

# Required Standards

Chapter

7

Propriety

# 7 Propriety

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## Required Standard – Propriety

**The Commission must be satisfied that the Lottery will be run with all due propriety. It must be satisfied that those likely to manage the business, or for whose benefit the business is likely to be conducted, are fit and proper.**

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### 7.1 Purpose

The Commission has an overriding statutory duty to ensure that the Lottery is run with all due propriety. The assessment of propriety will be carried out during the evaluation as a Required Standard.

There are two elements to establishing propriety:

- The Commission must be satisfied that those who manage the business of running the Lottery are fit and proper to do so, and those for whose benefit that business would be carried out are fit and proper to benefit from it (see section 7.2 below);
- The Commission will also need to test the management arrangements in place, or to be put in place, to ensure that the Lottery will be run with due propriety in the future (see sections 7.3 to 7.6 below). These arrangements extend to the Licensee, its staff and suppliers.

The Commission must be notified immediately of any changes in any of the information provided in response to this chapter during the period between the submission of a Bid and the point at which the Successful Bidder enters into an Enabling Agreement with the Commission.

### 7.2 Fit and proper testing

#### 7.2.1 Requirement

Under Section 4 of the National Lottery Act, one of the Commission's overriding statutory duties is to secure that the Lottery is run, and every lottery that forms part of it is promoted, with all due propriety.

Section 5 of the National Lottery Act provides that the Commission shall not grant such a licence unless satisfied that the applicant is a fit and proper body to run the Lottery. In determining whether to grant a licence the Commission will consider:

- Whether any person who appears to be likely to manage the business or any part of the business of running the Lottery under the licence is a fit and proper person to do so; and
- Whether any person who appears to be likely to be a person for whose benefit that business would be carried on is a fit and proper person to benefit from it.

The Commission will need to be satisfied as to the fitness and propriety of the organisations and personnel that are key to each Bid prior to Licence Award.

Bidders should note that the National Lottery Act also sets out (in Schedule 3) circumstances where an absence of fitness and propriety might lead to the revocation of the Licence. Satisfaction of tests regarding fitness and propriety will therefore be an ongoing obligation, both during any Transition Period and during the course of the Licence.

### 7.2.2 Evaluation criteria

The National Lottery Act does not define fitness and propriety, which is a matter for the Commission to determine. It will make its judgement on the basis of the information made available to it.

Bidders will be required to provide information to the Commission to enable it to make a judgement – this is set out in section 7.2.3 below. It may require additional information in order to complete the process.

The Commission will check the accuracy and completeness of the information provided to it by Bidders with a range of agencies both in the United Kingdom and, if applicable, overseas.

The details of such information provided about Bidders are confidential and the checks are carried out with this understanding. Statutory requirements affecting agencies such as the Serious Fraud Office, the Financial Services Authority and HM Revenue and Customs prohibit the release of this information. In other cases, the nature of the Commission's relationship with the agency is generally that the information is supplied on the understanding that it then remains confidential. The Commission is therefore not able to provide a Bidder with the details of any of these findings.

It may be that in the course of this process the Commission will receive adverse information. For practical purposes, the types of adverse information that would cause the Commission to investigate further would include, but not be limited to, that relating to convictions for a criminal offence, censure by a regulatory authority or bankruptcy. In considering adverse information the Commission will take into account the role of the individual concerned, the nature of the adverse information and any other relevant information.

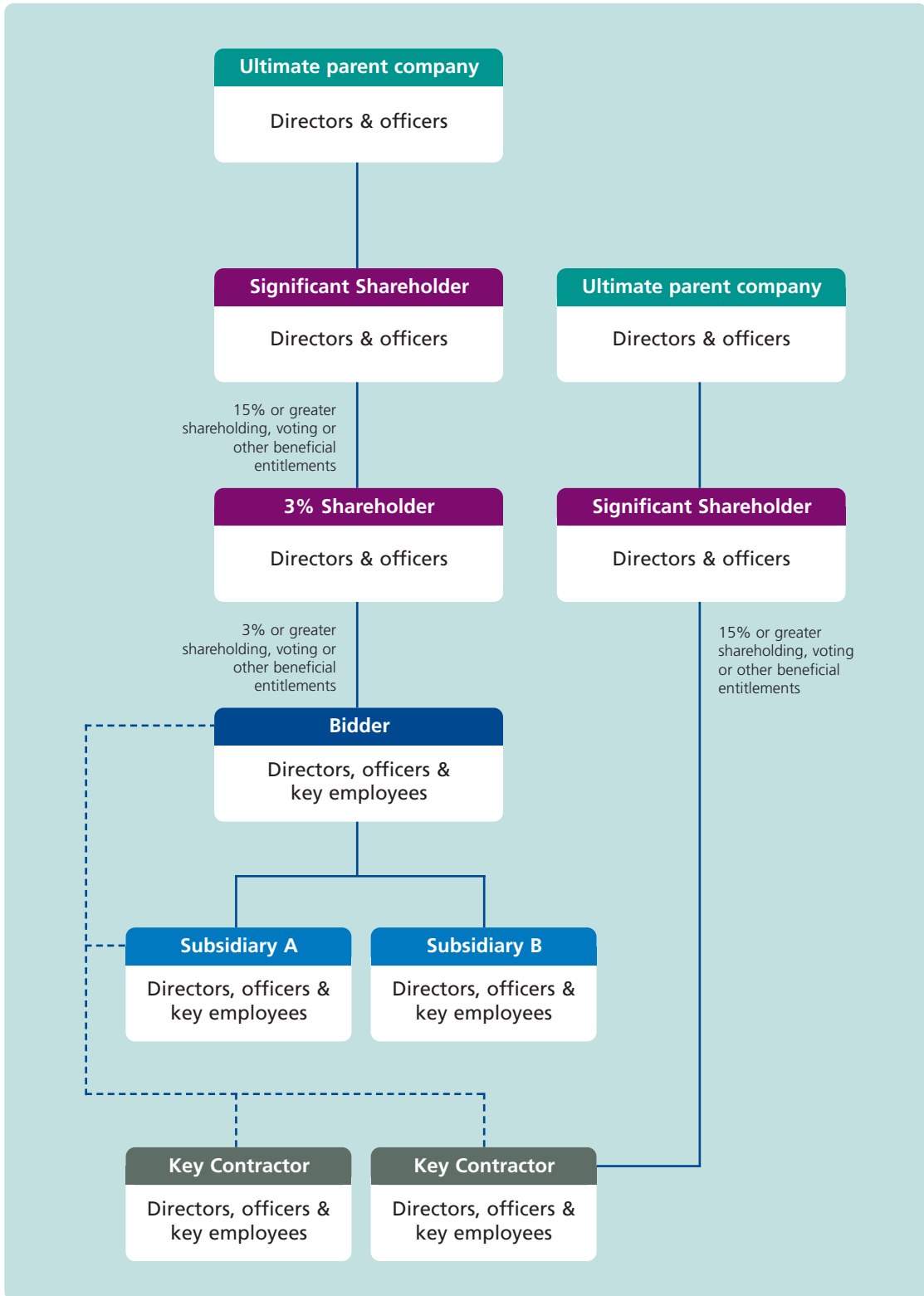
There is no statutory scheme of appeal against a finding that an organisation or individual is not fit and proper. The Commission aims to allow any organisation or individual about whom it has received adverse information, or about which it otherwise has concerns, to make representations and provide any additional information which that organisation or individual considers relevant to the Commission's decision. However, the confidentiality attached to information received may limit the Commission's ability to disclose to the organisation or individual involved the full details of its concerns.

The Commission would not wish to be in a position where it would be obliged to reject a Bid for the Licence by reason only of a problem in relation to an organisation or individual who is not of major importance to that Bid. In such an instance, the Commission would wish to discuss the position with the relevant Bidder and invite it to make an appropriate change to deal with the difficulty. The Commission wishes to make it clear that it has no knowledge or expectation that the circumstances envisaged above will arise.

### 7.2.3 Evidence required

The following sections set out the evidence required in respect of the Bidder, and parties within its Consortium.

Figure 3. Required vetting forms



Note: Appropriate vetting forms are required for every entity shown here and, where appropriate, its key employees. Key employees are intended to include any employees who are not directors or officers, but who are nonetheless material to the delivery of the proposals set out in the Bid and are not easily replaced.

**7.2.3.1 Directors and key employees**

Each Bidder shall provide a list of the directors, officers and key employees of the Bidder and any subsidiaries (and those who are intended to be such) or holding companies, together with vetting forms as set out in Appendix F, as appropriate, duly completed by each of those persons.

Key employees are intended to include any employees who are not directors or officers, but who are nonetheless material to the delivery of the proposals set out in the Bid and are not easily replaced.

**7.2.3.2 Shareholders and other persons connected with the Bidder**

Each Bidder shall provide:

1. A list of the names and addresses of all 3 per cent Shareholders, Significant Shareholders and their ultimate parent companies. The list must explain the relationship of each of these parties to the Bidder and any relationship with any other member of the Consortium, and how, if at all, those relationships would change were the Bidder to be granted the Licence.
2. A list of the directors and officers for each of the parties set out in 1 above.
3. Vetting forms as set out in Appendix F, as appropriate, duly completed by each of those persons.

**7.2.3.3 Contractors and subcontractors**

Bidders should note the following:

- A Key Contractor is defined as a party that provides services of a material nature to a Bidder, either directly or via a subcontract. The following key principles apply when considering whether a supplier or contractor falls under the definition of Key Contractor. It will do so if:
  - It provides services that are material to the structure and content of any Bid;
  - If it provides services that are not commodity-type in nature but are unique, bespoke or tailored;
  - It is not easily replaced without material risk to the delivery of a Bid or its proposals; or
  - The cost of an alternative supplier or contractor would likely be significantly different.
- The Commission reserves the right, in its absolute discretion, to classify any contractor or supplier as a Key Contractor and to seek relevant information as appropriate.
- Key employees are intended to include any employees who are not directors or officers, but who are nonetheless material to the delivery of the proposals set out in the Bid and are not easily replaced.

Each Bidder shall provide:

1. A list of the names and addresses of all Key Contractors providing, or intending to provide, services to the Bidder.
2. A list of each Key Contractor's directors, officers and key employees.
3. A list of the names and addresses of each Key Contractor's Significant Shareholders and their ultimate parent companies, and a list of the directors and officers of those Significant Shareholders and ultimate parent companies.
4. Vetting forms as set out in Appendix F, as appropriate, duly completed by each of those persons.

#### 7.2.3.4 *Providers of financing*

Bidders need only submit vetting forms in respect of providers of financing where:

- Such financing is of a highly structured and/or bespoke nature, and where the providers of such financing are not easily replaced without material risk to the delivery of the financing of the Bid or where the cost of an alternative provider would likely be significantly different; or
- Where such financing offers the provider the right or option of becoming a 3 per cent Shareholder.

Where any providers of financing fall within the definitions above, each Bidder must provide:

1. A list of the names and addresses of providers, or intended providers, of such financing to the Bidder.
2. A list of the directors and officers of each provider of financing.
3. A list of the names and addresses of each financing provider's Significant Shareholders and their ultimate parent companies, and a list of the directors and officers of those Significant Shareholders and ultimate parent companies.
4. Vetting forms as set out in Appendix F, as appropriate, duly completed by each of those persons.

The Commission reserves the right, in its absolute discretion, to require such information of any provider of financing to the Bidder.

#### 7.2.3.5 *Changes in circumstances*

Each Bidder must notify the Commission immediately of any changes in the identity of any of the above parties or of any material changes in their circumstances (such as, in the case of directors, officers or key employees, any conviction for a criminal offence, censure by a regulatory authority or bankruptcy) during the period between the submission of the relevant vetting form and the grant of the Licence. A confirmation will be required before the grant of the Licence from each director and proposed director and from the Bidder that the information set out in the vetting form submitted with the Bid is correct. The Licence will require any subsequent changes that occur whilst the Licence remains in force to be notified to the Commission.

#### 7.2.3.6 *Note for Bidders*

Bidders should note that following the selection of the Licensee the range of persons to which vetting will apply is likely to be wider than that set out under section 7.2.3. Reference should be made to Condition 15 of the Draft Licence for further details.

Bidders should note that during the Licence Period vetting checks will be repeated at regular intervals.

## 7.3 Propriety

### 7.3.1 Requirement

The requirement for a Bidder to operate the Lottery with all due propriety extends to the way in which the Licensee manages its relationships with its shareholders or other beneficiaries, its staff and its contractors. It is the Licensee's responsibility to ensure that sufficient control mechanisms are, or will be, in place to maintain control of those parties and that, ultimately, the reputation of the Lottery is protected.

Each Bidder must be managed in accordance with high standards of corporate governance. This is in order to ensure propriety and protect the interests of participants.

### 7.3.2 Evaluation criteria

The Commission must be satisfied that high standards of corporate governance and other control mechanisms are in place to ensure that any significant probity or regulatory issues, whether involving the Licensee, its shareholders and other beneficiaries, or suppliers and contractors, is brought to the Commission's attention immediately.

Each Bidder will need to satisfy the Commission that appropriate arrangements are in place with its staff, contractors and suppliers (particularly its shareholder suppliers) to ensure that those relationships are clear, properly managed and transparent. Each Bidder will be assessed on the arrangements incorporated in, or intended to be incorporated in, relevant contracts. The Commission will expect the Successful Bidder/Licensee to lodge current versions of material contracts with it at all times throughout the Licence Period. Bidders should note the requirements of the Draft Licence relating to the Commission's ability to direct the Licensee in its dealings with certain suppliers and contractors, and in their contractual arrangements.

The Commission must also be satisfied that the Licensee has adequate powers, whether under its constitutional documents or otherwise, to require any person who is, or appears to be, directly or indirectly interested in its share capital to supply information concerning that person's interest and, if the required information is not supplied, to suspend the voting and dividend rights attaching to any relevant shares until the position has been clarified. These powers should apply where any shares or interests in shares of the Licensee are, or have been, transferred. The Draft Licence requires the Licensee to maintain suitable arrangements for this purpose and the Commission may require that the Licensee exercise these powers from time to time in a manner specified by it.

### 7.3.3 Evidence required

Bidders should note that they must provide evidence on the matters set out in 1 to 3 below. However, Bidders may, where appropriate, refer to more detailed evidence given in response to sections 7.4 to 7.7.

Each Bidder shall provide the following:

1. An overview of the measures it has, or intends to put in place, to ensure that any probity or other regulatory concerns are brought to the attention of the Commission, including:
  - a. The procedures it intends to adopt for notifying the Commission promptly of any issues that should be brought to the Commission's attention.
  - b. Its approach to corporate governance.
  - c. Details of its internal audit function.
2. Details of the arrangements in place, or to be put in place, in respect of its employees in order to manage the recruitment and behaviour of its staff.
3. Details of the arrangements in place, or to be put in place, with its contractors and suppliers, and in particular shareholder suppliers, in order to manage those relationships.

This must include:

- a. Details or copies of supply contracts with Key Contractors (as defined in Appendix A). This should include information relating to the financial arrangements and terms of remuneration.
- b. Proposals for ensuring value for money from key suppliers during the period of the Licence.

## 7.4 Corporate governance

### 7.4.1 Requirement

Each Bidder must be managed in accordance with high standards of corporate governance. This is in order to ensure propriety and to protect the interests of players. Bidders should also note that condition 14.13 of the Draft Licence requires the Licensee to establish a code of corporate social responsibility and a code of conduct which shall provide a code for an ethical framework for all business decisions.

