 Mr Ross Goobey



Treasury Chambers, Parliament Street, SW1P 3AG
 01-233 3000

25 June 1986

Ms Clare Pelham
 Private Secretary to the
 Secretary of State for the Home Department

Dear Clare

PRIVATISATION OF THE TOTE

The Chancellor has seen the correspondence between the Prime Minister's Office and yours about the privatisation of the Tote.

He believes that a further look at this question would be well worth while. The last review made a number of assumptions about the continuation of the present statutory framework within which the Tote operates, which need to be questioned if we are to give the case for privatisation a fair hearing. In particular, since legislation would be needed in any case, it seems open to question whether the Tote's monopoly of pool betting should be retained.

The Tote operates under the wing of the Horserace Betting Levy Board, which also has several wholly-owned subsidiaries that merit consideration as candidates for privatisation. The Chancellor can see no reason of principle why the state should own and run three racecourses (Epsom, Kempton Park and Sandown Park) and a major horse breeding centre. In his view the scope for privatising the Board's commercial operations could usefully form part of the review.

Your letter of 17 June referred to uncertainty over the ownership of the Tote's assets. I understand that that is not in fact the case; but it will clearly be essential to establish the legal position beyond doubt.

I am copying this letter to David Norgrove (No.10), Mike Gilbertson (DTI) and Michael Stark (Cabinet Office).

Yours ever
Tomy Kuczys

A W KUCZYS
 Private Secretary



*ADVICE BY 14/7 PLEASE

| | |
|------------|------------------|
| CM/EXCHEQU | |
| REC. | 07 JUL 1986 |
| ACTION | Mr SUTTON * |
| COPIES TO | CST, FST |
| | Sir P. MIDDLETON |
| | Mr F. BUTLER |
| | Mr ANSON |
| | Mr MONK |
| | Mr GILMORE |
| | Mr MOORE |
| | Mr JUD |
| | Mr MOORE |
| | Mr GRIMSTONE |

7/7

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

7 July 1986

Dear Tony

Thank you for your letter of 25 June suggesting that the Levy Board's subsidiaries should be looked at as part of the same review of the Tote.

Your letter is wrong in stating that the Tote operates under the wing of the Levy Board, and the Home Secretary does not accept that it makes sense to extend the review to take in the Board's subsidiaries. Nor does he believe that a review of the Board's subsidiaries now would be warranted or timely. Your letter refers (not by name) to Metropolitan and County Racecourse Management & Management Holdings Limited and to the National Stud. In the case of the first the Levy Board have recently concluded, following a review of the possibilities including selling off the three racecourses involved, that the present arrangements remain suitable. As for the National Stud, an independent enquiry led by Sir John Sparrow has recently reported and the Home Secretary has approved changes in the management structure which are now being introduced. We will consider whether any further work could usefully be undertaken in relation to the Board's subsidiaries but this has no bearing on the review of the Tote's position.

We will consider how best to proceed with a review of the Tote. The Home Secretary believes it would be a mistake, as is implied in your letter, to see the earlier review as constrained by an assumption that the legislative framework would remain intact. No such assumption was made. In particular it was recognised that any assumption that the Tote could retain a statutory monopoly in relation to pool betting might well be untenable. The earlier review went on to identify substantial problems, including problems over ownership. The point there, which your letter tends to dismiss, is that since the Tote has never received public funds, the Tote is not the Government's to sell. This does not mean, of course, that the legislation cannot be altered but it does mean that there would be controversy about the proceeds of any sale and that racing might lay claim to the whole of the profits of an independent Tote. However, the Home Secretary is quite prepared to go over the ground again in view of your renewed interest.

I am copying this letter to David Norgrove (No 10), Mike Gilbertson (DTI and Michael Stark (Cabinet Office).

Yours

Clare

MS C PELHAM

A W Kuczys, Esq.

