

# INVITATION TO APPLY

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*The numbering of chapters and the paragraphs within them is unchanged from that in the draft Invitation to Apply published in September 1999.*

## **Annexes**

A	Financial Penalties: Principles and Procedures
B	Regulations on Procedure
C	Directions and Statutory Instruments
D	Public Notice on VAT
E	Draft Section 6 Licence for Main Online Game
F	Information requested along with the Letter of Intent to Apply
G	Corporate Fit and Proper Declaration
H	Individual Fit and Proper Declaration
I	Information to Applicants
J	Current Advertising Code of Practice
K	Current Player Code of Practice
L	Social Research Project Report

The annexes above were contained in a volume published with the draft ITA in September. Copies of that volume are available from Public Affairs, National Lottery Commission, 2 Monck Street, London, SW1P 2BQ (020 7227 2027).

Because the documents in Annexes H and J have been amended, revised copies are included in the present volume, together with Annex G for convenience. The annexes in this volume are as follows:

G	Corporate Fit and Proper Declaration	136
H	Individual Fit and Proper Declaration (revised)	144
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*Tables for chapter 9 are at the end of this volume. The draft Section 5 licence, which has been revised from the version published in September, is contained in a separate volume.*

# INVITATION TO APPLY

*The following conventions are used throughout this Invitation to Apply (ITA):*

- *“the applicant shall . . .” indicates a mandatory requirement; and*
- *“the applicant should . . .” indicates a desirable feature.*

## 1 INTRODUCTION

### 1.1 Fundamentals

The National Lottery Commission (NLC) issues this ITA under its powers in the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998). The NLC invites applications from bodies corporate for a licence under Section 5 of the Act to run the National Lottery after the licence currently held by Camelot Group plc expires on 30 September 2001. This ITA is accompanied by a draft of the licence that the NLC proposes to grant for the ensuing period.

In evaluating bids the NLC must fulfil its statutory duties, which are to exercise its functions in the manner it considers most likely to secure

- that the National Lottery, and every lottery that forms part of it, is run with all due propriety; and
- that the interests of every participant in a lottery that forms part of the National Lottery are protected;

and, subject to these overriding duties, to do its best in exercising its functions to secure that the net proceeds of the National Lottery for the Good Causes are as great as possible.

This legislation establishes the legality of the National Lottery and includes the main provisions applying to it. The 1993 Act also makes the necessary consequential amendments to other legislation concerning gaming and lotteries. References in this ITA to “the Act” are to the 1993 Act as amended.

The effect of the legislation is to require the NLC to base that part of its evaluation relating to the proceeds of the lottery on the likely benefits that an application will bring to the National Lottery Distribution Fund (NLDF) and thus to the Good Causes. The NLC can only take account of money that is committed to the NLDF, and not of money that is offered in another way to a charity or similar body.

## **1.2 Achievements of the National Lottery**

It is expected that by September 2001 the National Lottery will have generated some £11 billion for the NLDF. The NLC believes that the National Lottery has the potential over the period of the next licence as a whole to maintain or exceed this level of contributions and the level of sales that underlies them.

## **1.3 Continuity**

The NLC attaches importance to any transition to a new licensee taking place as smoothly as possible, so as to maintain the interest of players and thus the flow of funds to the NLDF. It expects applicants to minimise any interruption to the National Lottery. Applicants must have sufficient business, delivery and communications systems in place to ensure that players have convenient access as soon as operations begin, even though some of the intended distribution channels may not be fully in place from the start.

## **1.4 Games**

The NLC wishes the National Lottery to be regarded as a portfolio of high-quality games that appeal to people's imagination and which are seen - and promoted - as fun. Subject to the new licensee providing a main online game, which the NLC anticipates will be equivalent to that provided under the present licence, the NLC does not intend to stipulate particular games or types of games. However, the NLC will not license games that appear to it likely to encourage excessive play or which it regards as lacking effective controls to prevent under-age play or as having undesirable associations with, for example, other forms of gaming, alcohol and tobacco. In particular, the NLC has reservations about granting applications for games such as fast-draw keno and about the use of video lottery terminals.

In considering proposals for individual games, the NLC will have regard at all times to the importance of ensuring that the National Lottery develops at a pace that can be sustained both for the period of the licence and for the longer term. Applicants are required in chapter 11 to indicate the games or type of games they expect to offer, and in chapter 13 to indicate their proposed means of player access.

Includes interest earned by the National Lottery Distribution Fund.

