

Executive summary

Chapter

1

1 Executive summary

1.1 Introduction

This ITA is issued by the Commission through its powers under the National Lottery Act.

The Commission is inviting Bids for the Licence to run the Lottery, for a period of ten years with the possibility of extensions¹, after the licence held by the Current Operator expires on 31 January 2009.

This document sets out details of the Lottery opportunity together with the process and requirements connected with submitting a Bid and information as to how Bids will be evaluated. It is accompanied by a copy of the Draft Licence to run the Lottery. The Draft Licence sets out the detailed conditions relating to the operation of the Lottery that Bidders must take into account when responding to this ITA. This executive summary sets out an overview to assist Bidders in reading this document, but it is necessarily not comprehensive.

The Commission is seeking a Licensee to provide a complete solution for the Lottery, including: setting up and running the Lottery; designing, building, financing and operating the requisite infrastructure and systems; designing, distributing and marketing Lottery games²; and ensuring a smooth Transition of the Lottery from the current operations. Each Bidder will need to describe all of these elements in its Bid. Table 1 over, highlights the key responsibilities of the operator.

¹ Subject to the passage of the National Lottery Bill, the Commission may grant extensions to the Licence of up to a further 5 years.

² This may also be done by organisations other than the Licensee, referred to as independent Section 6 licensees.

Table 1. Responsibilities of the operator

Transition	Operations	Contribution	Compliance
<ul style="list-style-type: none"> • Planning and risk management • Transition management • Acquisition of premises and facilities • Roll-out of infrastructure • Recruiting and training of staff • Appointment of all suppliers • Establishing the distribution network • Development, testing and implementation of all proposed systems • Launch of initial game portfolio 	<ul style="list-style-type: none"> • Development of games initially and on an ongoing basis • Creation and execution of marketing strategy • Management of retailers and other distribution channels • Provision of a complete technology and communication solution, including maintenance and development • Delivery of systems availability • Organisation of draws • Payment of prizes • Protection of intellectual property • Provision of customer service and care 	<ul style="list-style-type: none"> • Maximisation of returns to good causes • Payments of contributions to the Secretary of State • Development of any Ancillary Activities • Enhancement and innovation to drive returns to good causes and shareholders • Transfer of unclaimed prizes 	<ul style="list-style-type: none"> • Propriety • Preventing underage play • Preventing excessive play • Corporate governance • Compliance with approved codes • Approved processes and procedures • Minimum requirements for player access • Performance standards and reporting • Provision of information to the regulator • Assignment of rights • Ability to be effectively regulated • Marketing spend obligations • All licence conditions

The Licensee will obtain income from its operations through a retention structure, explained in chapter 15, which allows the Licensee to retain a proportion of income that is linked to both overall sales (the Gross Sales Retention) and sales after payment of Lottery Duty, prizes, retailer commissions and the sales-related retention (the Net Sales Retention). After prize payments, Lottery Duty, retailer commissions and the Licensee's retentions, the remaining amounts are paid to good causes. As part of its Bid, each Bidder will need to provide audited financial projections based on genuine and reasonably held assumptions that set out its business plan forecasts. Bidders should note that neither the Licensee nor the Commission has responsibility for distributing monies to good causes. That is the role of the distributing bodies.

Where possible, this ITA uses output specifications, which means that the Commission sets out necessary and desirable outcomes rather than a rigid technical specification. Each Bidder can therefore innovate by using its own preferred solutions within the context of the requirements of this ITA and the regulatory environment. Where the Commission has a current preference, this is stated. For example, whilst each Bidder is free to choose its own type of games and methods of distribution, the Commission would ordinarily expect these to include at least a form of Lotto game, participation in EuroMillions and a form of scratchcard game in its portfolio, with access through retailers, Internet, mobile phones and other interactive channels.

The Commission welcomes Bids from entities worldwide, but Bidders should note that the Licensee must have an office physically located in the UK staffed by appropriately authorised personnel. As long as the Commission considers that a Bidder is able to fulfil the Commission's statutory objectives, set out below, and is capable of being regulated in an efficient and effective manner, it is impartial towards the nationality of the Bidder, or whether it is a profit-making or a not-for-profit Bidder.