TS4/8



cc PS/Chief Secretary
PS/Financial Secretary
Sir P Middleton

AB/1

Mr F E R Butler
Mr Anson
Mr D J L Moore
Mr Gilmore
Mr Judd
Mr Grimstone
Mr Knight
Mr Cropper
Mr Tyrie
Mr Ross Goobey
Mr T J Sutton

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

15 July 1986

9/1

15/ni

Ms C Pelham
Private Secretary to the Home Secretary
Home Office
Queen Anne's Gate
LONDON SW1H 9AT

prop

(Cl)

Dear Clare

PRIVATISATION OF THE TOTE

Thank you for your letter of 7 July.

The Chancellor notes the Home Secretary's view that there is no case for including the commercial subsidiaries of the Levy Board in the same review as the Tote, and is content that consideration of the scope for disposing of these assets be taken forward separately and, as the Home Secretary suggests, on a longer timescale.

Our officials are in touch about the handling of the review of the prospects for privatising the Tote and the issue of who should benefit from any proceeds. It is obviously important to get agreed legal advice on this at the outset. The Chancellor also thinks that there would be advantage in involving financial advisers in this review. Once the Home Secretary has completed any necessary preliminary discussions with Sir Woodrow Wyatt, the next step would be for officials to agree terms of reference for advisers and an announcement in the usual way.

I am copying this letter to David Norgrove (No 10), Mike Gilbertson (DTI) and Michael Stark (Cabinet Office).

Yours ever,

Tony

A W KUCZYS



| | |
|--------------|-------------|
| CH/EXCHEQUER | |
| REC. | 09 SEP 1987 |
| ACTION | FST |
| COPIES TO | |
| | |
| | |
| | |

*Summary
Vint
for call*

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

8 September 1987

*Ch/ To see. NB X, over
2/9/87*

Dear Tony,

PRIVATISATION OF THE TOTE

Officials here have been keeping colleagues in the Treasury informed of our consideration of the case for privatising the Horserace Totalisator Board (the Tote). The Home Secretary thought it would be helpful to set out the position we have reached.

Preliminary discussions last year confirmed the unusual features of the case for privatising the Tote. First, because no public funds have ever gone to the Tote, the Government would have no self-evident claim, in our view, to the proceeds of any flotation. We know that the representatives of racing would want to ensure that new arrangements did not harm their position as beneficiaries of the Tote's activities and we suspect that, in practice, they would apply strong pressure to be awarded at least some of the proceeds. Secondly, the range of other benefits which usually flow from privatisation cannot be assumed to be present on this occasion. For example, privatising the Tote would not bring the benefit of freedom from interference in their decisions, for example on investment: since the Tote does not receive public funds, there is no such interference at present.

The Chairman, Lord Wyatt of Weeford, has told the Home Secretary that he now believes that privatisation could help the Tote in raising money and expanding its activity, for example by buying up chains of smaller bookmakers. The Home Secretary has asked the Minister of State, Mr Patten, to look at this and other parts of the argument. Mr Patten met Lord Wyatt on 27 July and has since written to him paving the way for further, more detailed discussions which will take place soon. Mr Patten has raised with Lord Wyatt the following four questions: why a privatised Tote should, as the Tote Board assume it would, retain a statutory monopoly of pool betting on horseracing; the arrangements for benefiting racing, both from the proceeds of any flotation and for the continuing flow of funds to racing thereafter; the question of regulatory mechanisms, given that tote betting, as the Tote accept, is peculiarly susceptible to being fiddled; and finally how far the Tote thinks it could go in acquiring other betting offices, if privatised, given competition from the Big Four bookmakers.

/The Home

A W Kuczys, Esq

The Home Secretary will want to form an assessment of the pros and cons from privatisation of the Tote in the light of the answers received to these questions. He would like to discuss the possibilities personally with the Chancellor at that stage. /x

I am sending a copy of this letter to David Norgrove (No 10).

Yours ever,

Colin

C R MILLER

RESTRICTED

PHP



FROM: J M G TAYLOR
DATE: 10 September 1987

PS/FINANCIAL SECRETARY

cc: Mr Call
(with letter)

PRIVATISATION OF THE TOTE

The Chancellor has seen Miller's (Home Office) 8 September letter to Mr Kuczys, on which you have the lead. He would be grateful for the views of Mr Call.