## **1.5 Retentions by the licensee**

The extent of the National Lottery's success has meant that the amount retained by the current licensee, as well as the proceeds for the Good Causes, has proved higher than foreseen in 1994. Although the National Audit Office concluded that the grant of the Section 5 licence in 1994 to Camelot Group plc produced the best possible result for the Good Causes at the time, there is a widespread view, which the NLC shares, that net retentions by the licensee should be lower under the next licence. This accords with the fact that the size of the market for National Lottery tickets is much better understood and that the commercial risk involved in operating the National Lottery is therefore lower than in 1994.

## **1.6 Form of licensee**

The Act requires that the licensee should be a body corporate. The draft licence requires that its activities should be limited to the running of the National Lottery, the promotion of constituent lotteries, ancillary activities, other activities necessarily incidental to them, and the holding of interests in wholly owned subsidiaries which undertake similar activities. The licensee may undertake other activities only with the prior consent of the NLC. The NLC will consider any applications for consent on their merits, taking account of all relevant factors, including in particular its statutory duties regarding propriety, protection of players' interests and the maximisation of proceeds for the NLDF. The NLC welcomes applications from bodies with a range of financial structures, including not-for-profit bodies.

## **1.7 Fit and proper vetting**

As in 1994, the NLC will lay great stress in evaluating applications on means of ensuring the propriety of National Lottery operations. The licensee and defined categories of contractors and subcontractors and their respective directors and other officers (or equivalent), shareholders (or equivalent) and key staff will be subject to vetting to ensure that they are fit and proper to take part in the running of, or to benefit from, the National

There is no restriction on the type of company that may be involved in a bid, provided that "fit and proper" requirements (see chapter 8) are met and undesirable associations through game design are avoided (see paragraph 1.4).

Lottery. This also applies to major shareholders and to holding and subsidiary companies, if any. (All references in the draft licence to directors should be considered to cover equivalent individuals in bodies without directors.)

The NLC must not grant a licence under Sections 5 or 6 of the Act unless “it is satisfied that the applicant is a fit and proper body” for the purposes in mind. It may consider in granting a licence whether those likely to manage the business, or for whose benefit the business would be carried on, are fit and proper for the purpose. Section 10 of the Act requires the NLC to revoke the Section 5 licence if it considers that the operator no longer is, or never was, a fit and proper body to run the National Lottery.

## **1.8 Monitoring and enforcement of licence compliance**

As well as being required to establish systems of corporate governance and control that are of the highest standards, the licensee will be subject to rigorous monitoring and compliance programmes carried out by the NLC. The licensee and its contractors will be required to co-operate in providing the NLC with full access to its personnel and records and in providing access, as appropriate, to the Comptroller and Auditor General and the National Audit Office.

## **1.9 Length of licence**

Having considered the case for changing the length of the licence, the NLC has concluded that it should grant another licence lasting for seven years, starting on 1 October 2001. The NLC has considered the likely proceeds for the NLDF during the licence period and has balanced the need for the licensee to recover its investment against the possible benefits of having a new competition for the licence earlier rather than later. The NLC believes that the term chosen should give sufficient scope for applicants to recover their investment costs whilst submitting competitive bids.

## **2 LEGAL AND INSTITUTIONAL FRAMEWORK**

### **2.1 The National Lottery Commission**

The Act provides for the appointment of the National Lottery Commission and makes provision for its staff. The NLC has the sole authority to grant licences under the Act. The NLC and the Secretary of State for Culture, Media and Sport each have the duty to exercise their functions in the manner they consider the most likely to secure that the National Lottery is run with all due propriety, that the interests of every participant are protected and that, subject to those considerations, the net proceeds of the National Lottery paid to the Secretary of State for the benefit of the NLDF are as great as possible.

As well as having the duty in certain circumstances to revoke licences (see paragraph 1.7), the NLC has the power under Section 9 of the Act to seek a court injunction or order to prevent or remedy breaches of licences that it has granted under the Act. It also has the power, under Section 10A of the Act, to impose financial penalties for breaches of licence conditions. As regards this power,

- the NLC is required by directions made by the Secretary of State to act in accordance with certain principles included in a statement on “Financial Penalties: Principles and Practice” made by the then Director General of the National Lottery in May 1998. The NLC intends also to follow the procedures described in that statement, which is at Annex A;
- Section 10A of the Act allows a licensee to make written or oral representations on a proposal by the NLC to impose a financial penalty, including its amount. The Secretary of State has made regulations governing the procedure to be followed if a licensee wishes to make oral representations. A copy of the regulations is at Annex B; and
- Section 10B allows a licensee to appeal to the High Court or, in Scotland, to the Court of Session, against a decision by the NLC to impose a financial penalty, again including its amount. The possible grounds for an appeal against a finding that a licensee has contravened a condition of a licence are that the NLC has made an error as to the facts, that there was a material procedural error or that the NLC has made some other error of law. An appeal against the amount of a penalty can be on the grounds that it is unreasonable, that there was a material procedural error or that the decision was based on a manifest material misapprehension as to the facts.