### 7.4.2 Evaluation criteria

Each Bidder will need to satisfy the Commission that it is able to meet high standards of corporate governance. The arrangements set out in its proposals will be tested against the Combined Code on Corporate Governance. This part of the evaluation is a key element in demonstrating that the Lottery will be run with all due propriety and that clarity and transparency will be evident.

Each Bidder will also be assessed on the arrangements that it intends to put in place to ensure transparency of remuneration and incentives for directors and staff in accordance with the provisions of the Combined Code. The Commission wishes to be assured that these are consistent with achieving the best possible returns to good causes (see also chapter 15). This aspect will be particularly important for not-for-profit operators, where profit-related incentives are inevitably less strong.

In addition, the Government believes that there is scope for greater public involvement in the operation of the Lottery<sup>40</sup>. Each Bidder is asked to present proposals as to how such public involvement might be fulfilled<sup>41</sup>. One element of its approach might be to incorporate best practice arrangements for the assessment of corporate social responsibility. Bidders' proposals will be incorporated into the relevant licence conditions.

### 7.4.3 Evidence required

Each Bidder must provide:

1. Confirmation that it will comply with the Combined Code on Corporate Governance<sup>42</sup>, or that it will put in place appropriate and equivalent measures to ensure a commitment to high standards of corporate governance. Bidders must highlight any areas where they are unable to comply with the terms of the Code and identify alternative arrangements designed to achieve similar outcomes to those sought by the Code.
2. Detail on the corporate governance structure, relevant bodies or committees and their roles, and any key processes that it has or intends to put in place.
3. Detail on the extent to which these corporate governance arrangements extend to suppliers.
4. Details of any proposed employee incentive schemes, including any individual arrangements applicable to directors or other key or senior personnel that it intends to put in place.
5. An explanation of the approach it intends to take in respect of corporate social responsibility and in setting an ethical framework for business decisions, including any external standards that it intends to comply with, and any reporting and audit arrangements that it intends to adopt.
6. An outline of the plans it proposes to put in place to encourage greater public involvement in the operation of the Lottery.

<sup>40</sup> See paragraph 4.16 of *National Lottery Licensing and Regulation; Review Decision Document*, published by DCMS in November 2004.

<sup>41</sup> Note – Public involvement does not extend to the way in which such funds are distributed to good causes.

<sup>42</sup> The Combined Code on Corporate Governance, July 2003 available at [www.fsa.gov.uk](http://www.fsa.gov.uk) (and any subsequent versions).

## 7.5 Internal audit

### 7.5.1 Requirement

Each Bidder is required to set up and maintain an internal audit function. It may choose to outsource this to a suitable provider.

### 7.5.2 Evaluation criteria

Each Bidder must confirm that all internal audit services will comply with appropriate professional standards, such as those set out in the IIA International Standards for the Professional Practice of Internal Auditing, 2004. These requirements must be considered a minimum acceptable standard.

### 7.5.3 Evidence required

Each Bidder must provide confirmation that:

1. Appropriate standards, equivalent to or in excess of those adopted by the Institute of Internal Auditors, will be followed.
2. Appropriately qualified and experienced staff will be employed.
3. Systems of risk management will be evaluated and an assessment made as to their adequacy, efficiency and effectiveness.
4. The internal audit function will review the whole network of controls, including financial, operational and other management controls, established to ensure that objectives are met in the most cost-effective manner.

## 7.6 Arrangements in respect of employees

### 7.6.1 Requirement

Each Bidder is required to set out the key arrangements it intends to put in place to ensure that its employees observe appropriate standards of propriety.

### 7.6.2 Evaluation criteria

Consistent with its need to assure the Commission that the Lottery is run with all due propriety, the Bidder must satisfy the Commission that it will include appropriate safeguards in its recruitment and employment procedures.

### 7.6.3 Evidence required

The Bidder shall provide:

1. Details of the safeguards that it will include in its recruitment and employment procedures. This should include:
  - a. Recruitment checks that the Bidder will undertake to satisfy itself of the propriety of the staff it employs.
  - b. Details of relevant staff terms and conditions that the Bidder intends to employ staff on that are designed to ensure the propriety of the behaviour of staff.
  - c. Details of arrangements that the Bidder intends to adopt to allow staff to raise any propriety concerns or issues with senior management and with the Commission (such as 'whistle blowing' policies).

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## 7.7 Arrangements in respect of suppliers and contractors

### 7.7.1 Requirement

Each Bidder is required to set out the key arrangements it intends to put in place to ensure that its suppliers and contractors observe appropriate standards of propriety.

### 7.7.2 Evaluation criteria

Consistent with its need to assure the Commission that the Lottery is run with all due propriety, the Bidder must satisfy the Commission that it will include appropriate safeguards in its relationships with its suppliers and contractors.

### 7.7.3 Evidence required

The Bidder shall provide:

1. Details of the safeguards that it will include in its relationships with its suppliers and contractors, including any independent Section 6 licensees, and subcontractors. This should include:
  - a. Any checks that the Bidder will undertake to satisfy itself of the propriety of its suppliers and contractors.
  - b. Details of the contractual arrangements that the Bidder intends to adopt to ensure the propriety of the behaviour of suppliers and contractors, and that any issues are brought to its attention, and to the attention of the Commission, promptly and fully.
  - c. Details of arrangements that the Bidder intends to adopt to ensure the staff of any supplier or contractor are able to raise any propriety concerns or issues with its senior management and with the Commission (such as whistle-blowing policies).
  - d. The arrangements the Bidder intends to adopt to ensure value for money in respect of goods and services provided by its suppliers and contractors. The Commission is particularly concerned to understand the arrangements that will apply to suppliers and contractors who have a financial interest in the Bidder (e.g. suppliers and contractors who are also shareholders).

# Player protection

Chapter

8

# 8 Player protection

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## Required Standard – Player protection

**The Commission must be satisfied that the Bidder has made the necessary arrangements to ensure that the interests of every participant in the Lottery will be protected, that players are treated fairly, and that effective and rigorous arrangements are in place to counter excessive and underage play.**

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### 8.1 Introduction

The Commission has an overriding statutory duty to ensure that the interests of every participant in the Lottery are protected.

This chapter sets out the requirements that relate to player protection. It is supported by further information which is contained either in the data room or is publicly available, but each Bidder should also refer to the detailed conditions set out in the Draft Licence, and in the current Section 6 licences.

The Commission is satisfied that the requirements set out here and in the Draft Licence, when implemented effectively, protect the interests of participants. However, the Commission also needs to be satisfied as part of the Competition process that these requirements remain appropriate in the context of an evolving Lottery environment and in the context of specific proposals by each Bidder.

The approach adopted therefore requires each Bidder to satisfy the Commission that the levels of protection afforded by the current arrangements will be maintained by confirming that it will comply with the requirements set out or, where necessary or appropriate in the context of its Bid proposals, to suggest alternatives that meet or exceed those requirements.

Each Bidder must link its response to those requirements to the proposals set out in its Bid, for example, in relation to the proposed game portfolio or the proposed player access plan. Its response must take into account the proposed structure to be put in place at commencement of the Licence Period, and any changes that are anticipated over the first three years of the Licence Period. This response must be supported by details as to how the Bidder intends to resource player protection requirements.

Bidders should note that where details of arrangements under the current licence are provided, for example in the case of certain codes of practice, the Commission does not expect Bidders to submit a detailed draft of the terms of those codes of practice with its Bid. However, Bidders must indicate the areas in which those codes should change to reflect any proposals in their Bids. The Successful Bidder will have the opportunity to finalise the detailed terms relating to such documents during the Transition Period.

Bidders should note that notwithstanding the requirement of the Draft Licence that requires such processes and procedures to be fit for purpose, the Commission has the right to impose arrangements or content on the Licensee in order to ensure that the interests of every participant in the Lottery are protected. Bidders should further note that some of the arrangements referred to in this chapter are reviewed on an annual basis and may be amended from time to time.

## 8.2 Arrangements to protect the interests of players

### 8.2.1 Requirement

Each Bidder will be required to demonstrate that it will establish arrangements that meet the Commission's general requirements for player protection. These are contained in the Draft Licence and are summarised below:

In Condition 7:

- A requirement to adopt, maintain and comply with a Player Guide for Lottery games where tickets are bought from distributors;
- A requirement to adopt, maintain and comply with a Service Guide for Lottery games which are played interactively;
- A requirement to adopt, maintain and comply with a Subscription Guide where tickets are bought by subscription;
- A requirement to adopt, maintain and comply with a code of practice concerning the availability of top prizes for all scratchcard lotteries. The current code is available in the data room;
- A range of provisions to ensure that players have sufficient information to enable them to play Lottery games and claim any prize to which they are entitled;
- A requirement that, if requested by any person, the terms and conditions, rules, procedures and game specific rules for each Lottery game, the Player Guide, the Service Guide and the Subscription Guide shall be provided in Welsh or in any other language as the Commission may from time to time determine;
- A requirement, unless the National Lottery Commission agrees otherwise, not to engage or be involved in any manner or capacity in the use, provision or promotion of any premium charge telephone numbers or lines for any purpose connected with the Lottery or Ancillary Activities;
- A requirement to adopt, maintain and comply with the terms and conditions, rules, procedures and game specific rules for each Lottery game;
- A requirement to establish an efficient and effective system for handling complaints and enquiries by players and members of the public;
- A requirement to adopt, maintain and comply with a code or codes of practice covering advertising, sales promotion and public relations in respect of the Lottery, every constituent lottery and lottery ancillary activities. The current code is available in the data room; and
- A requirement to ensure that at all times at least one active draw-based game is promoted in which persons may participate by purchasing tickets other than at a retail outlet. Bidders should note that the Commission is concerned that players who would find it difficult to access terminals or those players who are immobile or visually impaired should be able to access the Lottery. At present, these players have an ability to subscribe by telephone and make payment by debit card. If a Bidder proposes alternatives, the Commission wishes to understand how these players would continue to be provided with access.

In condition 10:

- A requirement to comply with established standards of performance. Bidders should note that these are reviewed regularly. The current standards are set out in the Commission's annual report. To the extent that a Bidder proposes different performance standards to those currently in place it should set out in its response to this section the rationale for any such changes.

### 8.2.2 Evaluation criteria

The Commission must be satisfied that each Bidder will establish arrangements for player protection that meet, or are at least equivalent to, the requirements set out above, and that the Bidder will maintain the arrangements over the course of the Licence, taking account of the changes it proposes in its Bid in respect of games, player access, marketing and any other issue which impacts on players.

### 8.2.3 Evidence required

Each Bidder must:

1. Confirm that it will comply with each of the requirements set out above, or propose alternatives which meet or exceed the standards set out in the requirements above, and so deliver the Commission's objective of securing player protection.
2. Indicate how the requirements set out above will reflect the Bidder's game, player access and marketing plans at the outset of the Licence Period, and which aspects of the arrangements and/or documents the Bidder expects to change as a consequence of the development of its game, player access and marketing plans during the first three years of the Licence.
3. Demonstrate how the Bidder intends to resource player protection arrangements (for example, by reference to its proposed organisational structure) and ensure compliance by its staff, suppliers and contractors with those arrangements.

## 8.3 Arrangements for the protection of winners

### 8.3.1 Requirement

Each Bidder will be required to demonstrate that it will establish arrangements that meet the Commission's requirements for the protection of winners. These are contained in the Draft Licence and are summarised below:

In Condition 7:

- A requirement to secure that all prizes are paid to those that have claimed them, in accordance with the rules of the constituent lottery;
- A requirement to not disclose the identity of any person who has won a prize in any constituent lottery or who the Licensee is aware is, or is likely to be, entitled to any share in or part of any such prize without the prior written consent of that person;
- A requirement to secure that no lottery contractor or subcontractor discloses the identity of any person who has won a prize in any constituent lottery or who the Licensee is aware is, or is likely to be, entitled to any share in or part of any such prize without the prior written consent of that person;
- A requirement to ensure that at every retail outlet there will be a prominently displayed notice advising players how to find out how many prizes in each tier remain unclaimed in any game offering a fixed number of prizes, including the relevant telephone number;
- A requirement to secure that all participants are able to find out without payment to the Licensee and without undue inconvenience whether they have won a prize;
- A requirement that the Licensee secures from its own resources that, where a prize winning ticket can be demonstrated to have been fraudulently, erroneously or negligently cancelled, it pays to the bearer the prize to which he/she would have been entitled;
- A requirement to use all reasonable endeavours to identify those prize winners whose prizes may have been reduced by the payment of a prize to a person who was not entitled to purchase a ticket, and to pay to them the amount by which their prize was reduced;
- A requirement that validation of tickets and payment of prizes must be prompt and not unduly inconvenience winners; and
- A requirement to ensure that the winners of prizes which are £50,000 or in excess of £50,000 in value are provided with appropriate sources of legal and financial advice.

### 8.3.2 Evaluation criteria

The Commission must be satisfied that each Bidder will establish arrangements for player protection that meet, or are at least equivalent to, the requirements set out above, and that the Bidder will maintain the arrangements over the course of the Licence, taking account of the changes it proposes in its Bid in respect of games, player access, marketing and any other issue which impacts on players.

### 8.3.3 Evidence required

Each Bidder must:

1. Confirm that it will comply with each of the requirements set out above, or propose alternatives which meet or exceed the standards set out in the requirements above, and so deliver the Commission's objective of protecting winners.
2. Indicate how the requirements set out above will reflect the Bidder's game, player access and marketing plans at the outset of the Licence Period, and which aspects of the arrangements and/or documents the Bidder expects to change as a consequence of the development of its game, player access and marketing plans during the first three years of the Licence.
3. Demonstrate how the Bidder intends to resource arrangements for the protection of winners (for example, by reference to its proposed organisational structure), and ensure compliance by its staff, suppliers and contractors with those arrangements.

## 8.4 Arrangements for the protection of players' funds and prize liabilities

### 8.4.1 Requirements

Each Bidder will be required to demonstrate that it will establish arrangements that meet the Commission's requirement for safeguarding players' money and prize liabilities in all circumstances, including that of the failure of the Licensee.

Condition 19 of the Draft Licence sets out the requirements based on the existing trust arrangements. Bidders should note that this condition may be amended to reflect the Successful Bidder's proposals. A summary of the current trust arrangements is set out at Appendix G. Bidders are also referred to the requirements described in section 2.5.4.3 regarding payments in the event of Licensee default.

The Commission has confirmed with the existing trustee, Law Debenture, that it will be willing to consider entering into similar arrangements with Bidders. Any Bidder that wished Law Debenture to consider acting for it may contact Law Debenture directly.

The Commission is aware that other organisations may offer independent trustee services. The Commission has no preference for either the supplier of any such arrangements or the structure of any arrangements so long as the requirements set out here are met.

Bidders should note that if they wish to continue using the current trust provider, and Law Debenture so agrees, the terms of the security arrangements will need to be considered in the light of the Bidder's specific proposals and current legal requirements. Any changes will be a matter for agreement between the Bidder and the trust provider, subject to the continued fulfilment of the requirements set out in the Draft Licence.

### 8.4.2 Evaluation criteria

The Commission must be satisfied that each Bidder will establish arrangements for the protection of players' money that meet, or are at least equivalent to, the requirements set out above, and that the Bidder will maintain the arrangements over the course of the Licence, taking account of any changes it proposes in its Bid in respect of games, player access, marketing and any other issue which impacts on players.

In particular, each Bidder must satisfy the Commission that the funds set aside to secure players' money and prize liabilities will be sufficient to meet those liabilities. There must be no prior claims on funds designated to meet all players' money and prize liabilities either:

- During the Licence Period;
- Upon expiry of the Licence;
- In the case of revocation of the Licence;
- In the case of default by the Bidder on any financing arrangements in place during the life of the Licence; and
- In the case of insolvency of the Bidder.