JMGT

J M G TAYLOR

*Mark Call
Hoffel. Sargey
ms.*

FROM: MARK CALL
DATE: 11 SEPTEMBER 1987

CHANCELLOR

cc Mr J Taylor
PS/Financial Secretary
Mr Cropper
Mr Tyrrie

THE PRIVATISATION OF THE TOTE

You asked for some thoughts on the Home Office's note on the privatisation of the Tote. These are preliminary views and I would certainly wish to clarify some technical aspects when we receive papers indicating the Tote's response to the questions raised by the Home Office. At first reading it would appear that this is a non-controversial privatisation proposal, indeed, the public at large probably do not know that it is "owned" by the State. I would agree with the Home Office note that privatisation of the Tote differs from previous privatisations in many respects, making it very difficult to point to demonstrable benefits resulting from privatisation. Discussion is likely to be somewhat legalistic and centre around who has a claim on the privatisation proceeds.

2. Background

The Horserace Totalisator Board is a separate statutory body from the Horserace Betting Levy Board, although in practice they are very close and, for example, share an annual report. The HBLB was established by an Act on 1963 to "collect monetary contributions from bookmakers and the Horserace Totalisator Board and to apply them for purposes conducive to any one or more of:

- the improvement of breeds of horses
- the advancement or encouragement of veterinary science or veterinary education
- the improvement of horse racing".

As a result, the HBLB directs funds to the National Stud, to the Horserace Scientific Advisory Committee (anti-doping protection), and the Security and Veterinary Field Forces, as well as making contributions to racecourses to improve safety and facilities for spectators. The vast majority of the HBLB's income is derived from a levy on bookmakers (£20.8 m representing 96% of income in 1985-86) with the Tote contributing only £680,000 (approximately 3% of income). The Horserace Totalisator Board was established in order to provide pool betting as an alternative to betting based on Starting Prices. Approximate financials are a turnover of £110m, a profit before tax of £3.2 m, £2m of which is "contribution to racing", leaving retained earnings of just over £600,000 (in 1986). Of the £2m contribution to racing, £680,000 is paid in a betting levy to the HBLB, £252,000 is sponsorship, and £1,072,000 are payments made to racecourses. Part of the Tote's contribution to racing is via the HBLB in which regard it seems to be treated very much like one of the big 4 betting companies, and part directly through sponsorship and payments to racecourses.

3. Differences from previous privatisations

The proposed privatisation of the Tote differs in a number of respects from previous privatisations:

- i. it is small and may appear the odd one out in a list of the Government's privatisation achievements; (British Airways, British Gas, BP, the Tote, Electricity Supply Industries ...)
- ii. it has not, in the past, received any Government funds;
- iii. it has few employees and would not make a major contribution to wider share ownership objectives (370 full-time and 1,640 part-time or casual staff);
- iv. it is not obviously deficient in terms of cost-effectiveness or in provision of customer services. They have just invested in a new racecourse computer,

modernised buildings and displays, new smart uniforms for staff etc).

5. Rationale for privatising

It may yield some privatisation proceeds for the Government, although the Tote will of course press to keep as much as possible. Indeed, without a significant proportion of the sale proceeds to invest in racing, they may well not be interested in privatisation. Overall, the rationale for privatising is weak since it is no burden on the public purse; and the most compelling reason may be simply a lack of rationale for it to be State controlled. It could, however, be viewed as a continuation of the liberalisation of gambling, following the lifting of restrictions on betting office facilities in 1984 which led to the introduction of television.

6. Issues raised

The Home Office have raised with the Chairman of the Tote, Lord Wyatt, the following questions:

- i. Should a privatised Tote retain a statutory monopoly of pool betting on horse racing? I have a prejudice against simply converting public monopolies into private monopolies and so would question why they should retain a statutory monopoly. However, there may be some technical details about the competitive pressure exerted by pool betting on Starting Prices betting which we may need to explore.
- ii. Can we be sure they will continue to contribute to racing? A privatised Tote would have to pay dividends to shareholders, and to do this would either have to decrease the proportion of revenues distributed in prize money, or reduce the financial support given to racing. Thus, privatisation could well lead to a reduction in sponsorship and payment to race courses, although the betting levy paid to the HBLB would presumably be retained and

applied in exactly the same way as it is currently applied to the independent big 4 betting companies. Whatever the Treasury view on the Government's claim to any sale proceeds, it could be argued that a proportion of the sale proceeds be given to the HBLB in order to benefit and improve the quality of racing facilities.

iii. Can adequate controls on fraud be devised? This cannot be an insurmountable problem since satisfactory arrangements have been devised for the other betting companies.