## **2.2 The Secretary of State and secondary legislation**

Part I of the Act gives certain relevant functions to the Secretary of State. First, he appoints the members of the NLC (Section 3A and Schedule 2A). Second, he may give directions to the NLC regarding the exercise of its functions (Section 11). Third, he has a number of statutory powers to make orders and regulations by statutory instrument in connection with various aspects of the National Lottery. Fourth, he may direct the NLC to provide him with information relating to the National Lottery (Section 15). The respective sets of directions and statutory instruments currently in force are at Annex C.

## **2.3 The courts**

The Act provides that in addition to considering applications from the NLC for injunctions or orders under Section 9 of the Act and appeals under Section 10B against proposals by the NLC to impose financial penalties, the courts may hear appeals against a decision by the NLC to revoke a licence under Section 10 and Schedule 3. The grounds for such appeals are set out in the Act.

## **2.4 The National Audit Office**

Section 33 of the Act provides the Comptroller and Auditor General, the head of the National Audit Office, with certain rights in relation to its audit of the NLDF. These rights give the NAO access to any documents that it reasonably requires for the purpose of auditing the NLDF and which are in the custody or control of the Section 5 licensee. The NAO has the right to obtain an explanation of, and information relating to, such documents from officers and employees of the Section 5 licensee and from its auditors. The NAO does not have statutory audit or inspection rights in respect of the licensee's own accounts or their arrangements for securing value for money.

## **2.5 Sums payable to the Secretary of State**

The sums payable to the Secretary of State under the Section 5 licence will flow to the NLDF. They will be applied to the purposes described in Part II of the Act in relation to the Good Causes and to cover the costs of the NLC, the expenses of the Secretary of State in exercising his functions under the Act and the expenses incurred by the National Debt Commissioners in investing money held by the NLDF.

## **2.6 Lottery Duty and VAT**

Lottery Duty is currently set by Parliament at 12%, and is payable on all tickets sold in the National Lottery. The Finance Act 1993 requires that Lottery Duty is payable monthly, fifteen days in arrears of the closure of the monthly accounting period.

HM Customs and Excise have advised that the National Lottery will be treated for VAT purposes in accordance with existing legislation on lotteries. Further information is contained in Public Notice 701/28/97, which is shown at Annex D.

## **2.7 Ensuring compliance by contractors**

A licensee will not be excused responsibility for compliance with its obligations under the Section 5 licence on the grounds of any act or omission by its suppliers, contractors or subcontractors and its arrangements with them should reflect this. No “force majeure” provision is included in the current Section 5 licence, nor is any intended to be included in the licence for which applications are now sought.

## **2.8 The licensing system**

The principal licence under the Act is the Section 5 licence. This is the licence to “run the National Lottery” and is the licence to which this ITA refers. Only one Section 5 licence can be in force at any time. However, the National Lottery, as envisaged by the Act, is made up of one or more constituent lotteries. The Section 5 licence does not itself authorise the promotion of any such constituent lottery. This is done by a licence or licences under Section 6 of the Act (“Section 6 licences”). A Section 6 licence authorises a designated body corporate to promote a specific constituent lottery.

The draft Section 5 licence provides that the licensee should produce an Advertising and Sales Promotion Code of Practice and a Consumer Code of Practice for approval by the NLC, and that breaches of the codes will constitute breaches of the licence. The codes will become the copyright of the NLC.

The content of Section 6 licences will vary according to the nature of the lottery or lotteries being promoted, and may be designed to allow reappraisal of market circumstances and other issues. A draft Section 6 licence for a main online draw game is at Annex E.

The current Section 5 licence is available from the NLC, price £25.00, and is on the NLC website, [www.natlotcomm.gov.uk](http://www.natlotcomm.gov.uk).