1.2 Foundations of the Lottery

Domestic legislation permits the operation and promotion of the Lottery, which would otherwise be unlawful, under a licensing regime that is the responsibility of a dedicated regulator³. The Lottery is reserved for generating funds for good causes.

In exercising their functions, the Secretary of State and the Commission have three overriding duties:

The Commission's statutory duties

- To secure that the National Lottery is run, and every lottery that forms part of it is promoted, with all due propriety;
- To secure that the interests of every participant in the Lottery are protected; and
- Subject to these, to do its best in exercising its functions to secure that the net proceeds of the National Lottery for good causes are as great as possible.

The Commission's primary responsibilities therefore relate to propriety and player protection. A great deal of its regulatory activity focuses on these areas.

The licensing structure and regulatory regime requires the Commission to uphold high standards of propriety and player protection. These are paramount under the UK regime and take precedence over the generation of returns.

Whilst much of this ITA is concerned with returns for good causes, Bidders should be clear that propriety and player protection are of the utmost importance. If a Bidder is unable to demonstrate to the Commission's satisfaction that the Required Standards will be met, then its Bid will be unacceptable regardless of the returns it offers to good causes.

An important feature of the regime is that it is open to competition; there are periodic competitions for the Licence to operate the Lottery. These are open to all, including not-for-profit Bidders and overseas organisations.

Whilst the Commission has an interest in the continued sustainability of the Lottery over a longer period, the interests of a Licensee are restricted to the period for which it holds the Licence. The Commission takes the view that Bidders should structure their Bids to generate a return for their organisations over the life of the Licence for which they are bidding, but should not look to generate residual value beyond the Licence Period. The Competition and Draft Licence have been structured accordingly.

³ The Gambling Act 2005 also permits 'society lotteries' which are regulated by the Gambling Commission. The size of such lotteries is limited by regulation.

1.3 The Competition

The Commission's role is twofold. It regulates and safeguards the Lottery on a day-to-day basis, and selects and licences the operator of the Lottery through a competition. The Commission's objectives in running this Competition, and the criteria against which it will evaluate the Bids, are consistent with its statutory duties. Bidders should note that it is the Commission, not the Secretary of State for Culture, Media and Sport, that is responsible for appointing the Licensee, and that the Department for Culture, Media and Sport plays no part in the selection.

The Commission, commensurate with its statutory duties, and, after a period of extensive consultation, analysis and feedback, has structured a process that is designed to achieve:

- High standards of propriety and player protection;
- A vigorous competition for the Licence, on the basis that this is the best means to generate the greatest returns to good causes;
- As far as possible a level playing field for all Bidders; and
- Well-aligned incentives for the Licensee to increase returns to good causes.

With these in mind, there are some key differences and principles that apply to this Competition, including:

- A licence of at least ten years, as opposed to seven;
- Greater use of output specification, encouraging innovation and use of each Bidder's preferred approach;
- A requirement on each Bidder, from the start and throughout the Licence Period, to provide modern, flexible technology which adopts open systems principles, including appropriate interoperability standards;
- A format to the ITA intended to make the requirements and evaluation criteria highly transparent;
- An evaluation methodology that focuses on each Bidder's ability to a) meet certain Required Standards and b) generate returns to good causes;
- A bid period of over 5 months⁴;
- A Transition Period of over 18 months⁵;
- Neutrality between each Bidder in the evaluation as to the effects of any redundancy costs that are necessarily, reasonably and properly incurred as a result of taking up the Licence;
- Additional steps designed to ensure that sales projections are realistic and comparable;
- The ability of each Bidder to set different retention structures between classes of game to align incentives and encourage performance; and
- The ability of all suppliers and contractors to participate in more than one Bid (subject to the requirements set out in chapter 3) should they wish to.