7. One final consideration is the need to ensure consistency with the proposed National Lottery. If this goes ahead as a State run Lottery then it may appear strange if we transfer the Tote to the private sector.

MC.
MARK CALL

pm



FROM: JULIAN WILLIAMS

DATE: 15 September 1987

MR CALL

THE PRIVATISATION OF THE TOTE

The Chancellor found your background note on the privatisation of the Tote most helpful.

A handwritten signature in cursive script that reads "Julian Williams".

JULIAN WILLIAMS

FROM: R G WESTWATER
DATE: 16 SEPTEMBER 1987

- Ch. P/Secy, pt.
Content for me to write
16/ix. I agree; note at end.
1. MR SUTTON
2. MR REVOLTA / I agree. DR 16/9 as suggested?
3. PS/CHANCELLOR
- cc PS/Chief Secretary
Sir P Middleton
Mr F E R Butler
Mr Monck
Mr Gilmore
Mr Moore
Mrs Brown
Mr Bent
Mr Crooper
Mr Tyrie
Mr Call
- 26 17/9 yr

PRIVATISATION OF THE TOTE

The PS/Home Secretary wrote to you on 8 September to keep you up to date and to say that the Home Secretary would write to the Chancellor with his views once Lord Wyatt, the Tote Chairman, had stated more fully his case for privatisation. There are no points of substance in the letter, but you might wish to reply as a matter of courtesy.

2. Home Office were asked last June to re-examine the case for privatising the Tote, and you wrote on 15 July 1986 to underline the importance of obtaining legal advice as to who might receive the proceeds from flotation, and to argue Home Office to involve financial advisers in the review.

3. Although the PS/Home Secretary's latest letter puts forward the view that the Government would have ^{no} self evident claim to the proceeds of privatisation, Home Office legal advice is that this is not an insurmountable problem: where the proceeds ought to go could be included in the legislation for the privatisation. However, there was no response to the point about including financial advisers. This is because Home Office have gone ahead without seeking outside advice. But it is hardly worth raising the issue at this juncture; it can wait until the Chancellor's response to the Home Secretary's forthcoming letter.

4. Events have not been moving very rapidly over the past year. According to Home Office officials it is because Lord Wyatt's views on privatisation have tended to shift periodically and without his support little progress could be made. He is now keen on privatisation, but only if the Tote's monopoly of pool betting is maintained. Presumably he sees flotation as a means of amassing capital and thereby creating an opportunity to expand the Tote's activities, for example through buying up more betting shops.

5. As noted above, we shall have another opportunity to comment once the Home Secretary writes. A draft reply simply acknowledging the PS/Home Secretary's letter is attached.

Roy Westwater

R G WESTWATER

I agree only a cautious reply at this stage. The flexibility of the lawyers on the issue, "who gets the proceeds?" is encouraging. And if the monopoly on pool betting were left with a privatised Tote, proceeds could be worth having, even if split between the Exchequer and the racing industry. There would be issues for financial advisers to examine if the idea is to run.

7.
16/ix

Pre type/sig

DRAFT

C R Miller Esq
PS/Home Secretary
Home Office
Queen Anne's Gate
LONDON
SW1H 9AT

PRIVATISATION OF THE TOTE

Thank you for your letter of 8 September. The Chancellor was grateful ~~that you have~~^{to be} kept in touch with developments and has noted that the Home Secretary will be writing in due course with his assessment of prospects for privatisation.

AWK

~~A W KUCZYS~~
Private Secretary



amp

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

18 September 1987

C R Miller Esq
PS/Home Secretary
Home Office
Queen Anne's Gate
LONDON
SW1H 9AT

Dear Colin

PRIVATISATION OF THE TOTE

Thank you for your letter of 8 September. The Chancellor was grateful to be kept in touch with developments and has noted that the Home Secretary will be writing in due course with his assessment of prospects for privatisation.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'J M G Taylor'.