The successful applicant for the Section 5 licence will be invited to submit provisional applications for Section 6 licences on the game plan provided in response to chapter 11 as soon as possible after the NLC confirms its intention to grant the Section 5 licence. It will also be invited to facilitate in advance any applications by third parties which it proposes should act as independent Section 6 licensees (see below) from the commencement of the Section 5 licence. The actual Section 6 licence(s), including any granted to independent licensees, will be granted following the grant of, and during the term of, the Section 5 licence. Chapter 11 of this ITA requires applicants to provide information on the games that will form the basis of Section 6 licence applications.

The NLC may vary any condition of a licence with the licensee's consent. The NLC can vary any condition, or insert a new condition, without the consent of the licensee, provided that it gives the licensee a reasonable opportunity to make representations, except where the variation would require the licensee to transfer any property or rights or, where in the case of a Section 5 licence, the condition provides that it may only be varied with the consent of the licensee (Section 8 of the Act).

A licence granted under the Act cannot be extended, but a new licence may be granted to the previous licence holder on its termination. It will be for the NLC to decide the process by which it grants a subsequent Section 5 licence but its most likely course of action will be to undertake another competitive process.

## **2.9 Independent Section 6 licensees**

The Act makes no presumption that the identities of Section 5 and Section 6 licensees should be the same or different. One or more Section 6 licensee(s) may therefore be bodies other than the Section 5 licensee ("independent Section 6 licensees"). The NLC expects the successful applicant for the Section 5 licence to welcome third parties with creative and practicable proposals as independent Section 6 licensees promoting games alongside itself.

Under the Act independent Section 6 licensees may only promote a constituent lottery in pursuance of an agreement with the Section 5 licensee. The Section 5 licensee remains responsible for paying the sums due to the Secretary of State and for paying Lottery Duty. The agreement with the Section 5 licensee must enable it to recover the relevant sums from the independent Section 6 licensee concerned and to secure compliance with the Section 5 licence.

The NLC is therefore in practice only able to consider an application by a third party for a licence as an independent Section 6 licensee if the third party has first obtained an adequate conditional agreement, or a clear understanding of the terms of such an agreement, with the Section 5 licensee. It is for the Section 5 licensee to exercise its commercial judgement in this matter within the general legal constraints on business conduct. Paragraph 11.5 of this ITA requires applicants to state how they intend to encourage proposals from prospective independent Section 6 applicants and the basis on

which they expect to reach agreements. The NLC wishes to have a clear understanding of their planned content.

The Section 6 licensee is the promoter of the constituent lottery or lotteries and is legally responsible for paying prizes or procuring the payment of prizes to winners.

Guidance on applications for licences under Section 6 by applicants other than the Section 5 licensee has been issued by the NLC. A copy was provided with the draft Invitation to Apply. Copies of the guidance are available from the address on page 6 above.

## **2.10 Licence fees**

The fees payable on the grant of licences are prescribed by an Order made by the Secretary of State. The present Order prescribes a fee of £70,000 on the grant of a Section 5 licence and a fee of £20,000 on the grant of a Section 6 licence. These fees are set according to the provisions of the Act and the standard public service arrangements for setting fees and charges. The fee for the Section 5 licence will depend on the complexity of the successful application and the administrative cost of processing the licence from the announcement of the preferred applicant to the grant of the licence. The fee for Section 6 licences has been reviewed regularly during the period of the current Section 5 licence and no significant changes are expected.

## **2.11 Applicability of competition legislation**

The Competition Act 1998 comes into force on 1 March 2000. It prohibits anti-competitive agreements and practices and the abuse of a dominant position, and is applicable to Section 5 and 6 licensees in the same way as it is to all other commercial entities. Licensees will need to ensure that their commercial decisions and arrangements comply with its provisions and should note that arrangements that breach the Competition Act may be void and unenforceable.

## **3 THE APPLICATION PROCESS**

### **3.1 Introduction**

All applications to run the National Lottery must accord with the requirements in this ITA. Applicants shall respond fully on all mandatory requirements contained in it. The applicant shall ensure that all the information that it provides, including any relevant supplementary information, is accurate.

The NLC will undertake a detailed evaluation of each application. An applicant may be required to provide additional information in writing to clarify particular aspects of its application. The NLC may seek improvements in some or all of the commitments that an applicant has offered. If it does so, it will ensure that it does not distort competition by allowing one applicant to make changes in a way that, if open to another bidder, could have led to the eventual selection being different.