In assessing the security of arrangements to be put in place, the Commission needs to be satisfied that all providers of services are of reputable nature and standing.

### 8.4.3 Evidence required

Each Bidder must:

1. Confirm that it will comply with the requirements set out above, or propose alternatives which meet or exceed the standards set out in the requirements above, and so deliver the Commission's objective of securing the protection of players' money.
2. Indicate how the requirements set out above will reflect the Bidder's game, player access and marketing plans at the outset of the Licence Period, and which aspects of the arrangements the Bidder expects to change as a consequence of the development of its game, player access and marketing plans during the first three years of the Licence, if any.
3. Identify providers of any services required in setting up trust (or equivalent) arrangements.
4. Provide a letter of confirmation from any relevant trustee or other organisation to confirm that that organisation will provide those arrangements proposed by the Bidder, outlining any remaining conditions to be satisfied.
5. Provide a letter of confirmation from the Bidder's funders that they are aware of and satisfied with the proposed arrangements and that they have been taken into account in structuring any financing.
6. Describe the arrangements it intends to put in place to ensure that the trustees (or equivalent) have the facilities available to them that are necessary to pay all outstanding prizes and reimburse the value of tickets purchased for a lottery where the draw does not take place in the event of Licensee default (See section 2.5.4.3 for further details).

Bidders should note that the licence conditions relating to protection of players' money will be agreed with the Preferred Bidder for inclusion in the Draft Licence. The intended trust (or equivalent) structure for delivering that protection is expected to be put in place prior to Licence Award. The Commission would therefore expect the Preferred Bidder to settle the detailed, underlying documents, e.g. trust deed, prior to Licence Award.

## 8.5 Arrangements to prevent underage play

### 8.5.1 Requirement

Each Bidder will be required to demonstrate that it will establish arrangements that meet the Commission's requirements for the prevention of underage play.

The National Lottery Regulations 1994 prohibit the sale of Lottery tickets by or to a person who is under 16. The Secretary of State has directed the Commission to ensure that no licence is granted which authorises the promotion of any lottery or lotteries which, in the opinion of the Commission, do not allow for sufficient controls to prevent underage play. Each Bidder will be required to demonstrate that it will establish arrangements for the prevention of such sales that are at least as robust as those currently in place. However, the Commission will consider alternative proposals for delivery.

These requirements are contained in the Draft Licence and are summarised below:

In Condition 7:

- A requirement to adopt, maintain and implement a strategy to prevent play on the Lottery by persons aged under 16. This must deal with game research and design, marketing, public information and education, accessibility, staff and distributor training, monitoring and support for the treatment of problem gamblers aged under 16.

In Condition 8:

- A requirement to conduct or procure the conduct of such tests of retailers as the National Lottery Commission may require to establish whether sales have been or are being made or are likely to be made by retailers to purchasers under the age of 16. Bidders should note that under the current licence, for the period August 2005 to January 2009, the Commission requires no less than 35,000 tests, of which no less than 9,000 tests must be carried out annually. For the next Licence Period, Bidders will be expected to conduct no less than 9,000 tests annually unless they can demonstrate to the Commission's satisfaction why a lower number would be appropriate in the context of their proposals.

Bidders should note that in evaluating an application to introduce a new game or a new distribution channel the Commission will pay particular regard to the potential for underage play.

### 8.5.2 Evaluation criteria

The Commission must be satisfied that each Bidder will establish arrangements for the prevention of underage sales that meet, or are at least equivalent to, the requirements set out above, and that the Bidder will maintain the arrangements over the course of the Licence, taking account of the changes it proposes in its Bid in respect of games, player access, marketing and any other issue which impacts on players.

The Commission is particularly concerned with a Bidder's ability to:

- Actively seek to prevent underage play in the first instance;
- Monitor whether games or distribution channels result in underage play; and
- React speedily and appropriately to instances of underage play if they are identified.

### 8.5.3 Evidence required

Each Bidder must:

1. Confirm that it will comply with each of the requirements set out above, or propose alternatives which meet or exceed the standards set out in the requirements above, and so deliver the Commission's objective of preventing underage play.
2. Indicate how the requirements set out above will reflect the Bidder's game, player access and marketing plans at the outset of the Licence Period, and which aspects of the arrangements and/or documents the Bidder expects to change as a consequence of the development of its game, player access and marketing plans during the first three years of the Licence. The Bidder should also outline any specific proposals or strategies in respect of the following areas:
  - a. Game research and design;
  - b. Public information and education;
  - c. Registration schemes and/or proof-of-age schemes;
  - d. Accessibility of products and channels;
  - e. Support from the underlying technology solution;
  - f. Staff and distributor training; and
  - g. The ways in which it might work with relevant bodies involved in the monitoring and prevention of underage gambling e.g. GamCare.
3. Demonstrate how the Bidder intends to resource player protection arrangements (for example, by reference to its proposed organisational structure) and ensure compliance by its staff, suppliers and contractors with those arrangements.

## 8.6 Arrangements to prevent excessive play

### 8.6.1 Requirement

Each Bidder will be required to demonstrate that it will establish arrangements that meet the Commission's requirements for the prevention of excessive play.

The Secretary of State has directed the Commission to ensure that no licence is granted which authorises the promotion of any lottery or lotteries which, in the opinion of the Commission, encourage persons to participate excessively in such lotteries. Each Bidder will be required to demonstrate that it will establish arrangements for the prevention of excessive play that are at least as robust as those currently in place. However, the Commission will consider alternative proposals for delivery.

These requirements are contained in the Draft Licence and are summarised below:

In Condition 7:

- A requirement to adopt, maintain and implement a strategy to prevent excessive play of the Lottery which shall in particular deal with game research and design, marketing, public information and education, accessibility, staff and distributor training, monitoring and support for the treatment of problem gamblers.

Within the Directions:

- The Commission must ensure that no licence is granted which allows more than one draw to take place in any period of one hour (please refer to the detailed provisions).

### 8.6.2 Evaluation criteria

The Commission must be satisfied that each Bidder will establish arrangements for the prevention of excessive play that meet, or are at least equivalent to, the requirements set out above, and that the Bidder will maintain the arrangements over the course of the Licence, taking account of the changes it proposes in its Bid in respect of games, player access, marketing and any other issue which impacts on players.

The Commission is particularly concerned with a Bidder's ability to:

- Actively seek to prevent excessive play in the first instance;
- Monitor whether games or distribution channels result in excessive play; and
- React speedily and appropriately to instances of excessive play, if they are identified.

### 8.6.3 Evidence required

Each Bidder must:

1. Confirm that it will comply with each of the requirements set out above, or propose alternatives which meet or exceed the standards set out in the requirements above, and so deliver the Commission's objective of preventing excessive play.
2. Indicate how the requirements set out above will reflect the Bidder's game, player access and marketing plans at the outset of the Licence Period, and which aspects of the arrangements and/or documents the Bidder expects to change as a consequence of the development of its game, player access and marketing plans during the first three years of the Licence. The Bidder should also outline any specific proposals or strategies in respect of the following areas:
  - a. Game research and design;
  - b. Public information and education;
  - c. Registration schemes;
  - d. Accessibility of products and channels;
  - e. Support from the underlying technology solution;
  - f. Staff and distributor training; and
  - g. The ways in which they might work with relevant bodies involved in the monitoring and treatment of problem gambling e.g. Responsibility in Gambling Trust, GamCare.
3. Demonstrate how the Bidder intends to resource the proposed arrangements (for example, by reference to its proposed organisational structure) and ensure compliance by its staff, suppliers and contractors with those arrangements.

Chapter

# Transition

# 9

# 9 Transition

## Required Standard – Management of transition risks

**Each Bidder must satisfy the Commission that the Bidder is able to deliver Transition successfully. Each Bidder must have a comprehensive Transition Plan that is fully supported by the appropriate skills, resources and capability of that Bidder and its Consortium. Each Bidder must also fully satisfy the Commission that the Bidder is able to identify, monitor and manage any associated significant transition risks and take appropriate action to mitigate those risks.**

### 9.1 Requirement

Transition includes the process of preparing for, and the start-up of, operations. This includes the launch of all games in the initial portfolio, acquisition of premises and facilities, appointment of all suppliers, recruitment and training of staff, establishing all the planned retail outlets, and implementing systems and distribution channels. It also includes any activities relating to Handover from the Current Operator, in the event that the Successful Bidder is not the Current Operator. Each Bidder's response should take into account the information that is set out in chapter 5 of this ITA.

The Commission attaches great importance to the Transition taking place as smoothly as possible. The Successful Bidder must manage and deliver the Transition from the current Lottery operation to its new operation so that there are sufficient business, delivery and communications systems in place and operational to ensure that the Lottery is running successfully from day one of the Licence Period, in accordance with the Bid commitments and the Draft Licence.

This chapter sets out the specific requirements relating to Transition, the criteria by which Bids will be evaluated and the evidence the Commission requires to satisfy itself that the proposals set out in the Bid are deliverable. Each Bidder must clearly set out what it is trying to achieve on day one of the Licence. It must then set out the detailed plan of activities that must be undertaken to deliver this outcome, accompanied by evidence that supports the credibility of that plan. The structure of this chapter is therefore set out as follows:

- Aim – which provides an opportunity for the Bidder to summarise what it intends to be in place on day one of the Licence;
- Transition Plan – which focuses on the Bidder's overall strategy and the detailed planning and steps that will be undertaken to deliver Transition;
- Transition risk management – which focuses on the identification of those significant risks that might impact upon successful delivery of the Transition, and the Bidder's proposed methods of managing those risks including any contingency plans;
- Transition Organisation – which focuses on the Bidder's Transition Organisation, comprising the people and skills required to implement and deliver a successful Transition, including project management, systems integration and retail and distribution network support. This may include staff seconded from partners, shareholders, suppliers or contractors and/or other Consortium Members;
- Transition capability – which focuses on the capability and experience that the Bidder and its Consortium has in order to support the delivery of the Transition;
- Transition processes and standards – which focuses on ensuring that the Bidder's proposed processes are fit for purpose and of sufficiently high quality to support delivery of the Transition Plan; and
- Transition security – which focuses on maintaining the security of the Lottery throughout the Transition Period.

Each Bidder must ensure that its responses to this chapter link fully to the delivery of the proposals that are set out in its Bid.

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## 9.2 Evaluation criteria

### 9.2.1 Aim

The response to this section should act as a summary of the proposed operation that will be in place on day one of the Licence. It must be consistent with the proposals set out in the Bidder's response to the requirements of this ITA and with the Draft Licence.

### 9.2.2 Transition Plan

The Commission must be satisfied that the Bidder has a comprehensive Transition Plan that supports a full and prompt launch of the Lottery in accordance with the proposals set out in its Bid and as required in the Draft Licence. The Bidder's proposed Transition Plan must:

- Link clearly to the proposed operation envisaged for day one of the Licence;
- Be comprehensive in terms of the activities required;
- Be realistic in terms of the resourcing, timescales, external dependencies and contingencies; and
- Provide a sound basis for measuring and reporting progress during the Transition Period.

### 9.2.3 Transition risk management

The Bidder must satisfy the Commission that it has:

- Identified all the significant risks that threaten the success of the Transition, and made a realistic assessment of these risks; and
- Adequate controls and countermeasures in place with contingency plans, a risk management framework and the skills necessary to identify, monitor, control and reduce the identified risks to an acceptable level on an ongoing basis throughout the Transition Period.

### 9.2.4 Transition Organisation

Overall, the Bidder must satisfy the Commission that its Transition Organisation will fully support the Transition. The Bidder must satisfy the Commission that it has identified and will have in place the necessary skills and resources to deliver the proposed Transition Plan, and in particular, that it has:

- Identified the individual(s) responsible for leading the project management for the Bidder's Transition, and that the individual(s) are suitably experienced;
- Clearly identified the key roles in the Transition Organisation required to assist delivery of the Transition Plan and has a clear strategy for ensuring that appropriately experienced individuals are recruited to those positions, identifying and managing any particular difficulties or issues in resourcing those positions;
- A clear strategy for resourcing the remaining positions within the Transition Organisation, highlighting any potential difficulties relating to resourcing the Transition Organisation; and
- A clear strategy for undertaking the organisational changes required to convert from the Transition Organisation to the ongoing, operational organisation, including the strategy for recruitment of permanent staff.

**9.2.5 Capability**

The Commission must be satisfied that the Bidder has the capability to plan, organise and implement the Transition Plan successfully.

The Commission will be assessing a Bidder's capability with respect to that shown by its Consortium, either collectively or through its individual members. The Commission will take into account experience of other comparable projects, although this will only be a part of the assessment of a Bidder's overall Transition capability.

The Commission is particularly interested in a Bidder's capabilities, which may be demonstrated through experience of:

- Planning, developing, integrating and implementing systems and business operations of comparable complexity and/or characteristics (e.g. scale) to the Lottery;
- Transitioning business operations with levels of transaction processing and security comparable to the Lottery;
- Installing and commissioning a network of transaction terminals across a large number of geographically dispersed locations, as envisaged in the Bidder's access plan; and
- Managing projects of comparable complexity and/or characteristics to the Transition.

Capability and experience need not relate specifically to the lottery sector.

**9.2.6 Processes and standards**

Each Bidder must satisfy the Commission that the processes it proposes to undertake during Transition e.g. project management, implementation quality assurance, systems management, change management, security etc. will meet the high professional standards appropriate for the Lottery. Each Bidder will be expected to include rigorous load testing and contingent remedial measures as part of its processes within Transition. Each Bidder must demonstrate how its processes (and those of its suppliers, where applicable) will:

- Be fit for purpose, given the characteristics of the Lottery;
- Follow industry standard practice; and
- Comply with appropriate international standards, where these are applicable.

**9.2.7 Security**

The Bidder must satisfy the Commission that, where applicable, the security of the Lottery will not be weakened during the Transition Period.

**9.3 Evidence required****9.3.1 Aim**

Each Bidder must provide a summary of the proposed operation that will be in place on day one of the Licence. Each Bidder must set out all elements it considers to be material to the delivery of the Bid commitments including, for example, the delivery of the terminal base, distribution channels, the organisation, the technology infrastructure, the procurement of premises and other contracts and supply services. The purpose of this evidence is to provide a context to the detailed plan to be set out in response to 9.3.2 below. In forming its response, the Bidder need not identify specific elements of the proposals, for example, the location of the head office.

### 9.3.2 Transition planning

Each Bidder must provide a Transition Plan covering the period from award of the Licence to the commencement of operations. The Transition Plan must include, but is not limited to, the following:

1. The Bidder's strategy for Transition, identifying how the Transition Plan links to the operation set out in 9.3.1, and highlighting the key elements that will contribute to its successful completion, such as the approach to organisation, work plan and risk management.
2. A work breakdown that identifies and schedules the key activities that will be undertaken during Transition. This must include, for example, steps such as the manufacture (where relevant), shipment, distribution, and installation of terminals; support and training for distributors; delivery of e.g. trust arrangements.
3. The timescales within which each of the Transition activities will be carried out.
4. A schedule of milestones that can be used to track progress during Transition.
5. An explanation of interdependencies between key activities.
6. Detail on any external dependencies, including any envisaged dependencies on the Current Operator, key suppliers and others. The plan must make it clear what is required of these external organisations and when.
7. Information concerning the interaction with retailers and any other distribution partners, including training.
8. The quantity of resources allocated over time and to which activities.
9. The key underlying assumptions and principles of the plan.