J M G TAYLOR
Private Secretary

From: R B SAUNDERS
Date: 18 September 1987

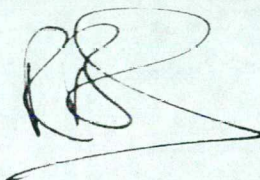
JT
Bmp

MR SUTTON

cc PPS
PS/Chief Secretary
Mr F E R Butler
Mr Monck
Mr Gilmore
Mr Moore
Mrs M Brown
Mr Revolta
Mr Bent
Mr Westwater
Mr Cropper
Mr Tyrie
Mr Call

PRIVATISATION OF THE TOTE

Sir Peter Middleton has seen Mr Westwater's minute of 16 September. He thinks that this case has obvious parallels with that of the TSB. Could you please ensure that he is kept very closely in the picture.



R B SAUNDERS
Private Secretary

FROM: T J SUTTON

DATE: 30 September 1987

TJS

1. MR REVOLVA DR 1/10
2. FINANCIAL SECRETARY

cc Chancellor - 14/2
 Chief Secretary
 Sir Peter Middleton
 Mr F E R Butler
 Mr Monck
 Mr Gilmore
 Mr D J L Moore
 Mrs M Brown
 Mr Bent
 Mr Westwater
 Mr Cropper
 Mr Tyrie
 Mr Call

PRIVATISATION OF THE TOTE

When you discussed the background to this with me, Mr Tyrie and Mr Call on 23 September, you asked if I could let you have a short note on some points which Lord Wyatt had previously raised with the Home Secretary. These concern the Tote's monopoly, the possible parallel with the arrangements for greyhound racing and the relevance of a "special share".

The Tote's Monopoly

2. As you are aware, the Tote enjoys a monopoly, protected by statute, of tote or pool betting on horseracing. The Home Office are concerned about privatising the Tote with this monopoly intact although Lord Wyatt regards it as essential to keep the monopoly if the Tote is to be financially viable. He has apparently argued that if the Tote was split up, the opportunities for fraud would be greatly increased, and has suggested that responsible bookmakers would in those circumstances refuse to allow customers to bet on the Tote at all. That is surely bluster. So long as tote betting remains attractive to punters, bookmakers will have an incentive to make it available, whether "the Tote" is public, private, monopoly or oligopoly.

3. The idea of putting the ^{Tote} monopoly out to tender is a novel one. We assume that it originates from the Home Office. It is not clear whether this would be an alternative to privatisation or, if combined with it, what exactly the Home Office have in mind. Presumably the Tote might be sold with all its assets, but minus the monopoly, and allowed to bid along with other bookmakers for the contract to run a tote. This would certainly reduce the worth of the privatised Tote (fixed assets worth £10.7 million at 31 March 1985) compared with its value if the monopoly were left intact and a reasonable arrangement

made for retention of proceeds for distribution to shareholders net of prizemoney. ~~But~~ Lord Wyatt would be strongly opposed to this, and in all the circumstances, the result of putting the monopoly out to tender might not be worth the bother to the Government, the Tote or the racing industry.

The Parallel with Greyhound Betting

4. As we said at your meeting, we are none of us experts. There is tote betting at greyhound racing tracks; it is comparatively lightly regulated and there is no monopoly. Lord Wyatt apparently regards this as the sole explanation for dubious practices and fraud which are so widespread as to prevent any responsible bookmaker offering his customers tote betting on greyhound racing. He would seem to be arguing that ending the Tote's monopoly would automatically create the same state of affairs in betting on horseracing. Apart from the possibility that this picture of greyhound racing is exaggerated, the argument is flawed: the Home Office could no doubt devise a workable regulatory system for an oligopoly of tote betting just as they presently regulate the Tote's monopoly.