The NLC aims to announce a preferred applicant by the end of June 2000 and earlier if possible. It may also announce a reserve applicant. The NLC will then finalise the draft licence in the light of any commitments that the preferred applicant may have offered in its proposal and which are not already included in the draft licence. The NLC envisages that any other modifications will be limited to additions to take account of aspects of the application for which there is no provision in the draft licence and to necessary minor points of detail.

Confirmation of the decision to grant the licence will be subject to the fulfilment by the applicant of conditions to be set by the NLC based on the applicant's start-up plan, and on the securing by the applicant of any consents, clearances, permissions, approvals or other conditions ("consents") that it may require from third parties. The applicant shall provide details of such consents in its application.

Before reaching its decision the NLC will also require that the preferred applicant can show that the finance for its proposal is irrevocably committed. Where the consent of shareholders and other approvals are required, this must be secured during the eight-week period.

The NLC will expect the preferred applicant to co-operate with it fully in order to enable early confirmation of the decision to grant the licence. It is intended that this should be achieved in no longer than eight weeks from the announcement of the preferred applicant. The NLC will only be prepared to consider proposals that the preferred applicant may make for changes in its application, including any affecting the identity of suppliers, if it is satisfied that such changes would benefit the NLDF

and not lead to poorer performance in terms of the individual outcomes specified later in this ITA.

#### **Note**

The consents referred to above may include but are not limited to the following:

- shareholder approvals;
- commitment of finance or leasing contracts;
- completion of any equity issue;
- commitment of any key supplier contracts;
- European Union or UK merger clearance or competition clearance or exemption; and
- any other relevant consents.

### **3.2 Timetable**

The NLC expects the following timetable to apply:

Last date for Letters of Intent to Apply	7 January 2000
Earliest date for submission of “fit and proper” declarations, etc.	17 January 2000
Last date for enquiries and requests for additional information	21 January 2000
Final date for applications	29 February 2000
Presentations to NLC	by end-May 2000
Announcement of preferred applicant	by end-June 2000
Confirmation of preferred applicant	by end-Aug. 2000
Commencement of new licence	1 October 2001

### **3.3 Modifications and amendments to the Invitation to Apply**

The NLC reserves the right to make changes at any time to this ITA and to the timetable above. Any changes will be included in written addenda issued by the NLC. All parties who submit a Letter of Intent to Apply (see below) and other interested parties who ask to be included on the NLC’s circulation list will receive notification of any changes to the ITA as soon as they are made.

The NLC has considered, after consultation, whether it could accept applications which do not fully specify principal suppliers, as suggested in paragraph 10 of the “Statement of Main Principles” published in July 1999. The NLC has concluded that it cannot accept such applications. All applications will be evaluated on the basis of their content as submitted.

### **3.4 Letter of Intent to Apply**

Any party intending to apply for the Section 5 licence is requested to submit a Letter of Intent to Apply **by 7 January 2000** to:

The Chief Executive  
The National Lottery Commission  
2 Monck Street  
London SW1P 2BQ.

The applicant is requested to complete the form given in Annex F and to submit this form with the Letter of Intent to Apply.

#### **Notes**

1. Any party which submits a Letter of Intent to Apply will be sent any revisions to this ITA and answers to any questions by interested parties requesting clarification of any matters contained in it, including any revisions or answers that have been provided since the issue of this ITA.
2. The Letter of Intent to Apply will not have any legal status, but is intended to ensure that all potential applicants are notified of important information during the application process. Failure to submit a Letter of Intent to Apply will not prejudice a subsequent application for the Section 5 licence.

### **3.5 Enquiries**

Any enquiries and requests for additional information regarding this ITA must be delivered by hand or post to the Chief Executive of the NLC by 21 January 2000, or earlier if possible, at the address given above or sent by fax (0171-227 2005) by the same date. All such requests will be acknowledged by the NLC within five working days. Responses will be made in writing and circulated by post to all who have submitted Letters of Intent to Apply and to other parties on the NLC's circulation list but without reference to the source of the enquiry or request. The NLC reserves the right to decline to answer specific questions.

### **3.6 Prohibition of contact by unauthorised means**

The applicant and any parties promoting its position are strictly limited to the forms of communication described above in paragraphs 3.4 and 3.5. The NLC reserves the right to reject the application of an applicant who attempts to influence the NLC or its advisers, directly or indirectly, or to obtain additional information outside of this process.