### 9.3.3 Transition risk management

Whilst the Commission expects that Transition risks will be specific to each Bidder's proposal, it has identified a number of areas in which critical risks may arise. Each Bidder should note that this is not a comprehensive list and that its responses will be evaluated in the context of its wider Bid proposals. However, its responses may include reference to the following areas:

- Propriety and player protection: risks relating to the ongoing propriety of Lottery operations and the Successful Bidder's ability to ensure that, where applicable, players are protected;
- Project management: risks associated with the management of the Transition including factors such as the size and nature of the Lottery and the UK regulatory environment;
- People: risks concerning people and resourcing, including the timely recruitment, training and building of effective teams in critical functions such as operations, retailer management and distribution;
- Distribution network and logistics: risks concerning the establishment and support of the retail network, including contracts, terminals, consumables and scratchcards supply, training and ongoing support;
- Other access channels: risks associated with the development, testing and deployment of other access channels as detailed in the Bidder's access plan;
- Premises and facilities: risks relating to the establishment of premises and facilities including offices, data centres, and distribution centres;
- Technology: risks that threaten the timely delivery of systems and technology, including software that is delayed or not fit for purpose;
- Games: risks associated with the licensing, development, testing and deployment of games;
- Suppliers: risks relating to key suppliers;
- Marketing and PR: risks that relate to sales promotion activities, consumer attitudes, corporate and Lottery branding; and
- Handover arrangements: risks associated with the transfer (where applicable) of obligations and services from the Current Operator.

Each Bidder must provide a risk management plan for the Transition. This must include, but is not limited to:

1. Identification of all risks considered by the Bidder to be significant during Transition, and a description of how such risks will be managed. Each Bidder should note that these are distinct from the operational risks that are to be covered in its response to section 12.3 on technology operational risks and chapter 13 on operational risk management. Each Bidder should attempt to group these risks under the headings used above, but may use additional headings as required. These categories are not exhaustive and each Bidder must provide a complete analysis within the context of its own Transition proposals. The detail to be provided for each risk must include, but need not be limited to:
  - a. Likelihood: the Bidder's rating of the likelihood of that risk occurring;
  - b. Impact: an assessment of the potential impact of the risk should it occur, and the Bidder's relative rating of that impact;
  - c. Gross risk: the Bidder's overall rating of the size of the risk before any control measures are taken;
  - d. Strategy: a summary of the proposed strategy for handling that risk, which may include but is not limited to:
    - i. Risk acceptance: the Bidder must explain why the risk is acceptable;
    - ii. Risk reduction: the Bidder must summarise measures to be taken to reduce the likelihood and/or impact of the risk; and
  - e. Net risk: the Bidder's overall rating of the risk after any control measures are applied.

2. Details of any contingency planning the Bidder intends to put in place.
3. Details of the risk management structures, processes and responsibilities to be put in place within the Transition Organisation, covering:
  - a. Board level responsibilities;
  - b. Processes for identification and assessment of risks;
  - c. Processes for the ownership and monitoring of risks and any associated controls;
  - d. Risk reporting including key risk indicators and early warning mechanisms;
  - e. Maintenance of a risk management plan;
  - f. Communication of risk and risk strategy throughout the Transition Organisation; and
  - g. The use of risk-based internal audit.
4. An identification of the internal or external expertise that each Bidder has used, and intends to use, to support the production and ongoing management and operation of its risk management plan and risk management framework.

#### 9.3.4 Transition Organisation

Each Bidder must provide the following information:

1. Proposed structure for the Transition Organisation, including:
  - Leadership and governance;
  - Roles, responsibilities and locations, including those of partners and suppliers; and
  - Approximate staff numbers by organisation, role, and location.
2. Details of the individual(s) responsible for project managing the Transition Plan, including CVs highlighting qualifications and relevant experience.
3. Job descriptions for other key roles within the Transition Organisation, including roles on the program or project board (or equivalent). Where applicable, each Bidder must provide details of the individuals assigned to those posts and their qualifications and experience. Where individuals have not been recruited, the Bidder must detail its strategy for filling these positions, including any potential challenges or difficulties envisaged. Each Bidder must describe its plan for ensuring continuity of personnel assigned to key roles during the Transition Period.
4. Details of the other major staffing requirements and challenges, and an explanation of the Bidder's strategy for meeting these requirements. Each Bidder should show the planned build-up of staff from the start of the Transition Period, and identify the sources of staff, including internal appointments, secondments, and external recruitment. Each Bidder should highlight any potential difficulties relating to resourcing the Transition Organisation.
5. Details of what organisational and/or staff changes are required when moving into the operational phase at the start of the Licence and its plans to deal with these.
6. Performance management where each Bidder must state how good performance will be promoted among internal teams, partners and suppliers, for example by use of service level agreements, incentives and penalties.

### 9.3.5 Capability

1. Each Bidder must set out the core skills and capabilities that are required for delivery of its Transition Plan.
2. For each of those core skills and capabilities, each Bidder shall provide details of its ability to provide them, including the relevant experience attributable to any of the members of its Consortium. The Commission is particularly interested in a Bidder's capabilities, which may be demonstrated by experience of:
  - a. Planning, developing, integrating and implementing systems and business operations of comparable complexity and/or characteristics (e.g. scale) to the Lottery;
  - b. Transitioning business operations with levels of transaction processing and security comparable to the Lottery;
  - c. Installing and commissioning a network of transaction terminals across a large number of geographically dispersed locations, as envisaged in the Bidder's access plan; and
  - d. Managing projects of comparable complexity and/or characteristics to the Transition.

Where Bidders refer to specific projects or experience, the information should include:

- a. A description of the functions undertaken;
  - b. Details of when and where this experience was obtained; and
  - c. Names, titles, roles and contact details of any references.
3. Each Bidder must show how the relevant capabilities and/or expertise in these areas will be available within the Transition Organisation.
  4. The names and addresses of any expert advisers engaged to provide specialist advice to the Bidder in connection with the Transition or Transition Plan.

Where appropriate, Bidders may cross-refer to their response to section 10.3.

### 9.3.6 Processes and standards

Each Bidder must:

1. Identify the key processes that will be undertaken during Transition, including any project management, implementation quality assurance, systems management, change management and security processes. Each Bidder must also identify its approach to system function proving tests (see section 2.6.6). For each of these processes, it should provide a brief description and identify any accepted standards that those processes comply with, or are equivalent to. To avoid duplication, the Bidder may refer to its responses elsewhere in this ITA. For example, where the processes related to technology development and change management are set out in the response to chapter 12, the Bidder may simply highlight the key processes that will apply during the Transition Period; and
2. Highlight any key processes that will not be implemented in materially the same manner or to the same standard as set out elsewhere in response to this ITA, explaining for each the rationale as to why it is different and the reason why it will nonetheless be fit for purpose.

### 9.3.7 Security

Each Bidder must identify any secure assets or data sets from the existing Lottery that it requires to access or hold. For each of these assets or data sets, it should state how it would ensure that the access or holding of them does not weaken the security of the Lottery.

# Organisation

Chapter

10

# 10 Organisation

## Required Standard – Overall ability of management and capacity of organisational structure

**Each Bidder must satisfy the Commission that it has the capacity and ability to plan, organise and operate an undertaking of the nature of the Lottery. It must also satisfy the Commission that it has, or will have, the appropriate corporate and legal structures in place to comply with the requirements set out in the ITA.**

### 10.1 Corporate structure

#### 10.1.1 Requirement

The intended structure of each Bidder must be consistent with the conditions laid down in the National Lottery Act, and must be consistent with the requirement for a single purpose entity. Each Bidder must also be capable of being regulated efficiently and effectively and have an office physically located in the UK manned by personnel appropriately authorised to act on behalf of the Bidder.

#### 10.1.2 Evaluation criteria

The Commission must be satisfied that each Bidder is, or will be, a single purpose entity. It will assess this by reference to the Bidder's Memorandum and Articles of Association or equivalent documents, and the Bidder's proposals set out in response to the requirements of this ITA.

The Commission must also be satisfied that each Bidder is capable of being regulated effectively, no matter where it, its Consortium Members, suppliers or operations are located.

#### 10.1.3 Evidence required

Each Bidder shall provide the following information or its nearest equivalent in relation to its current and intended arrangements:

1. The name of the Bidder company and any names under which it trades or has traded in the past five years;
2. Details of the company registration of the Bidder and each, if any, of its subsidiaries, including:
  - a. Certificate of incorporation;
  - b. The place where the company is registered;
  - c. When it was registered;
  - d. Its registration number;
  - e. The address of its registered office;
  - f. Details of its UK office and any other offices;
  - g. A certified copy of the Memorandum and Articles of Association;
  - h. Other constitutional documents of the company; and
  - i. The names of directors and company secretary.
3. Details of any companies which will be subsidiaries of the Bidder following the award of the Licence including the legal jurisdictions in which they will operate and details of their proposed activities.
4. Details of the Board of Directors of the Bidder including its Non-Executive Directors. Bidders should note that the Commission expects the Board of Directors to be appointed by the time the Bid is submitted. If a Bidder is unable to recruit any of its Non-Executive Directors prior to submitting its Bid, the Bidder must outline the roles that it intends to fill and the recruitment strategy for achieving this.
5. The names and addresses of the Bidder's auditors, legal advisers, principal bankers.
6. Certified copies of board minutes of the Bidder, or equivalent documentation, approving the contents of the Bid.

The requirements in 1 and 2 above (except for 2f) apply to each and every holder of more than 3 per cent of the Bidder.

## 10.2 Consortium structure

### 10.2.1 Requirement

Each Bidder will be required to have its Consortium substantially in place at the time of bidding. The definition of Consortium is contained at Appendix A.

In accordance with section 4.15.2, parties that wish to participate in more than one Consortium must ensure that where they hold confidential information in respect of those Consortia, there are adequate safeguards in place to protect all confidential information.

### 10.2.2 Evaluation criteria

The Commission must be satisfied that each Bidder's Consortium is substantially in place at the time the Bid is submitted, in order to be satisfied that a Bidder's proposals are deliverable. The Commission requires each Bidder to have agreed heads of terms on material contracts with their Key Contractors. Where necessary, the Commission will consider the financial position and soundness of any Key Contractors and reserves the right to require further information from a Bidder to assess such financial soundness.

Bidders are asked to note the definition and considerations regarding the classification of Key Contractors set out in Appendix section A.6 in particular with respect to scratchcard providers. Bidders should note that contracts covered by this definition may be different to the definition of "Key Licensee Subcontract" provided in Condition 15.4 of the Draft Licence. However, to the extent that a contract with a Key Contractor will fall within the scope of Condition 15, then the Bidder shall have regard to the terms of Condition 15 when negotiating heads of terms with any Key Contractors.

The Commission must also be satisfied that where a Consortium Member is participating in more than one Consortium and holds confidential information in respect of those Consortia, adequate safeguards have been put in place to protect all confidential information.

### 10.2.3 Evidence required

Each Bidder must provide:

1. A list of all Consortium members, detailing their relationships, whether formal or otherwise, with the Bidder and the nature of any services to be provided.
2. For all Key Contractors, copies of heads of terms of all material contracts or copies of material contracts.
3. The country of incorporation and countries of operations in which its Key Contractors are located.
4. Where relevant, evidence of the safeguards put in place to protect confidential information held by a Consortium Member that is participating in more than one Consortium.

## 10.3 Consortium capability

### 10.3.1 Requirement

Each Bidder will be required to show that its Consortium has the requisite capability to meet the requirements set out in the ITA, Draft Licence and in its Bid.

### 10.3.2 Evaluation criteria

The Commission needs to be satisfied that each Bidder has the capacity and ability to organise and operate an undertaking of the nature of the Lottery, and of that proposed in its Bid.

The Commission will be assessing each Bidder's capability with respect to that shown by its Consortium, either collectively, through its individual members or through key individuals. The Commission will take into account experience of other comparable projects, although this will only form part of the assessment of overall capability. Where capability relates to key individuals, the Commission will assess the extent to

which those individuals have been involved in formulating the Bid, the degree of commitment expressed by those individuals to seeing through the delivery of the Bid proposals and, where relevant, the recruitment and handover strategy for ensuring continuity between key roles.

Each Bidder should note that capability relating to specific requirements is tested in the relevant sections elsewhere in this ITA, where different requirements and evaluation criteria may apply. In addition to this, each Bidder may, if they wish, detail further capabilities or experience it, or members of its Consortium, might have in respect of any other requirements in the relevant section of their response. However, the Commission is interested here in understanding the overall capability of each Bidder and its Consortium.

The Commission is particularly interested in a Bidder's capabilities, which may be demonstrated by experience of:

- Lotteries, or participation in lotteries;
- Planning and implementing projects of a comparable nature or complexity, or with similar characteristics (e.g. scale);
- Conducting successful operation of an undertaking of a similar nature or complexity, or with similar characteristics; or
- Other key elements of the proposals set out in the Bid.

Each Bidder should note that the Commission reserves the right to seek references concerning past experience by means of written references and by directly visiting referees, and to make any other enquiries at its discretion. The Commission may also decide to visit operations where services are being supplied by Consortium Members, in order to assist its evaluation.

### 10.3.3 Evidence required

Each Bidder must:

1. Set out the core capabilities and skills that are required for delivery of its Bid.
2. For each of those core capabilities and skills, provide details of its ability to provide them, including the relevant experience attributable to any of the members of its Consortium. Where a Bidder refers to specific projects or experience, the information shall include:
  - a. A description of the functions undertaken;
  - b. Details of when and where this experience was obtained; and
  - c. Names, titles, roles and contact details of references.
3. Provide a CV for each director, non-executive director and other key personnel, where currently nominated, appointed, or in place, setting out their qualifications and experience. Each Bidder must further describe the extent to which those individuals have been involved in formulating the Bid, the degree of commitment expressed by those individuals to seeing through the delivery of the Bid proposals and, where relevant, the recruitment and handover strategy for ensuring continuity between such individuals and any successors.

Each Bidder should note that at the time of submitting a Bid, it is expected to have nominated specific individuals for the following roles, each of whom must have expressed his/her commitment to seeing through the implementation of the Bid proposals in the event that the Bid is successful:

- Board of Directors (including its Non-Executive Directors except where it has been unable to do so)
  - Chief Executive
  - Key individual(s) responsible for managing and delivering the transition (section 9.2.4)
  - Key individual responsible for ensuring continuity/handover of marketing plans until such time as a marketing director is appointed (see section 21.1.3).
4. Provide a list of three reference sites where relevant or comparable services are currently being supplied by Consortium Members (either individually or collectively).
  5. Provide the names and addresses of any expert advisers engaged to provide specialist advice to the Bidder in connection with the Lottery.

## 10.4 Organisation plan

### 10.4.1 Requirement

Each Bidder's proposed operational organisation structure must have sufficient capacity and capability to support, maintain and operate the Lottery in accordance with the proposals set out in its Bid, and the requirements of the ITA and the Draft Licence.

### 10.4.2 Evaluation criteria

The Commission must be satisfied that the organisation structure each Bidder plans to put in place fully supports its business plan.

### 10.4.3 Evidence required

Each Bidder shall provide an organisation plan that details the:

1. Organisation structure of that Bidder and its proposed key departments, including their functions.
2. The expected numbers and the total remuneration of staff by department or function as appropriate.
3. Key positions in the organisation (e.g. executive directors, non-executive directors, senior managers and those responsible for each department) and brief job descriptions. In addition, for each of these key positions the Bidder must set out the following:
  - a. Where individuals for these key positions are currently in place, appointed or nominated, the Bidder must indicate this and provide a CV setting out the individual's qualifications and experience. The Bidder may refer to its responses to sections 9.3.4, 10.3.3 and 21.1.3 where relevant.
  - b. Where individuals are not in place, appointed or nominated, the Bidder must describe its recruitment strategy for filling these key positions.