A Special Share

5. It would appear that this suggestion comes from Home Office rather than Lord Wyatt in the first instance. As you will be aware, special shares have been used in privatisations to protect some aspect of a privatised company's operations in the national interest (eg to prevent a foreign takeover, or the appointment of non-UK nationals to the Board or as Chairman, or the disposal of specified assets, or some other specific feature of the Articles of Association which the Government wishes not to see altered). Some special shares last for a limited period only, others have an indefinite life. The relevance of the concept to the Tote is presumably that it would be one way of ensuring in a privatised Tote plc's Articles of Association some arrangement for a set proportion of its profits to be donated to the racing industry (in keeping with the Tote's present statutory purpose). Alternatively, and possibly of more interest to Lord Wyatt, it might be a means of preventing a takeover of the Tote plc by one of the "Big Four" bookmakers.

6. The issue for Ministers would thus turn on whether the privatisation of the Tote were sufficiently like a normal privatisation for the Government's use of the device to be appropriate at all; and whether the features which it might protect mattered sufficiently to Ministers to be thus protected. It is too early to take a view on either point.

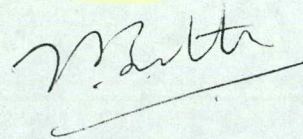
General

7. At your meeting we agreed that because the Tote is a small organisation (profits of £3.2 million on turnover of £105.4 million in 1984-85) and would not be a "normal" privatisation (it is a statutory organisation for running a particular type of betting and channelling the proceeds back into the racing industry, not a nationalised industry making - even theoretically - a profit for the taxpayer), we need not take the initiative at this stage but could await the Home Office's next progress report.

8. We agreed also that it would be important to get clear at an early stage, if privatisation was to be taken forward, whether and to what extent the state has a right to any proceeds. The importance of this point has already been registered in correspondence from the Chancellor's Private Office last year (eg Mr Kuczys's letter of 25 June 1986).

Conclusion

9. The Home Secretary will be in touch again once he has considered the results of Mr Patten's latest round of discussions with Lord Wyatt. There is therefore no action for Treasury Ministers at this stage.



T J SUTTON



psp

psp

FROM: J J HEYWOOD
DATE: 5 October 1987

MR SUTTON

cc PS/Chancellor,
PS/Chief Secretary
Sir Peter Middleton
Mr F E R Butler
Mr Monck
Mr Gilmore
Mr D J L Moore
Mrs M E Brown
Mr Revolta
Mr Bent
Mr Westwater
Mr Cropper
Mr Tyrie
Mr Call

PRIVATISATION OF THE TOTE

1. The Financial Secretary was most grateful for your minute of 30 September.

9.11/2

JEREMY HEYWOOD
Private Secretary

26/1



ch/

TOTE MEETING, Tues 26/1

We had envisaged that your meeting with Mr Hurd would be a bilateral, but I understand he wants to bring Mr ^{Patten} ~~Beaton~~. Would you like us to see if FST or CST can come?

✓ FST, Patten
OK

mpw
22/1



Ch/

The Home Secretary's office have told us that he would like a short bilateral (no hurry - New Year OK) to discuss the Tote

- privatisation, and general financial management.

HE think this is a good idea. Content for us to fix up?

ok,

mpw

4/12

213 3384.

Richard Bent

Brook.

PE

Gilmore. us.

FST.

Anson -

Kemp. PS.

Moore. US.

Call.

26/1



FROM: MRS JULIE THORPE

DATE: 22 December 1987

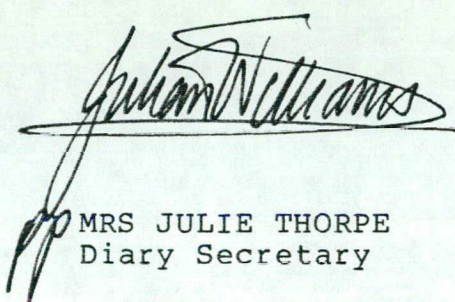
MR REVOLTA

- cc PS/Financial Secretary
- Mr Anson
- Mr Kemp
- Mr Gilmore
- Mr Moore
- Mr Bent
- Mr Brook
- Mr Call

BILATERAL WITH HOME SECRETARY

As you know the Chancellor will be seeing the Home Secretary on Tuesday 26 January at 10.30am to discuss the Tote.

2. I will be grateful if you could provide briefing by close of play on Friday 22 January.



MRS JULIE THORPE
Diary Secretary