### **3.7 Form of application**

The application should be concise and shall accord with the requirements elsewhere in this ITA. The following requirements shall also be noted:

- the application shall be typed in English, with each page clearly numbered and recorded in a contents table;
- the applicant shall provide responses in the same order as the requests for information in this ITA. All responses shall be cross-referenced to the relevant chapter or paragraph number in this ITA. The response to each chapter shall be provided in a separate volume or volumes;
- the application shall be printed in its entirety so that it can be read without any apparatus, except as provided below;
- a master copy of the application shall be presented in an original bound version, excluding the undertakings required in Schedule 6 to the draft licence and the declarations required under paragraphs 7.9 and 8.2-4 below. This master copy shall have the signature of two directors of the applicant. Their signatures shall be given on each page that includes material in response to the requests in chapter 10 of this ITA. Proof of the directors' authority to sign on behalf of the applicant shall be provided;
- the applicant shall provide 20 numbered copies of the master copy. It is the applicant's responsibility to ensure that all copies are the same as the original;
- the application shall also be provided on CD-ROM (six copies) running under Windows 95 or NT4. Files shall be in Microsoft Word (Version 6 or 97) in doc. format or in pdf. format or, in the case of the financial information required in chapter 9, Excel spreadsheet (Version 97). Appropriate filenames shall be specified and cross references shall be provided to the printed or typed document;
- the applicant is responsible for ensuring that information provided in electronic form is consistent with the information provided in the printed or typed application. In the event of a discrepancy in information between the CD-ROM and the printed version, the printed version will take precedence;
- the applicant shall present an executive summary of the application. It is the applicant's responsibility to ensure that any such executive summary is consistent with its application. The NLC will assess the application, not the executive summary;
- the applicant shall provide an original signed copy and one other copy of the

declarations required in paragraphs 7.9 and 8.2-4; and

- the master copy, each copy thereof, CD-ROMs, any executive summary, and fit and proper declarations, etc. must be submitted in sealed packages. The outside of each package must give the name and address of the applicant, the name and contact number of a responsible contact and show the words "Application for a Licence to run the National Lottery" and give details of what the package contains.

All of the above must be delivered to the NLC at the address shown above in paragraph 3.4 **by no later than noon on 29 February 2000**. No faxed applications will be accepted.

No responses in the application are required to chapters 1-5. However, the submission of an application will be taken as acceptance of their terms. There must be a full response to all other chapters.

It is the responsibility of the applicant to ensure that the application submitted is complete. The NLC retains the discretion, in exceptional circumstances only, to accept non-compliant bids, but will only do so where the deficiency is not material and there is a satisfactory reason for non-compliance.

### **3.8 Early submission of fit and proper declarations**

It will assist the NLC if the applicant will submit as many completed declarations (as set out in Annex G and H) as possible in advance of 29 February 2000. Early submission of these documents may be made to the address shown above from 17 January 2000. They should be delivered to the address given in paragraph 3.4 above and marked "Private and Confidential - for the attention of the Chief Executive".

### **3.9 Acknowledgement of receipt**

An acknowledgement will be issued in respect of each application and any early submissions of fit and proper declarations, etc. It will be issued within five working days of receipt by the NLC. Materials submitted will not be returnable.

### **3.10 Modifications and amendments to an application**

No additional material will be accepted from the applicant after the final date for applications and prior to the announcement of the preferred applicant, except for anything that the NLC may specifically request according to the procedure described below. After an application has been submitted, the only changes that will be permitted will be those requested by the NLC. These changes are expected to be minor, in the sense that they should not alter the substance of the application in any significant manner. Further and better information may be requested by the NLC, but the applicant will not be permitted to change the content of the application once it has been submitted, except as indicated in paragraph 3.1.

### **3.11 Multiple applications**

Multiple applications from the same applicant will be rejected. An application containing more than one response to any of the requirements in chapter 10 will be deemed to constitute multiple applications. Applications may be deemed to constitute multiple applications because of a close relationship between the persons or bodies owning or controlling them.

For purposes of clarification, it should be noted that the NLC will not regard an application as a multiple application on the grounds that a contractor or subcontractor identified in it is participating in another application, except where in the opinion of the NLC the combination of contractors and subcontractors in each application is so similar as to suggest collusion.

### **3.12 Procedure for the NLC to acquire further information**

Applicants may be required to provide additional information in writing to clarify particular aspects of its application. The NLC reserves the right to seek such further particulars from the applicant at the time and in the format of its choosing. Each applicant must designate an individual to serve as a point of contact with the NLC during the evaluation process.