1.4 The evaluation

Each Bidder must satisfy the Commission of its ability to deliver the proposed solution in time for the start of the Licence on 1 February 2009, and to operate throughout the Licence Period in accordance with the Licence and regulatory environment and in a manner that enables the Commission to comply with its statutory duties. There will be two parts to the evaluation of Bids:

- Required Standards – the Commission must be satisfied that the Bid meets these Required Standards, otherwise the relevant Bidder will not be eligible for award of the Licence.
- Returns to good causes – the Commission will select the Bidder that meets all of the Required Standards and that, in its opinion, offers the most economically advantageous Bid that is best able to maximise returns to good causes based on an analysis of the deliverability of its business plan.

⁴ This has been adjusted from the position set out in the *Statement of Main Principles*, in light of feedback from the market.

⁵ This has been adjusted from the position set out in the *Statement of Main Principles*, in light of feedback from the market.

During the evaluation, a Bidder may be requested by the Commission, in its absolute discretion, to provide additional information on particular aspects of its Bid.

The Commission reserves the right to grant a Bidder the opportunity to amend its Bid where the Commission considers that this will allow a deficiency in the Bid to be addressed. A deficiency includes any concerns that, if not addressed, might prevent the Bid passing any Required Standard or meeting any other requirements set out in this ITA and Draft Licence.

Where the Commission decides to grant an opportunity to address a deficiency in respect of any Required Standard, then all Bidders shall be given a similar opportunity to address any deficiency in respect of the Required Standard aspects of their Bids, if necessary. Where the Commission decides to grant an opportunity to address a deficiency in respect of areas other than Required Standards, then all Bidders shall be given a similar opportunity to address any deficiency in respect of those areas.

For the avoidance of doubt, no amendment, either upwards or downwards, may be made to a Bidder's Principal Forecast, retention rates and hence forecast contributions to good causes at any time after the Bid has been submitted.

However, where there is a change to the underlying cost structure that arises as a result of clarification or amendment of a Bid, the Commission will take this into account when assessing the financial soundness and realism of that Bid, and when adjusting the Bidder's business plan forecasts.

1.5 The process

Table 2 summarises the intended Competition timetable.

Each Bidder must submit its Bid to the Commission on 15 December 2006. Following this, the Commission will undertake its evaluation. By mid May 2007, the Commission expects to have completed its evaluation and to notify a Preferred Bidder and potentially a Reserve Bidder of its intention to enter into discussions to finalise the Draft Licence. During finalisation of the Draft Licence, the Preferred Bidder will be required to secure any consents, approvals or other conditions that may be required. Once the Commission is satisfied that these consents have been obtained, it will award the Licence.

Table 2. Process summary

Stage	Date	Description
ITA published	June 2006	The Commission releases the ITA. Bidders start formal Bid preparation process.
Submission of Bids	15 December 2006	Each Bidder submits its Bid, which must include: <ul style="list-style-type: none"> – A Bid Submission Certificate – A Bid Submission Checklist – An executive summary – Responses to chapters 7 to 15 inclusive and 17 to 22 inclusive of this ITA – Relevant vetting forms as set out in chapter 7 – The Restrictive Agreement Undertaking – The Draft Licence.
Evaluation of Bids	Until mid May 2007 or earlier	The Commission evaluates Bids. If necessary, the Commission may provide an opportunity to rectify deficiencies in Bids (as set out in section 1.4 above).
Choice of Preferred Bidder	Mid May 2007	The Commission chooses a Preferred Bidder with whom to finalise the Licence. The Commission may also appoint a Reserve Bidder.
Finalisation of Draft Licence	Until mid July 2007	The Commission seeks to finalise the Draft Licence and Enabling Agreement with the Preferred Bidder. The Preferred Bidder finalises any conditions precedent in its Bid, and confirms that its financing is fully committed.
Decision regarding Licence Award and entry into Enabling Agreement	Mid July 2007	The Commission makes its decision to award the Licence and enters into the Enabling Agreement governing the Transition Period with the Preferred Bidder.
Transition Period	Until 31 January 2009	The Successful Bidder prepares for operations, implementing its Transition Plan and fulfilling the proposals set out in its Bid for commencement of the Licence.
Grant of the Licence	1 February 2009	The Licence is granted and the Licensee's operations commence.