Each Bidder should note that the arrangements it proposes to put in place for the delivery of the proposed organisation plan will be evaluated within the Required Standard for Transition. A Bidder may refer to its response to this section where necessary.

In addition, each Bidder should note that its response must summarise the proposed organisation in sufficient detail to be used as a basis for understanding the proposed organisational structure and size in order to be used as part of the process, where necessary, of determining whether any redundancies are necessarily, properly and reasonably incurred as a result of taking up the Licence (see section 5.6 for further details). For the avoidance of doubt, each Bidder is required to identify the broad structure of, and grouping of responsibilities within, its planned organisation. This should include an indication of the expected size of the different parts of its proposed organisation. A Bidder is NOT required to identify an exact number of posts or job descriptions in relation to individual posts beyond those specified elsewhere in this ITA.

# Financial soundness

Chapter

11

# 11 Financial soundness

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## Required Standard – Financial Soundness

**Each Bidder must satisfy the Commission that its proposals are sufficiently robust and well-developed to remove any material risk, on financial grounds, that may lead to a failure to meet the obligations set out in the Bidder's proposal and the Draft Licence.**

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### 11.1 Requirement

Given that operating the Lottery is a substantial venture, the Commission must be satisfied that there is proper financial commitment to support the proposed business plan from providers of financing across each Bidder's capital structure. Each Bidder must also be capable of continuing as a going concern from the award of the Licence and during the period of operations.

In the event that a Bidder uses the trust structure described in section 2.5.4.2 and Appendix G or similar arrangement, it should take account of the charges that will be required by the provider of any such trust. Each Bidder will need to take this into consideration when structuring its financing.

### 11.2 Evaluation criteria

Each Bidder's financial proposals will be judged as to whether they are sufficiently developed and robust to remove any material risk, on financial grounds, which may lead to a failure to meet the obligations set out in the Bid and the Draft Licence.

The Commission must be satisfied that each Bidder's proposed financial structure is sufficiently robust and flexible to:

- Support the transition and implementation of its planned operations; and
- Support ongoing operations (including maintenance of systems) and its ability to operate as a going concern throughout the period of the Licence, both under its Principal Forecast and under a variety of scenarios.

The Commission will also evaluate the extent to which each Bidder will have the capacity to continue running operations while solvent notwithstanding unplanned additional costs, capital expenditure or shortfalls in revenue.

In order to assist the Commission in its evaluation, the Commission will use the business plan and associated sensitivities submitted in response to chapter 14 of the ITA.

The Commission will base its evaluation on the Bidder's Principal Forecast. As described in chapter 14, the Commission will use the information provided under the Bidder's Common Forecast and the Specified Sensitivities in order to adjust the Bidder's Principal Forecast based on its evaluation of a Bidder's responses to the returns to good causes elements of this ITA. The Commission will take into account key strengths and weaknesses and any particular risks affecting the Bid. In practice this is likely to lead to the assessment of a number of scenarios under which financial soundness will be tested, including ones with low sales revenues that, whilst the Commission may consider them to be unlikely to occur, will nonetheless assist in understanding how the Bidder's operational and financial structure would perform in such cases. Where necessary, the Commission will seek further information from a Bidder's analyst to understand the effects of these additional scenarios.

Bidders should also note that as part of the Specified Sensitivities, the Commission requires Bidders to submit a break-even scenario. This is set out in section 14.5.3 but, in summary, asks the Bidder to submit a sensitivity on its Principal Forecast that indicates the level of sales in each period during operations whereby the Bidder breaks even on a cashflow basis. Sections 11.2.1 to 11.2.4 below set out further guidance on the specific elements of the evaluation of the Bidder's financial structure and performance.

### 11.2.1 Equity financing

The Commission will evaluate each Bidder's response based on:

- The nature of commitments expressed in statements from equity sponsors as to their willingness, in principle, to provide funding based on the proposals outlined in the Bid and the terms of the Draft Licence, and any conditions attached to the delivery of that funding. Each Bidder should note the following:
  - Any equity commitment letter must confirm that it has all the requisite approvals, including at least Board level, investment committee or equivalent approvals, and provide full details of any conditionality relating to delivery of financing;
  - The Commission will need to be satisfied that the envisaged financing can be delivered and that sponsors have the financial wherewithal to support any commitments; and
  - The Preferred Bidder will be required to obtain fully committed financing from its sponsors before the Commission can award the Licence;
- The quantum and nature of equity in the capital structure, including any quasi-equity instruments;
- The extent to which providers are willing to commit to additional equity funding where necessary during Transition or operations and the terms upon which such commitments are made; and
- The nature and impact of any support provided by parent companies.

### 11.2.2 Debt financing

The Commission will evaluate each Bidder's response based on:

- The level of commitments expressed in statements from lenders as to their willingness, in principle, to provide funding based on the proposals outlined in the Bid and the terms of the Draft Licence, and any conditions attached to the delivery of that funding. Each Bidder should note the following:
  - The Commission requires credit committee approved commitment letters and term sheets to be provided with the Bid, and full details of any conditionality relating to delivery of financing, for example market adverse change and documentation;
  - The Commission will need to be satisfied that the envisaged financing can be delivered if the Bidder is selected as the Preferred Bidder; and
  - The Preferred Bidder will be required to obtain fully committed financing from its debt funders before the Commission can award the Licence;
- The quantum and nature of any debt in the capital structure (this includes junior debt products) including the level of gearing and the level of risk this places on the overall financing structure; and
- The extent to which providers are willing to commit to additional funding where necessary during Transition or operations and the terms upon which such commitments are to be made.

### 11.2.3 Liquidity and gearing

The Commission will evaluate each Bidder's response based on:

- The liquidity and headroom on facilities available to the Bidder during the Transition Period and during the Licence Period under the Bidder's Principal Forecast and under any additional sensitivities the Commission deems reasonable, to ascertain whether there is likely to be any material risk of financial distress; and
- The level of gearing, relevant interest charge, debt service cover ratios and other financial ratios, as specified in the tables contained in Appendix C, during the Transition Period and Licence Period, both under the Bidder's Principal Forecast and under any additional sensitivities the Commission deems reasonable, to ascertain whether there is likely to be any material risk of a breach of banking covenants or other financial distress.

Bidders should note that leveraged structures are in principle acceptable to the Commission, subject to the evaluation as outlined above. Bidders should further note that the Commission intends to include a minimum headroom requirement in Condition 12.1 of the Draft Licence, which will reflect the proposals made by the Successful Bidder.

### 11.2.4 Contingency financing

The Commission will evaluate each Bidder's response based on:

- The amount of any contingency financing available to the Bidder and the conditions under which it will be made available, including the way in which this contributes to that Bidder's ability to mitigate risks arising as a result of unexpected cash demands.

## 11.3 Evidence required

Each Bidder will need to describe as clearly as possible the structure, sources, nature of commitments and flexibility of its funding arrangements, including any alternative arrangements, which may be available. Specific information requirements are set out in the sections below.

### 11.3.1 Equity financing

Each Bidder must provide:

1. Details of the identity of the providers, or intended providers, of the Bidder's equity financing, and the amounts of their commitments or intended commitments.
2. Commitment letters from each provider, detailing all conditions precedent to providing finance and each provider's internal processes required to deliver that financing.
3. Sufficient evidence to substantiate the ability of those sponsors to meet their respective commitments.
4. Details of the equity share capital of the Bidder at the time of submission of the Bid (where applicable) and as it is intended to be following the award of the Licence, including the:
  - Par value of the shares;
  - Number of authorised and issued shares;
  - Issue price of the shares;
  - Extent to which the issued shares are paid up;
  - Voting, dividend and other (if any) rights, and obligations, attaching to the shares; and
  - Proposed allocation of all classes of share.
5. Details, as in 4 above, together with conversion and other specific rights, of any other share or loan capital in issue, or which will be in issue following award of the Licence, including all forms of preference shares, convertible loan stock, options or warrants.
6. Copies of all subscription, shareholders' or consortium agreements which concern the Bidder and its share or loan capital or where such agreements have not yet been entered into, then the latest available drafts.
7. Copies of any guarantees of the obligations of the Bidder from its Consortium Members, or by or to any provider of finance to the Bidder.
8. Information concerning the distribution policy and entitlements of shareholders.
9. Certified copies of Board minutes of the Bidder approving any arrangements for raising capital, and certified copies of Board minutes of the ultimate holding company of any corporate shareholders or subscribers of shares interested in, or who are to subscribe for, more than 3 per cent of the share capital of the Bidder (issued or about to be issued), confirming:
  - Approval of any shareholders' subscription or consortium agreements;
  - The amount to be invested;
  - The percentage shareholding; and
  - Any preconditions to making the investment.

**11.3.2 Debt financing**

Each Bidder must provide:

1. The identity of the providers, or intended providers, of the Bidder's debt financing (including any junior or subordinated debt), the nature of the facilities provided or to be provided, and the amounts of any facilities or intended commitments. This should include, but is not limited to:
  - a. Overdraft facilities;
  - b. Revolving credit facilities;
  - c. Term loans;
  - d. Junior or subordinated facilities;
  - e. Mortgage and hire purchase facilities, finance and operating leases; and
  - f. Any loans from any Consortium Member of the Bidder.
2. Commitment letters from each debt provider, detailing all conditions precedent to providing such finance and each provider's internal processes to delivering that financing.
3. Term sheets relating to any existing or intended facilities, including:
  - a. Facility amount, type, maturity and extent to which they are drawn down (where applicable);
  - b. Terms including any fees and margins to be paid;
  - c. Drawdown and repayment schedules;
  - d. Financial and any other covenants including specific details of cover or debt ratios;
  - e. Events of default;
  - f. Any security provided or required in support of the facility and charges against company (or any subsidiary) assets;
  - g. The length of time required to put the facility in place, including details of any due diligence or prior obligations which would need to be met for the financing to be available; and
  - h. The names and addresses of lenders of and guarantors for any of the facilities.
4. Details of any contingent liabilities and off-balance sheet financing arrangements.
5. Term sheets for any relevant intercreditor agreements.
6. Details of any other financial instruments the Bidder has or intends to put in place, including derivative contracts.

**11.3.3 Liquidity and gearing**

Each Bidder must provide:

1. The outputs from the Bidder's Principal Forecast, Common Forecast and Specified Sensitivities as described in chapter 14.
2. Any additional outputs (e.g. additional financial ratios) required to show compliance with covenants relating to debt facilities. These should be provided for the Bidder's Principal Forecast, Common Forecast and Specified Sensitivities.
3. Any additional information the Bidder considers useful relating to its financial soundness throughout the Transition Period and Licence Period.
4. A proposed level of minimum headroom that provides it with adequate liquidity in a downside scenario. When considering the level of headroom, Bidders may provide a 'net debt' figure that reduces gross debt drawn by any unrestricted cash or cash equivalents held on the balance sheet. The Commission will incorporate this level of headroom within Condition 12.1 of the Draft Licence.

Each Bidder should note that the Commission will also use its evaluation of the business plan submitted in response to chapter 14 to inform its evaluation of financial soundness.

**11.3.4 Contingency financing**

Each Bidder must provide details of any contingency financing available and a summary of the terms and conditions under which it will be made available.

# Technology Operation

Chapter

12

# 12 Technology Operation

## Required Standard – Technology Operation

**Each Bidder must satisfy the Commission that it will ensure the security, capacity, resilience and integrity of the Technology Operation, as well as its suitability as a basis for a modern lottery. The Commission must be satisfied that the Technology Operation will be developed, operated and maintained to appropriately high professional standards.**

### 12.1 Introduction

The Technology Operation is considered by the Commission to be a key part of the overall Lottery operation. The term Technology Operation is used here to mean any aspect of the Lottery operation associated with the provision, operation and management of technology.

This chapter deals with those characteristics of the Technology Operation that the Commission considers to be essential to the running of Lottery. It sets out detail on the Required Standard that each Bidder must meet. The Commission is aware that certain aspects of the Technology Operation may have an impact on a Bidder's ability to support the returns to good causes. This aspect will be evaluated in the relevant responses to chapters 17 to 21.

#### 12.1.1 Structure of this chapter

This chapter is structured as follows:

- Section 12.2 – Overview of Technology Operations: describes the requirements, evaluation criteria and evidence required in relation to the overall Technology Operation;
- Section 12.3 – Management of technology-related operational risk: this section is designed to evaluate a Bidder's approach to the operational risk management associated with the proposed Technology Operation; and
- Sections 12.4 to 12.10 – these sections seek to test the principles that underpin the whole of the Technology Operation. As such, they set out the further, more detailed requirements, evaluation criteria and evidence required relating to the sustainability, flexibility, openness, resilience, capacity, integrity, and security of the Technology Operation. Responses to these sections may refer back to the overall description provided in response to section 12.2, so as to avoid repetition.

Each Bidder must satisfy the Commission that its proposed Technology Operation will be designed, built, implemented, operated and managed to meet all requirements and satisfy each evaluation criterion described in these sections, providing evidence in the form described.

Bidders are advised to limit their responses to the information requested. Information which the Bidder may consider useful, but which does not directly address the specific requirements, may be placed in an annex and cross-referenced in the specific response to the relevant section.

#### 12.1.2 Investment during the Licence Period

Each Bidder is required to include, as part of its Bid, a commitment to undertake the maintenance programme necessary to keep its proposed operations fit for purpose throughout the Licence Period. This means that the operations, systems and assets that are put in place at commencement of the Licence must remain capable of offering the required level and quality of service through to the end of the Licence Period. Each Bidder's business plan must clearly show the relevant expenditure.

In respect of technology systems, the Commission is aware that in other jurisdictions, during a ten-year licence, it may be a specified requirement that the operator replaces all, or substantially all, of its technology systems mid-way through the licence period. In this instance, Bidders are not being required to provide for such a complete technology refresh at a defined point during the Licence. Bidders must, however, ensure that their Technology Operation is maintained to deliver the fit for purpose requirement above, and with due consideration of relevant technologies available at the time. Bidders may decide to include in their cost projections and plans a replacement programme if they believe this is an efficient way of achieving this objective.

The Commission's rationale for adopting such an approach is that developments in the Lottery technology infrastructure for the period 2009-2019 are very difficult to predict with any accuracy at the time of bidding. Requiring Bidders to do so might lead to:

- Bidders making different assumptions about the levels of investment required, which would then distort the evaluation process in a potentially unfair manner;
- Sub-optimal decisions about investment, in that Bidders might commit at the time of bidding (as part of their agreement with their contractors) to capital investment which subsequently did not match their needs; or
- A mismatch between the provision made by a Bidder and the investment that subsequently proved optimal, so distorting investment decisions to the potential cost to returns to good causes.

The Commission is aware that, in addition to such a technology refresh, there may be significant, unanticipated, investment opportunities during the Licence Period. These could have the capability to enhance the Lottery in a way that benefits both good causes and the Licensee and which, in certain circumstances, might not be undertaken where the Licensee is required to bear the full burden of that investment. Given the uncertainty surrounding any such step-change investment, the Commission has not prescribed a specific mechanism for dealing with step-change investment.

Rather, the Commission will be willing to consider, at the relevant time and on a case-by-case basis, proposals for investment in the Lottery infrastructure that seek to allow the Licensee to recover an element of its investment costs, and would do so on the basis of business plan proposals to be put forward by the Licensee at the time. The Licensee would need to convince the Commission that such investment would genuinely serve to increase returns to good causes in a manner that generated an appropriate return on that investment from a good causes perspective. The Commission would expect such proposals to take account of any cost savings made by the Licensee, either through more efficient operations or through savings in the maintenance and investment costs provided for in its Bid. The Commission would expect to adopt the most appropriate arrangement to support such investment, which might include, for example, granting a licence extension.