### **3.13 False information**

The NLC reserves the right to reject the application of, or subsequently revoke a licence granted to, an applicant that provides false information in or in connection with an application for the Section 5 licence.

### **3.14 Publication**

The NLC will keep all applications strictly confidential until 29 February 2000. The NLC intends then to publish the names and addresses of the applicants and the names of participants in each. The NLC will seek during the evaluation to agree a short description of each application with the respective applicant for use by the NLC if the application is unsuccessful. The NLC reserves the right to publish an account of its discharge of its responsibilities. This may involve explaining, once it has selected the preferred applicant, why it has rejected particular applications.

Applicants should be aware that information and documents might need to be disclosed to Parliament or its officers in connection with its powers and privileges or with the statutory functions of its agents, including the Comptroller and Auditor General, to a court in the course of legal proceedings or to any regulatory body in connection with the discharge of its statutory functions.

Applicants are requested to refrain, so far as their applications are concerned, from media contact, the issuing of press releases and the distribution of other promotional material and from the staging of promotional events connected with their applications from the final date for their submission until the announcement of the preferred bidder.

### **3.15 Ownership of material resulting from this Invitation to Apply**

All material submitted in response to this ITA becomes the property of the NLC once it is submitted. However, the NLC does not acquire any rights to any intellectual property in the material. The applicant represents by submission of the application

(i) that it is authorised and/or has all rights to use and disclose the material (and rights thereto) submitted with its application, (ii) that it is not in breach of any regulation in so doing, and (iii) that none of the material is defamatory.

The NLC and its advisers will not disclose the contents of any material to any other party, without the consent of the applicant, except:

- where the contents are already in the public domain;
- in the case of a successful application, where parts are incorporated in the Section 5 licence or included in a schedule to it; and
- in the circumstances set out under “Publication” above.

### **3.16 Presentations**

During the evaluation process the NLC may invite applicants to make one or more presentations to it. Applicants would not be allowed to present new information that is additional to that already included in their applications. The NLC may choose to have advisers present. A detailed brief for presentations would be provided beforehand.

### **3.17 Visits to other lotteries and other operations**

The NLC may wish to visit lotteries or other operations where the technology being proposed by the applicants is running. The NLC may choose to have advisers present. An applicant may suggest a site that the NLC should visit but the NLC reserves the right to visit any site where comparable technology is running. The NLC may also wish to visit a non-lottery operation for which a major shareholder or parent company of the applicant is responsible.

## 4 EVALUATION

In accordance with its statutory duties, the NLC will assess the propriety of each applicant. This covers both the organisation and all who are likely to be concerned with managing the lottery or for whose benefit the business is likely to be conducted. The assessments will also cover key contractors. The procedure for the assessments is described in chapter 8. The NLC will need to be satisfied with the outcome before an application can proceed.

The NLC will assess applicants' plans for player protection (chapters 14 and 15) and their ability to fulfil them as part of its assessment of operational proposals. Provided that the NLC is satisfied on player protection grounds in the context of the applicant's proposals, and the fit and proper assessments are satisfactory, the paramount consideration will be an evaluation of the prospective proceeds for the NLDF.

In selecting the preferred applicant on this basis, the NLC will need to decide whether, in its opinion, an applicant has the organisational and financial capacity to run the National Lottery successfully. The NLC will take account of the responses on corporate and financial matters in chapters 6, 7 and 9.

The NLC will consider applicants' plans for the lottery against the key outcomes listed in chapters 11-20 in the part of the ITA dealing with operational matters. The NLC will also consider applicants' proposals on start-up and risk management (chapters 21 and 22). The results will inform the NLC's view of the commitments to the NLDF that applicants offer in response to chapter 10. The NLC will wish to ensure that there is consistency between these commitments and the relevant business plan. It will consider whether the plan is viable over the intended life of the Section 5 licence; over-optimistic forecasts or inconsistencies will damage an application's credibility. In analysing and comparing applicants' business plans the NLC will use its own common revenue assumptions as well as forecasts provided by applicants and may use such quantitative or other techniques as it may choose. The evaluation process will include consideration of the following:

- financial soundness;
- robustness of business plans under various scenarios;
- overall ability of management, organisational capacity and attention to handling of risk;
- competence and robustness of plans for game design, marketing and retail distribution;

- ability to adapt and modify plans to deal with adverse developments so as to protect sales revenues and hence contributions to the NLDF;
- evidence that applicants have, or can demonstrate the ability to deliver systems, procedures and equipment that can handle all aspects of the task and would support the likely volume of transactions and processing; and
- thoroughness and clarity in any transition planning that may be necessary.