1.6 The structure of this Invitation to Apply

Table 3. Structure of the ITA

Section	Purpose	Bid response required
2 Overview of the Lottery	This chapter provides background on the regulatory and licensing environment.	X
3 The current Lottery	This chapter provides an overview of the current Lottery offering, including the games and distribution channels.	X
4 Process	This chapter describes the process and rules governing the Competition, including: <ul style="list-style-type: none"> • Details for accessing further Lottery-related information • Rules and process for communicating with the Commission • The delivery and format of Bids • The requirements relating to Bidder structure. 	X
5 Handover	This chapter sets out detail on any Handover-related issues that apply in the event that the Current Operator is not the Licensee.	X
6 Evaluation	This chapter sets out the evaluation process that will be undertaken by the Commission.	X
7 Propriety	Required Standard This chapter sets out the detailed requirements, evaluation criteria and evidence required relating to fit and proper tests and propriety, and those individuals or bodies to whom these considerations apply.	✓
8 Player protection	Required Standard This chapter sets out the detailed requirements, evaluation criteria and evidence required relating to the protection of participants.	✓
9 Transition	Required Standard This chapter sets out the detailed requirements, evaluation criteria and evidence required relating to the management of Transition and the implementation of the Transition Plan through to the start of operations on Day one of the Licence Period.	✓
10 Organisation	Required Standard This chapter sets out the detailed requirements, evaluation criteria and evidence required relating to each Bidder's organisational structure and capability.	✓
11 Financial soundness	Required Standard This chapter sets out the detailed requirements, evaluation criteria and evidence required relating to the commitments and soundness of each Bidder's proposed financial structure both during the Transition Period and the Licence.	✓
12 Technology	Required Standard This chapter sets out the detailed requirements, evaluation criteria and evidence required relating to each Bidder's proposed Technology Operation.	✓

Section	Purpose	Bid response required
13 Operational risk management	Required Standard This chapter sets out the detailed requirements, evaluation criteria and evidence required relating to the management, identification and mitigation of operational risks, and the overall proposed risk management framework.	✓
14 Business plan	Returns to good causes This chapter sets out the detailed requirements, evaluation criteria and evidence required relating to each Bidder's business plan, including its Principal Forecast, Common Forecast and Specified Sensitivity Tests.	✓
15 Contributions to good causes	Returns to good causes This chapter sets out the detailed requirements, evaluation criteria and evidence required relating to each Bidder's proposed retention structure.	✓
16 Marketing guidance	Returns to good causes This chapter provides an introduction and high-level explanation of the requirements, evaluation criteria and evidence required as part of each Bidder's marketing plans.	X
17 Marketing executive summary	Returns to good causes This chapter sets out the detailed requirements, evaluation criteria and evidence required relating to each Bidder's overall marketing plans and vision for the Lottery. This encompasses each of the elements set out in chapters 18 to 21 below.	✓
18 Game plan	Returns to good causes This chapter sets out the detailed requirements, evaluation criteria and evidence required relating to the strategy and characteristics of each Bidder's proposed portfolio of games.	✓
19 Player access plan	Returns to good causes This chapter sets out the detailed requirements, evaluation criteria and evidence required relating to each Bidder's proposed methods for participants to access the Lottery.	✓
20 Marketing communications plan	Returns to good causes This chapter sets out the detailed requirements, evaluation criteria and evidence required relating to each Bidder's communications plans, including brand communication, advertising and promotion.	✓
21 Marketing resource and sales plan	Returns to good causes This chapter sets out the detailed requirements, evaluation criteria and evidence required relating to each Bidder's capability to deliver the proposed marketing plans.	✓
22 Further information requirements	This chapter sets out details of further information that is required by the Commission. Information provided in response to the chapter will not be used as part of the evaluation of Bids.	✓