Bidders should note that there is no guarantee that such arrangements will be agreed, and must therefore not make their Bids contingent upon such arrangements being adopted.

## 12.2 Overview of Technology Operation

### 12.2.1 Introduction

A successful Technology Operation will be delivered by a combination of the appropriate technology, a well-run and experienced organisation and robust, high-quality processes. This section is structured as follows to address these issues:

- Section 12.2.2 – Requirement: the requirements relating to the Technology Operation;
- Section 12.2.3 – Technology Solution: the detailed evaluation criteria and evidence required in respect of the Bidder's proposed Technology Solution;
- Section 12.2.4 – Technology Organisational Capability: the detailed evaluation criteria and evidence required in respect of the Bidder's proposed Technology Organisational Capability;
- Section 12.2.5 – Technology-related operational processes: the detailed evaluation criteria and evidence required in respect of the Bidder's proposed technology processes; and
- Section 12.2.6 – Technology-related capability: the detailed evaluation criteria and evidence required in respect of each Bidder's, and its Consortium Members', capability to deliver the proposed Technology Operation.

Evidence provided by Bidders in response to this section, 12.2 need only be of sufficient detail to address the evaluation criteria specified. More detailed evidence will be required in responses to specific issues or principles addressed in sections 12.3 to 12.10.

### 12.2.2 Requirement

The overall Technology Operation must enable the successful delivery of each Bidder's proposals for operating the Lottery and support the high standards of propriety and player protection that are required of Lottery operations. In particular:

- The overall Technology Operation must deliver the high levels of risk management, sustainability, flexibility, openness, resilience, capacity, integrity and security required in support of Lottery operations;
- The Technology Solution must be suitable as the basis for a modern lottery and remain suitable throughout the period of the Licence;
- The proposed Technology Organisational Capability must provide all the resources, skills and relationships necessary to meet the needs and deliver the high quality service expected of the Lottery; and
- The technology-related development and operational processes must be undertaken to appropriately high professional standards.

### 12.2.3 Technology Solution

Each Bidder must use its response to this section to present its overall Technology Solution, as it will exist throughout the period of the Licence. The Bidder must explain how it will satisfy the criteria specified below and support the overall requirement for Technology Operation stated above.

#### 12.2.3.1 Evaluation criteria

Each Bidder must satisfy the Commission that its proposed Technology Solution provides a suitable basis for a modern lottery, from the first day of the Licence. In particular, it must:

- Be based upon modern technologies, which are sustainable in a cost-effective manner over the period of the Licence;
- Be developed and maintained using modern design principles, standards and techniques, and maximise use of commercial off-the-shelf components, where appropriate; and
- Comply with appropriate industry best practice, international standards and codes of practice in all relevant aspects of the Technology Solution, in line with generally accepted principles of open systems design and conforming to internationally agreed open systems standards.

Bidders should note that where the Commission refers to modern technology within this ITA, it is referring to the latest technologies which are in general adoption within products and solutions applicable to the Lottery operation and which are current in the marketplace.

Each Bidder must also satisfy the Commission that it will maintain and develop its Technology Solution, so that it remains a suitable basis for a modern lottery throughout the Licence Period, including the continued adherence to international standards and industry best practice as they develop or emerge.

The Commission is aware that Bidders may wish to utilise third party sales channels, which are primarily used for purposes other than running the Lottery, for selling Lottery tickets. Examples might include existing mobile phone, interactive digital television, and supermarket point-of-sale-systems. All third party sales channels, and any interfaces with those systems, will be evaluated against the criteria set out above. The Commission may, in its absolute discretion, permit the use of third party sales channels that do not meet the criteria set out where it is satisfied that any deviations are reasonable and justified in the context of the technical options available to the Bidder. Bidders may discuss the use of such third party sales channels with the Commission in advance of submitting a Bid. In any event, and where applicable, Bidders must provide the rationale for the use of such systems.

The Commission will also be evaluating whether each Bidder's Technology Solution supports its business vision in a clear, appropriate and innovative way for the duration of the Licence Period, and that its plans for technology development and technology maintenance are consistent with this vision.

In line with Government initiatives, each Bidder should ensure that its systems are compatible with the euro, so that a changeover would be implemented in a timely manner should the UK join the euro.

### 12.2.3.2 Evidence Required

Each Bidder must:

1. Describe its proposed Technology Solution, as will be fully operational at the start of the Licence Period. The description must include all significant elements of the Technology Solution including the following where applicable:
  - a. Lottery-draw technology;
  - b. Gaming systems;
  - c. Administrative and financial systems;
  - d. Management information systems;
  - e. Independent verification systems (Bidders should note that the Draft Licence requires Bidders to provide the Commission with an independent verification system, at the Bidder's cost – see Condition 5 for further details);
  - f. Telecommunications equipment and network services;
  - g. Server/data storage infrastructure;
  - h. Retailer terminal infrastructure;
  - i. Call-centre facilities, including call management, customer relationship, and knowledge management systems;
  - j. Help-desk facilities, including incident management systems;
  - k. Data centre facilities, including configuration management and other systems management systems;
  - l. Development and testing facilities;
  - m. Disaster recovery facilities (including alternative sites, if proposed);
  - n. Systems to be operated by the Bidder to provide other sales channels (e.g. websites);
  - o. Interfaces with third party service providers, providing additional sales channels;
  - p. Use of smartcard technologies and other player registration arrangements;
  - q. Software development/distribution tools; and
  - r. Any other technology components and tools.

In addition to its narrative description, each Bidder must provide a pictorial summary of their Technology Solution comprising the minimum effective number of diagrams – as a guide, approximately three are envisaged. The pictorial summary should depict:

- the end-to-end service delivery chain from supplier(s) to customers including players across all channels, retailers, the Commission, financial institutions and including the delivery chain for scratchcards, if offered;
- the major components and interfaces forming the delivery chain;
- the main physical facilities including data centres and distribution centres;
- the major software applications and their origin;
- main elements of the back office architecture;
- Independent Verification Systems and interfaces; and
- which facilities, components or services are provided by third parties.

2. Explain how its proposed Technology Solution will enable delivery of the proposals set out in its Bid.
3. Provide a clear and appropriate technology development plan, including all proposed changes to the technology solution after commencement of operations. This plan must state when each change will be implemented and describe the full impact of each change on the Technology Solution and overall Technology Operation.
4. Describe its proposed technology maintenance plan, including the overall strategy and approach and the optimum/maximum replacement periods for each type of technology component of its Technology Solution. The plan must make it clear how each component will remain up-to-date, maintainable and supportable throughout the Licence Period, and include estimates of the costs associated with maintenance of those technology components.

5. Provide details of its capabilities and, where applicable, any relevant experience attributable to any of the members of its Consortium in delivering solutions similar to those proposed in the Technology Solution. Capability need not relate specifically to the Lottery sector.

#### 12.2.4 Technology organisation

Bidders must use their response to this section to present their proposed technology organisation, as it will exist throughout the period of the Licence. Each Bidder must explain how it will satisfy the criteria specified below and support the delivery of the proposed Technology Solution in line with the overall requirements for the Technology Operation.

##### 12.2.4.1 Evaluation criteria

Each Bidder must satisfy the Commission that its proposed technology organisation provides all the resources, skills and attributes necessary to:

- Develop, operate and manage change to the Technology Solution proposed, following establishment of the processes proposed; and
- Deliver the high quality service expected of the Lottery throughout the Licence Period.

Each Bidder must satisfy the Commission that the people assigned to the development and operation of the Technology Operation are, or will be, appropriately qualified and experienced for the role assigned. In addition, the Bidder must satisfy the Commission that:

- There will be adequate continuity of key personnel from the Transition Organisation to the ongoing operation; and
- There will be adequate continuity of personnel associated with the Technology Operation throughout the licence period.

Each Bidder must satisfy the Commission that its technology organisation will work together efficiently and coherently, delivering an efficient and effective operation, with clear lines of management responsibility, control and accountability. There must be clear division of responsibilities between different parts of their organisation, (including between partners and with suppliers), with appropriate and well-defined relationships, service level agreements and processes for issue resolution and escalation.

Each Bidder must satisfy the Commission that it will have sufficient, secure and well-qualified development capability and capacity to successfully deliver any changes to the Technology Operation, including the development of agreed new services.

##### 12.2.4.2 Evidence Required

Each Bidder must:

1. Detail its proposed technology organisation, which will manage and deliver the Technology Operation, covering:
  - a. Leadership and governance;
  - b. Organisational structure with roles, responsibilities and locations, including partners, subcontractors and suppliers;
  - c. Approximate staff numbers by department, role, and location; and
  - d. Job descriptions for key roles.
2. State how it will ensure continuity of personnel in key roles from the initial development of the Technology Operation and throughout the Licence Period. Bidders should name any key personnel already appointed or identified, and summarise their qualifications and experience.
3. Provide details of its capabilities and, where applicable, any relevant experience attributable to any of the members of its Consortium.

#### 12.2.5 Technology-related operational processes

Each Bidder must use its response to this section to present its proposed processes for developing, operating and managing changes to its proposed Technology Solution, as they will exist throughout the period of the Licence. Each Bidder must explain how these will satisfy the criteria specified below

and so demonstrate its capability to deliver an industry best practice Technology Operation, in line with the overall requirements for the Technology Operation.

#### **12.2.5.1 Evaluation criteria**

Each Bidder must satisfy the Commission that its proposed technology development, operational and change management processes meet the high professional standards appropriate for the Lottery. Each Bidder must demonstrate how its processes (and those of its suppliers, where applicable) will:

- Be fit for purpose, given the characteristics of the Lottery;
- Follow industry best practice; and
- Comply with appropriate international standards, where these are applicable.

Each Bidder must satisfy the Commission that all changes which impact the Technology Operation of the Lottery will be subject to robust, agile and effective change management control, which will ensure the integrity, responsiveness and continuity of the Technology Operation throughout the Licence Period.

Each Bidder must satisfy the Commission that it will combine the need for integrity and continuity of the Technology Operation with the need for responsiveness, flexibility and maximising returns for good causes.

Each Bidder must satisfy the Commission that its operational and change management processes are fit for purpose and will ensure the integrity, responsiveness and continuity of the Technology Operation throughout the Licence Period.

#### **12.2.5.2 Evidence Required**

When responding to the specific elements outlined in 1 – 3 below, each Bidder should take the following into account:

- Each Bidder must provide a high-level description of its proposed processes, skills and capability for technology development, operation and change management, as outlined below. Where changes are planned to processes or capabilities (e.g. when new technologies are implemented), these must also be described;
- When describing their proposed processes, each Bidder should make reference to relevant international standards and codes of practice, or equivalent, stating clearly the extent to which it will comply with these, and highlighting areas where it will not comply with such standards;
- Each Bidder must demonstrate that its proposed Technology Operation will comply with the following standards and codes of practice, or their equivalents, insofar as they are relevant to the Lottery Operation:
  - ISO9001 for quality management of systems development, together with ISO10005, ISO10006 and ISO10007;
  - ISO20000 for systems management; and
  - the ISO27000 series for security management, together with ISO17799;
- Bidders may refer to an equivalent national or any other standard or code of practice that gives a similar level of assurance to those stated above, if, for any reason, it is not possible to refer to its international equivalent. If they do so, Bidders must clearly state the full name of the standard, its status, its owner, the name of the equivalent international standard and any material differences between the two, as these might impact the technology operation.
- Bidders are asked NOT to reproduce material from such standards or process documents in the body of their response. However, Bidders must provide sufficient details of their proposed processes, standards and codes of practice to enable the Commission to assess whether the Technology Operation will meet the criteria stated; and
- Each Bidder must identify measures proposed to ensure adherence to these standards throughout their operation e.g. independent audit/formal accreditation.
- Each Bidder should note that where it has committed to seeking accreditation in line with specific standards, accreditation need not be in place at commencement of the Licence. Rather the Bidder must ensure that its processes comply with any standards stated, and should seek accreditation as soon as reasonably practicable.

Each Bidder must describe the key features of its proposed technology-related processes, and associated resources and skills, in the following areas:

1. Technology Development Processes:
  - a. Strategy, architecture and design authority;
  - b. Project/programme management;
  - c. Requirements definition/prototyping/proof of concept;
  - d. Procurement of systems and components;
  - e. Application software development;
  - f. Infrastructure development;
  - g. Testing and acceptance, including software assurance;
  - h. Systems integration and commissioning;
  - i. Systems implementation, including data migration, cut-over, user training, business process change, benefits realisation, etc.;
  - j. System and user documentation; and
  - k. Post-implementation review.
  
2. Technology Operational Processes:
  - a. Configuration management;
  - b. Incident management;
  - c. Problem management;
  - d. Service desk;
  - e. Service level management;
  - f. Capacity management;
  - g. Availability management;
  - h. IT service continuity management;
  - i. Customer relationship management;
  - j. Information and communications technology infrastructure management (including terminal maintenance);
  - k. Application management;
  - l. Security monitoring and management;
  - m. Lottery-specific system operations; and
  - n. Management of compliance with the Licence.
  
3. Technology Change Management Processes:
  - a. Change request/authorisation (including impact assessment and provision of adequate information in a suitable form to the Commission);
  - b. Acceptance testing and quality assurance, including system function proving tests;
  - c. Documentation changes;
  - d. Software and component version management;
  - e. Communication and transfer of responsibilities;
  - f. The release of new/changed technology components into operation; and
  - g. Contingency planning/fall-back processes.

Each Bidder's descriptions of its change management capability must cover the management of change to any aspect of the Technology Operation, including changes to games, sales channels, processes and personnel.

Each Bidder must state how it will combine the need for integrity and continuity of the Technology Operation with the need for responsiveness, flexibility and maximising returns for good causes. As an example, Bidders might describe how they will ensure that commercial pressures to meet planned timescales will not be allowed to compromise the thoroughness of the testing, acceptance, quality assurance and other change management processes.

4. Each Bidder must provide details of its capabilities and, where applicable, any relevant experience attributable to any of the members of its Consortium in carrying out the proposed technology-related processes and complying with the proposed standards.

## 12.2.6 Technology capability

### 12.2.6.1 Requirement

Each Bidder must ensure that its Consortium has the requisite capability to deliver the proposed Technology Operation.

### 12.2.6.2 Evaluation criteria

Each Bidder must satisfy the Commission that it has sufficient capability to design, build, implement and operate all elements of the proposed Technology Operation. The Commission will be assessing each Bidder's capability with respect to that shown by its Consortium, either collectively or through its individual members. The Commission will take into account experience of other comparable projects, although this will only form one area of the assessment of a Bidder's overall capability.

The Commission is particularly interested in a Bidder's capabilities, which may be demonstrated by experience relating to the delivery of comparable technology operations:

- Of a complexity or with similar characteristics as the Lottery; and
- Requiring similarly high levels of risk management, sustainability, flexibility, openness, resilience, capacity, integrity and security, (see sections 12.3 – 12.10) as are required of the Lottery.

Capability and experience need not relate specifically to the lottery sector.

### 12.2.6.3 Evidence required

Each Bidder must:

1. Provide details of its capabilities and, where applicable, any relevant experience attributable to its Consortium Members.

## 12.3 Management of technology-related operational risk

### 12.3.1 Requirement

The Technology Operation must be designed, implemented and operated so as to appropriately manage the wide range of technology-related operational risks involved. These encompass the risks associated with any incident that may have an adverse impact upon any of the required outcomes described in this ITA.

The Commission recognises that a degree of risk may be acceptable in order to exploit opportunities that have the potential to increase the return for good causes. Such risk must always be carefully managed and minimised where possible.

### 12.3.2 Evaluation criteria

Each Bidder must satisfy the Commission that it has identified and assessed all significant technology-related operational risk, including, but not limited to, risks associated with the:

- Sustainability, flexibility, openness, performance, resilience, availability, integrity and security of the Technology Operation; and
- Sourcing, use, or location of components or services to the Technology Operation from outside the UK where applicable.

Each Bidder must satisfy the Commission that it has in place adequate controls and countermeasures, contingency plans, risk management and skills to identify, monitor, control and reduce the identified risks to an acceptable level on an ongoing basis.

### 12.3.3 Evidence Required

Each Bidder should note that the requirements 1 – 4 below are duplicated from those set out under section 13.3. The Bidder may either provide its response to the technology-related aspects of risk management within its response to 13.3, highlighting elements that may be specific to the Technology Operation, and taking note of the specific requirements and criteria outlined above, or may provide a response within its response to this chapter 12.

Each Bidder must provide a risk management plan relating to its period of operations. This must include, but is not limited to:

1. Identification of all technology-related risks considered by the Bidder to be significant during the operational period of the Licence, and a description of how such risks will be managed. The detail to be provided for each risk must include but need not be limited to:
  - a. Likelihood: the Bidder's rating of the likelihood of that risk occurring;
  - b. Impact: an assessment of the potential impact of the risk should it occur, and the Bidder's relative rating of that impact;
  - c. Gross risk: the Bidder's overall rating of the size of the risk before any control measures are taken;
  - d. Strategy: a summary of the proposed strategy for handling that risk, which may include but is not limited to:
    - i. Risk acceptance: the Bidder must explain why the risk is acceptable;
    - ii. Risk reduction: the Bidder must summarise measures to be taken to reduce the likelihood and/or impact of the risk; and
  - e. Net risk: the Bidder's overall rating of the risk after any control measures are applied.
2. Details of any contingency planning the Bidder intends to put in place.
3. Details of the risk management structures, processes and responsibilities to be put in place during operations, covering:
  - a. Board-level responsibilities, and the duties of non-executive directors, risk committee or audit committee;
  - b. Processes for identification and assessment of risks;
  - c. Processes for the ownership and monitoring of risks and any associated controls;
  - d. Risk reporting including key risk indicators and early warning mechanisms;
  - e. Maintenance of a risk management plan;
  - f. Communication of risk and risk strategy throughout the Technology Operation; and
  - g. The use of risk-based internal audit.
4. Each Bidder should identify the internal or external expertise that it has used, and intends to use, to support the production and ongoing management and operation of its risk management plan and risk management framework.

## 12.4 Sustainability

### 12.4.1 Requirement

The Technology Solution must be based upon modern technologies, which are sustainable in a cost-effective manner over the Licence Period.

The Bidder must follow an appropriate technology maintenance strategy that will ensure that all elements of the Technology Solution are fully supported and are maintainable throughout the Licence Period.

There must be no situations during the Licence Period (including any extensions) where the failure to maintain or renew any components of the Technology Operation results in material, adverse impact upon any of the required outcomes described in this ITA.

### 12.4.2 Evaluation criteria

Each Bidder must satisfy the Commission that its proposed Technology Operation, in place from commencement of the Licence, is based upon modern technologies, which are sustainable over the Licence Period.

Each Bidder must satisfy the Commission that throughout the period of the Licence each component of the Technology Solution is based upon technologies that are:

- Fit for purpose and are relevant and appropriate to adopt at the time;
- Stable and reliable, with a wide availability of support skills in the market, and which have an appropriate future development path;
- Open, flexible and facilitate the integration and use of third party components or sales channels;
- Compatible with products from a wide range of third party technology vendors; and
- Consistent with technology industry trends and enable the integration and use of new or innovative technologies.

Each Bidder must satisfy the Commission that all application software will be modular in design and well-documented so as to enable easy support and maintenance throughout the period of the Licence. All languages utilised in the gaming application software must be generally in use for software development at the time, well-supported and capable of exploitation with skills readily available within the market.

Each Bidder must demonstrate that:

- All technology components remain supported and maintainable throughout the period of the Licence; and
- All third party components are supported by a maintenance agreement throughout the Licence Period, which includes upgrade to the newest version of the component.

The Commission is aware that Bidders may wish to utilise third party sales channels, which are primarily used for purposes other than running the Lottery, for selling Lottery tickets. Examples might include existing mobile phone, interactive digital television, and supermarket point-of-sale-systems. All third party sales channels, and any interfaces with those systems, will be evaluated against the criteria set out above. The Commission may, in its absolute discretion, permit the use of third party sales channels that do not meet the criteria set out where it is satisfied that any deviations are reasonable and justified in the context of the technical options available to the Bidder. Bidders may discuss the use of such third party sales channels with the Commission in advance of submitting a Bid. In any event, and where applicable, Bidders must provide the rationale for the use of such systems.

### 12.4.3 Evidence Required

Each Bidder must:

1. State how its Technology Operation, including its proposed technology development plan and technology maintenance plan, (as described in their response to section 12.2.3.2), will meet the need and criteria for sustainability throughout the Licence Period, as described above.
2. Describe how it will use technologies and standards generally available in the IT market, throughout the Licence Period, to achieve this requirement. This may include the use of or compatibility with:
  - a. 'Open' standards and technologies, which meet the criteria for Openness described in section 12.6.2 and where the skills and knowledge required to utilise, support and maintain the associated components is readily available;

or, where open standards and technologies are either not available or do not meet the requirements set out in this ITA:

- b. De facto standards for hardware and software, where there exists a free and competitive market for the skills and knowledge required to utilise, support and maintain the associated components.
3. Describe in outline its plans for ensuring alignment/convergence of its Technology Solution with industry trends, emerging standards and best practice throughout the period of the Lottery operation.
4. Provide an overview of all application software that will be installed as part of the Technology Solution from day one of the Licence, covering initial development, subsequent major modifications or enhancements and customer references.
5. State how it will ensure appropriate support and maintainability throughout the Licence Period. In particular, the Bidder must state how it will ensure that:
  - a. The technology-related skills required to maintain and support the application software can be readily replaced from the wider IT jobs market; and
  - b. The application-related knowledge and the business process-related knowledge required to maintain and support the application software is documented in a form that is both secure and can be assimilated quickly by new employees.
6. State how components which rely upon third party organisations for any aspect of its support and maintenance will continue to be supported and maintained appropriately. This must include ensuring that appropriate contracts/licences will be in place and that the terms of those contracts/licences are adhered to.
7. Specify which, if any, technology components will be supported and maintained by retailers and other partners. Each Bidder should specify what skills and knowledge are required by retailers' or partners' staff to support and maintain each technology component, and how this will be provided.
8. Declare all proprietary technologies employed within its Technology Solution that may constrain its ability to meet this requirement. Each Bidder must describe all technologies and components for which the skills and knowledge required to utilise, support and maintain the associated components are only available from within its Consortium or via any form of restrictive agreement.
9. Outline its capabilities and, where applicable, any relevant experience attributable to any members of its Consortium in meeting similar sustainability requirements.

## 12.5 Flexibility

### 12.5.1 Requirement

The Technology Operation must be designed, implemented and operated so that it:

- Is responsive to changing requirements, including changes to the legislative, regulatory, political, cultural, technological and market environment; and
- Allows for changes in usage, functionality, accessibility or technology to be implemented within appropriate timescales and at minimal operational risk, so maximising returns to good causes.

Such flexibility must be designed into the Technology Operation from the start of operation.

A lack of flexibility in the Technology Operation must not constrain the achievement of the outcomes described within this ITA.

### 12.5.2 Evaluation criteria

Each Bidder must satisfy the Commission that its proposed Technology Operation will be designed, implemented and operated so that it is responsive to changing requirements, including changes to the legislative, regulatory, political, cultural, technological and market environments.

Each Bidder must satisfy the Commission that its proposed Technology Operation will be designed, implemented and operated so that it allows for changes in usage, functionality, accessibility or technology to be implemented within appropriate timescales and at minimal operational risk (as might be expected of a modern lottery operation), including:

- The introduction of new sales channels;
- The introduction of new technology into sales channels;
- The introduction of new instant win, Lotto-style or other types of games;
- The introduction of alternative user interfaces for existing games;
- Changes to the rules for games;
- Changes to the rules for calculating commission, prizes, taxation, etc;
- Changes to the rules for allocating sales revenue to specific good causes; and
- The interoperability of the lottery operation with other third party systems as required.

Each Bidder must satisfy the Commission that its Technology Solution will be constructed and maintained using modern design principles with a view to ensuring a suitable degree of flexibility. In particular, it must:

- Allow the implementation of new games, new features or new rules, with minimal changes to software;
- Facilitate the integration and interoperation with new systems or sales channels, with minimal changes to software;
- Enable any required software changes to be made easily and with minimal risk of introducing errors; and
- Be constructed using modern technologies and techniques that will facilitate the integration and exploitation of new technologies as they emerge.

The Commission is aware that Bidders may wish to utilise third party sales channels, which are primarily used for purposes other than running the Lottery, for selling Lottery tickets. Examples might include existing mobile phone, interactive digital television, and supermarket point-of-sale-systems. All third party sales channels, and any interfaces with those systems, will be evaluated against the criteria set out above. The Commission may, in its absolute discretion, permit the use of third party sales channels that do not meet the criteria set out where it is satisfied that any deviations are reasonable and justified in the context of the technical options available to the Bidder. Bidders may discuss the use of such third party sales channels with the Commission in advance of submitting a Bid. In any event, and where applicable, Bidders must provide the rationale for the use of such systems.

### 12.5.3 Evidence Required

Each Bidder must:

1. Describe its overall approach to ensuring flexibility of its proposed Technology Operation, in line with the criteria specified in section 12.5.2.
2. Provide indicative timescales, using realistic examples, that will apply to each type of change described in section 12.5.2.

3. Describe which changes it will be able to make to the Technology Operation with little or no need for modification to, and hence retesting of, hardware or software, and how such changes will be achieved. It may describe, for example:
  - a. How system parameters or data tables may be used to store certain features of games, independent of the application software;
  - b. What system functionality will facilitate the creation of new games or changes to games, without changes to software; or
  - c. What technologies, standards, design features or service interfaces will be employed to facilitate the integration and interoperation with new systems or sales channels, with minimal changes to hardware or software.
4. Describe how it will utilise best practice/state-of-the-art technologies and design techniques (such as Service-Oriented Architecture) for achieving this requirement.
5. State how it will ensure responsiveness of its organisation to requests from the Commission, retailers or other parties for changes to their technology operation.
6. Outline its capabilities and, where applicable, any relevant experience attributable to any members of its Consortium in meeting similar requirements for flexibility.
7. Declare all proprietary technologies employed within its Technology Solution, which may constrain their ability to meet this requirement.

## 12.6 Openness

### 12.6.1 Requirement

The Technology Solution must be developed, operated and maintained in accordance with accepted principles of open systems design and conform to relevant international consensus-based standards.

A lack of openness in the Technology Operation must not place unnecessary constraint upon players, retailers, the Successful Bidder, its suppliers, its partners or a future licensee, which may adversely impact the aims of the Commission.

### 12.6.2 Evaluation criteria

Each Bidder must satisfy the Commission that its proposed Technology Operation will meet the overall need for openness throughout the Licence Period, including the need to:

- Facilitate interoperability with a range of third party systems without unnecessary constraint, including lottery terminals, EPOS systems, third party sales channels, Commission-owned systems, banks, player-owned PCs and other access devices;
- Enable the implementation of interfaces with such systems quickly and easily, e.g. through the re-use of interfaces with different EPOS systems;
- Enable the replacement of major technology components (e.g. hardware platform, database management system), avoiding lock-in to specific products or proprietary architectures and enabling choice from a competitive market of commercial off-the-shelf products;
- Minimise the complexity (and hence also the cost and risk) of integration of separately-sourced components;
- Ensure that obsolete or superseded technologies can be readily replaced so that the Technology Operation remains maintainable in a cost-effective manner;
- Maximise the likelihood of continued availability of development and maintenance skills and resources, again ensuring the maintainability and sustainability of the solution;
- Minimise technical constraints to the continued use of third party and all physically-distributed systems (e.g. terminals) with a successor licensee's systems;
- Enable the transfer of technology assets owned by the Licensee to a successor licensee (i.e. from 2019 or otherwise agreed) such that a successor licensee can make full use of that technology.

Each Bidder must satisfy the Commission that all proposed interfaces between Bidder-owned components of the Technology Operation and all third party systems meet the need for openness throughout the Licence Period.

Each Bidder must satisfy the Commission that architecture of the Technology Solution embodies open systems principles. It must demonstrate that it is modular in design, uses widely supported and international consensus-based standards for its key interfaces, and be capable of being subjected to validation and verification to ensure the openness of those interfaces.

Each Bidder must satisfy the Commission that its Technology Solution will be compliant with major international standards, or equivalent, for openness throughout the Licence Period, including, but not limited to:

- a. Internet Protocol for systems connectivity, including lottery terminals;
- b. Web-browser standards (HTTP/HTML/XHTML) for all user interfaces which access services across local or wide area networks, including the Internet;
- c. SOAP and WSDL specifications for Web-services;
- d. XML and XML schemas, as defined by W3C, for data integration;
- e. Other standards and codes of practice recommended by the W3C, where these are applicable; and
- f. SQL, as endorsed by ISO, for all database access.

Each Bidder must satisfy the Commission that its Technology Solution will utilise modern PC-based architectures for all terminals.

Each Bidder must satisfy the Commission that its Technology Solution will continue to be compliant with such international standards of openness, as they develop or emerge throughout the Licence Period.

The Commission is aware that Bidders may wish to utilise third party sales channels, which are primarily used for purposes other than running the Lottery, for selling Lottery tickets. Examples might include existing mobile phone, interactive digital television, and supermarket point-of-sale-systems. All third party sales channels, and any interfaces with those systems, will be evaluated against the criteria set out above. The Commission may, in its absolute discretion, permit the use of third party sales channels that do not meet the criteria set out where it is satisfied that any deviations are reasonable and justified in the context of the technical options available to the Bidder. Bidders may discuss the use of such third party sales channels with the Commission in advance of submitting a Bid. In any event, and where applicable, Bidders must provide the rationale for the use of such systems.

### 12.6.3 Evidence Required

Each Bidder must:

1. Demonstrate how the Technology Solution will meet the overall need for openness throughout the Licence Period.
2. Describe how principles of openness are embodied in the architecture of the proposed solution, including any interfaces with third party systems. The Bidder must provide a high-level reference model for the proposed solution that identifies the components that comprise the solution, the relationship between those components, and the technologies, conventions and standards that will be used to build the solution. Where specified standards are not to be used initially, the Bidder must demonstrate how the requirements for openness will be achieved, together with the timeframe in which they propose introducing such standards.
3. State their commitment (now and in future) to internationally accepted open standards, including those specified in section 12.6.2. The Bidder must describe how it will track and ensure compatibility with internationally accepted standards throughout the period of the Lottery operation.

4. Declare all proprietary technologies employed within its Technology Solution, which may constrain its ability to meet this requirement.
5. Outline its capabilities and, where applicable, any relevant experience attributable to any members of its Consortium in meeting similar requirements for openness.

## 12.7 Resilience and availability

### 12.7.1 Requirement

The Technology Operation must be designed, implemented and operated to ensure high levels of service availability, as is required to meet the expectations of users, service levels agreed with retailers and other partners, deliver the business plan and maximise overall returns to good causes.

The Technology Operation must exhibit appropriate levels of reliability, resilience and recoverability, meaning:

- Failures of systems or components should be rare;
- When failures do occur, key services should continue to function correctly (possibly to a reduced level of function or performance); and
- Failures should be repaired and normal services resumed within a reasonable timeframe.

The Technology Operation must be capable of delivering high levels of reliability, resilience and recoverability and availability throughout the licence period, as might be expected of a modern lottery operation.

### 12.7.2 Evaluation criteria

Each Bidder must satisfy the Commission that it understands the required levels of reliability, resilience, recoverability and availability, implied by its business plan, sales forecasts, user expectations, the need to maximise returns to good causes and the capabilities of a modern lottery operation.

Each Bidder must satisfy the Commission that its proposed Technology Operation will meet the required levels of resilience, reliability, recoverability and availability, as stated, throughout the Licence Period, taking into account all planned changes to the Technology Operation.

Each Bidder must satisfy the Commission that it will protect against and manage all incidents that may adversely affect the availability of the Technology Operation, taking appropriate measures to minimise the impact of any systems failure.

Each Bidder must satisfy the Commission that it has the necessary capabilities to manage the availability of the Technology Operation to the high levels required of the Lottery.

### 12.7.3 Evidence Required

Each Bidder must:

1. State its understanding of requirements for reliability, resilience, recoverability and availability by service/channel/access point. The Bidder must make reference to its business plan, sales forecasts, anticipated peak transaction volumes, its understanding of user expectations and its understanding of the capabilities of a modern lottery operation. When considering user expectations, the Bidder must include players as well as employees of the Bidder, the Commission, retailers and other third parties, as appropriate.
2. State the minimum levels of reliability, resilience, recoverability and availability which it will meet, using appropriate metrics including, but not limited to:
  - a. Mean time between failure, by sales channel (e.g. retail, website, third party channels);
  - b. Mean duration of incidents, by sales channel; and
  - c. Percentage of service availability by sales channel.

3. State how it will ensure that its Technology Operation will meet the requirements for resilience, reliability, recoverability and availability throughout the Licence Period and describe the most significant single points of failure that will exist.
4. State how it will ensure protection against incidents which may have an impact upon required levels of availability, reducing the likelihood of incidents as well as reducing the impact of incidents that do occur.
5. State how it will detect and manage incidents which result in service failure, ensuring the recovery of systems and data in a time appropriate to the potential impact of the incident.
6. Provide an outline business continuity and disaster recovery plan for the Technology Operation. This plan may be based upon the British Continuity Institute standard PAS56 or similar recognised standard or process. The analysis must identify external dependencies and the assumptions implicit in these, together with a convincing case showing why the assumptions are reasonable.
7. Outline its capabilities and, where applicable, any relevant experience attributable to any members of its Consortium in meeting similar requirements for resilience and availability.

## 12.8 Capacity and performance

### 12.8.1 Requirement

The Technology Operation must have sufficient capacity so as to ensure adequate system performance and throughput at all times, as required to meet the expectations of users, meet service levels agreed with retailers and other partners, deliver the business plan and maximise overall return to good causes.

The Lottery Operation must be able to cope with volumes of transactions and user activity well in excess of those anticipated by the business plan. The Technology Operation must be sufficiently scalable to allow it to cope with situations where:

- The volume of transactions and/or user activity is much greater than anticipated, e.g. where a game newly launched is significantly more popular than predicted;
- There is a surge in transactions and/or user activity, e.g. in the case of the afternoon immediately preceding a large rollover draw; and
- There is a gradual but significant growth in transactions and/or user activity over a number of months or years.

The Technology Operation must be capable of delivering high levels of performance and scalability, throughout the Licence Period, as might be expected of a modern lottery operation.

### 12.8.2 Evaluation criteria

Each Bidder must satisfy the Commission that it understands the required levels of capacity, scalability and performance, given its business plan, sales forecasts, user expectations, the need to maximise return to good causes and the capabilities of a modern lottery operation.

Each Bidder must satisfy the Commission that its proposed Technology Operation will meet the required levels of capacity, scalability and performance throughout the Licence Period.

Each Bidder must satisfy the Commission that it will protect against, and manage all incidents, that may adversely affect the performance of the Technology Operation, taking appropriate measures to minimise any the impact of systems failure.

Each Bidder must satisfy the Commission that it has the necessary capabilities to manage the capacity and performance of the Technology Operation to the high levels required of the Lottery.

### 12.8.3 Evidence Required

Each Bidder must:

1. State its understanding of requirements for capacity, scalability and performance by service/channel/access point. The Bidder must make reference to its business plan, sales forecasts, anticipated peak transaction volumes, worst case scenarios, its understanding of user expectations and anticipated change over the period of the Licence. When considering user expectations, the Bidder must include players as well as employees of the Bidder, the Commission, retailers and other third parties, as appropriate.
2. State the service levels it will commit to in relation to capacity, scalability and performance, using appropriate metrics such as:
  - a. End-to-end response time for wager and prize validation transactions;
  - b. Number of wager and prize validation transactions per second; and
  - c. Percentage of unused capacity, at peak times.
3. State what limits may apply to scalability, including:
  - a. The spare capacity built into its proposed technology from the first day of the Licence;
  - b. The increases in capacity that can be attained by changing components; and
  - c. The time required to change each component once a decision to increase system capacity is taken.
4. State how its Technology Operation will meet the requirement for capacity, scalability and performance through the presentation of a capacity plan and performance model. The Bidder must state any assumptions it has used. The Bidder must describe how it will utilise best practice methods and technologies for achieving this requirement.
5. Describe how it will ensure:
  - a. Acceptable performance of the full integrated system, paying appropriate consideration to end-to-end processes involving operator-owned, player-owned, retailer-owned, supplier-owned and partner-owned components;
  - b. Acceptable performance from technology operations at all times, with reference to forecasts of peak transaction volumes, and including unanticipated surges in volumes of transactions and/or user activity;
  - c. Prevention of performance-related incidents which may have an impact upon required outcomes described in this ITA; and
  - d. Detection and management of all performance-related incidents that do occur.
6. Outline its capabilities and, where applicable, any relevant experience attributable to any members of its Consortium in meeting similar requirements for capacity and performance.

## 12.9 Integrity

### 12.9.1 Requirement

The Technology Operation must be designed, implemented and operated so as to ensure the overall integrity of the Lottery operation.

There must be no occasion when a lottery game is played using software or other technology that is known by the operator to be materially defective or unable to ensure the integrity of the Lottery operation.

Each Bidder must take all reasonable steps to identify incidents where integrity has been compromised (integrity failures) as soon as possible after their occurrence and to minimise the impact of those incidents.

### 12.9.2 Evaluation criteria

Each Bidder must satisfy the Commission that its proposed Technology Operation will be designed, implemented and operated so as to materially maintain the overall integrity of the Lottery operation, including but not limited to:

- Accurate recording of all wagers placed;
- Accurate production of lottery tickets (paper or electronic);
- Prevention of new wagers after a draw has closed;
- Prevention of fraud;
- Accurate calculation of prizes;
- Accurate identification of winning wagers;
- Accurate matching of winning wagers to tickets/players;
- Accurate payment of prizes;
- Prevention of double payment or non-payment of prizes;
- Accurate management of player, retailer and other financial accounts;
- Accurate transfer of funds;
- Protection of player information;
- Ensuring all games are played by the declared rules; and
- Confidentiality of player information.

Each Bidder must satisfy the Commission that its proposed Technology Operation will include measures to enforce the integrity of the software, system processes and data.

Each Bidder must satisfy the Commission that its processes for software assurance will adequately address all integrity-related risks associated with the sourcing of new software. This must cover all software used in the Technology Operation, including those associated with the sourcing of software from third parties or from outside the UK, where applicable.

Each Bidder must satisfy the Commission that it will protect against, and appropriately manage, all incidents associated with integrity failures.

Each Bidder must satisfy the Commission that it has the necessary capabilities to manage the integrity of the Technology Operation to the high levels required of the Lottery.

### 12.9.3 Evidence Required

Each Bidder must:

1. State how it will ensure the integrity of the Technology Operation at all times, including each of the items listed in section 12.9.2. The Bidder may reference, as appropriate, its response to section 12.2.
2. Each Bidder must describe how its processes for software assurance (as described in its response to section 12.2.5.2) address risks associated with software which is:
  - a. Sourced from a sub-contractor or other third party organisation; and/or
  - b. Sourced from outside the UK; and/or
  - c. Sourced from within its organisation
3. State how it will detect, report and manage integrity failure incidents.
4. Outline its capabilities and, where applicable, any relevant experience attributable to any members of its Consortium in meeting similar requirements for integrity.

## 12.10 Security

### 12.10.1 Requirement

The security of the Lottery must be beyond doubt for all practical purposes, in order to ensure ongoing confidence in the operation. The security measures implemented in the Technology Operation must be based on a risk mitigation plan which itself is based on a risk analysis (see section 12.3).

### 12.10.2 Evaluation criteria

Each Bidder must satisfy the Commission that:

- The confidentiality of information will be maintained, in terms of protecting it from unauthorised disclosure;
- The integrity of information will be preserved, in terms of ensuring its accuracy and completeness, by preventing unauthorised or invalid amendment; and
- The availability of information will be maintained, by ensuring that information and information systems are available when required.

Each Bidder must satisfy the Commission that appropriate measures will be taken to protect system components and information from damage or loss due to:

- Malicious software such as viruses;
- External threats, such as directed denial of service attacks; or
- Internal threats, such as from disaffected employees.

Each Bidder must satisfy the Commission that:

- Incident reporting procedures will be established to ensure that suspected security breaches are reported in a timely manner, and that any breaches are investigated effectively;
- Information security training and advice will be available where required; and
- Regulatory and legislative requirements will be met.

Each Bidder must satisfy the Commission that it will manage all security-related risks in a way that is proportionate to the threat, including those associated with:

- The sourcing of components of the Technology Operation from outside the UK, including software components, where this is applicable;
- The location of parts or all of their Technology Operation outside the UK, where this is applicable; and
- The use of services provided from outside the UK, where this is applicable.

Each Bidder must satisfy the Commission that its approach to security is based on best practice as embodied in current international standards (specifically ISO27000), or equivalent, and that it is sufficiently flexible to accommodate anticipated developments in standards.

Each Bidder must satisfy the Commission that it will demonstrate compliance against an agreed security risk management plan, security management statement and associated processes and procedures.

Each Bidder must demonstrate that its approach to security includes an element of continual improvement, through a process of monitoring, feedback and corrective action.

Each Bidder must satisfy the Commission that it has the necessary capabilities to manage the security of the Technology Operation to the high levels required of the Lottery.

### 12.10.3 Evidence Required

Each Bidder must:

1. Provide a security risk management plan which provides a more detailed analysis for all the security-related risks included under the Bidder's response to section 12.3.3. This security risk analysis and plan must be based upon a recognised method, consistent with ISO27000, or equivalent, and identify, in more detail, the security measures that will be implemented;
2. Provide a security management statement linked to its security-specific risk analysis, covering:
  - a. Information classification and handling in relation to the Technology Operation;
  - b. Responsibilities, authority and ownership relating to security in the Technology Operation;
  - c. Security controls within the Technology Solution and their supporting procedures;
  - d. Processes for information governance in development, change management, incident management and third party relationships;
  - e. Processes for security in day-to-day operations, including ongoing monitoring and management of threats and vulnerabilities relating to the Technology Operation; and
  - f. Processes for security vetting, training and awareness in relation to the Technology Operation.

The statement must reference appropriate standards and be based on the principles of the ISO27000 range of security standards or equivalent. The Bidder may refer to its response to section 12.2, as required, to avoid repetition.

3. State how it will use internal authorisation and controls, in conjunction with independent third party services (e.g. penetration testing) in order to demonstrate compliance against the security management statement and supporting processes and procedures.
4. Outline its capabilities and, where applicable, any relevant experience attributable to any members of its Consortium in meeting similar requirements for security.

# Operational risk management

Chapter

13

# 13 Operational risk management

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## Required Standard – Operational risk management

**Each Bidder must have a comprehensive risk assessment and risk management plan that fully satisfies the Commission of its ability to: identify and assess significant operating risks; put in place sufficient measures to address those risks; and monitor such risks in a way that effectively supports the delivery of the Bidder's objectives.**

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### 13.1 Requirement

Each Bidder must ensure that it has, or will have, the requisite processes and organisational capacity in place to manage all significant operating risks. The Commission recognises that a degree of risk may be acceptable in order to exploit opportunities that have the potential to increase the return for good causes.

The Commission expects any relevant risks to be specific to each Bidder's individual proposals and operational, organisation and financial structure. Each Bidder's response must address all relevant material risks, which should include, but are not limited to:

- Risks affecting the propriety of ongoing operation – this may include risks relating to management of suppliers, relating to staff, or relating to governance arrangements;
- Risks to the Licensee's ability to protect participants – this may include the effectiveness of measures designed to prevent underage or excessive play or to protect players' funds;
- Risks that threaten the performance of the Licensee or the delivery of Lottery services that may affect overall sales and hence returns to good causes and returns to the Licensee; and
- Risks affecting the image and brand of the Lottery, including insufficient measures and processes for player protection and support, dealing with player complaints and inappropriate promotional activities.

### 13.2 Evaluation criteria

The Commission will be evaluating the approach that each Bidder intends to take in respect of risk management. It must be satisfied that the internal risk management structures that the Bidder intends to put in place are appropriate and sufficient to ensure the continued delivery of that Bidder's key business objectives.

The Commission must be satisfied that the Bidder has taken appropriate steps to identify all significant risks. It must also be satisfied that their likelihood of occurrence and impact has been accurately identified, and that the proposed measures to address those risks are adequate. The Commission will also be evaluating any contingency plans that the Bidder intends to put in place.

The Commission must also be satisfied that the Bidder has procured sufficient internal or external expertise to support its assessment of the key risks outlined in its proposals, and that it will put in place the appropriate expertise to support its risk management plan throughout the Licence Period.

### 13.3 Evidence required

Bidders must provide a risk management plan relating to its period of operations. This must include, but is not limited to:

1. Identification of all risks considered by the Bidder to be significant during the operational period of the Licence, and a description of how such risks will be managed. The detail to be provided for each risk must include but need not be limited to:
  - a. Likelihood: the Bidder's rating of the likelihood of that risk occurring;
  - b. Impact: an assessment of the potential impact of the risk should it occur, and the Bidder's relative rating of that impact;
  - c. Gross risk: the Bidder's overall rating of the size of the risk before any control measures are taken;
  - d. Strategy: a summary of the proposed strategy for handling that risk, which may include but is not limited to:
    - i. Risk acceptance: the Bidder must explain why the risk is acceptable;
    - ii. Risk reduction: the Bidder must summarise measures to be taken to reduce the likelihood and/or impact of the risk; and
  - e. Net risk: the Bidder's overall rating of the risk after any control measures are applied.
2. Details of any contingency planning the Bidder intends to put in place.
3. Details of the risk management structures, processes and responsibilities to be put in place during operations, covering:
  - a. Board-level responsibilities, and the duties of non-executive directors, risk committee or audit committee;
  - b. Processes for identification and assessment of risks;
  - c. Processes for the ownership and monitoring of risks and any associated controls;
  - d. Risk reporting including key risk indicators and early warning mechanisms;
  - e. Maintenance of a risk management plan;
  - f. Communication of risk and risk strategy throughout the organisation; and
  - g. The use of risk-based internal audit.
4. Bidders should identify the internal or external expertise that they have used, and intend to use, to support the production and ongoing management and operation of their risk management plan and risk management framework.