The order in which the aspects are listed above is not intended to indicate their relative importance.

The NLC reserves the right to make changes but expects to structure the evaluation process in the following way:

Fit and proper  
Initial tasks (checking compliance with ITA, etc.)

Initial presentations

Consumer protection

Review of overall plans:

- Game plan

- Marketing plan / minimum marketing spend
- Player access plan / coverage / build-up
- Prize money and banking
- Systems and security / start-up / risk management
- Corporate and financial
- Business

plan

Consistency of applications and between reviews

Further presentations and site-visits

Significant differentiators

Evaluation of revenue potential  
(contributing to adjustments to forecasts in making rankings)

Rankings for NLDF contributions

- on applicants' forecasts
- on adjusted forecasts
- on common forecasts
- on

common

forecasts

adjusted

Sign-off

Final

comparisons

Selection

and

review

## Notes

1. The NLC intends to use a real, i.e. inflation-adjusted, discount rate of 6% for the purpose of evaluating returns over the period of the licence.
2. The attention of applicants is drawn to Section 5(3) of the Act. This provides that

*“The National Lottery Commission shall not grant a licence under this section unless an application in writing, containing such information as it has specified as necessary for enabling it to determine whether to grant it, has been made to it by such date as it has specified”.*

The information that the NLC has specified as necessary for enabling it to determine whether to grant the licence is that required in this ITA. The date that the NLC has specified is 29 February 2000 at noon.

3. In addition, applications are liable to be rejected if:
  - insufficient copies of the application are submitted (paragraph 3.7);
  - an applicant submits more than one application (paragraph 3.11); or
  - an applicant attempts to influence the NLC or obtain information by unauthorised means (paragraphs 3.6 and 3.13).

## **5 DISCLAIMERS**

### **5.1 General disclaimer**

Information is supplied on a wide range of matters in this ITA, many of which depend on interpretation of the law. The information given is not an exhaustive account of the statutory and licensing requirements and should not be regarded as a complete or authoritative statement of the law. The applicant should consult its own legal, tax and other professional advisors on all relevant matters.

The NLC accepts no responsibility for the accuracy or otherwise of the information contained in this document, nor for any interpretation or opinion of the law expressed herein. Accordingly, the NLC accepts no liability for any loss or damage, whether resulting from negligence or otherwise, howsoever caused, arising from the reliance of any person upon the statements contained herein.

### **5.2 Disclaimer in relation to the NLC's acceptance or approval**

The acceptance or approval by the NLC of any system, functional description or equipment is no warranty as to its quality or fitness for purpose. The NLC accepts no liability for any loss or damage, howsoever caused, suffered by any person in placing reliance on such acceptance or approval, whether or not resulting from any negligent or wrongful acts, breach of a statutory duty or omission by or on behalf of the NLC.

### **5.3 Possibility of cancelling the ITA and/or rejecting all applications**

The NLC reserves the right to change or cancel this ITA or the draft licences accompanying it at any time, and to reject all applications if none meets the necessary requirements adequately. The NLC may subsequently re-issue an ITA.

### **5.4 No promise of licence**

The issue of this ITA does not imply that the NLC is bound to grant a Section 5 licence, or any Section 6 licence as outlined in the Section 5 licensee's application.

## **5.5 Expenses**

The NLC is not responsible for, and does not accept liability for, any of the costs incurred in the preparation of an application for the Section 5 licence, or for any Section 6 licence, whether or not an application is submitted or a licence granted.

## **5.6 Changes in legislation and other matters relevant to the National Lottery**

The applicant should be aware that national legislation applying to betting, gaming and lotteries might change. The application of European Union law and treaties to betting, gaming and lotteries may also change. The NLC does not take any responsibility for such changes or any other external factors that may affect the National Lottery.

The NLC may, however, seek to modify licence conditions in response to unanticipated events if it considers that such changes would be consistent with its statutory duties. The particular case of a possible change in Lottery Duty is covered in paragraph 10.4.

## **6 GENERAL INFORMATION REQUIREMENTS**

### **6.1 Name and registration**

The applicant shall provide the following information:

- a) the name of the applicant company and any names under which it trades or has traded in the past five years;
- b) details of the company registration of the applicant and each of its subsidiaries, including:
  - the place where the company is registered;
  - when it was registered;
  - its registration number;
  - the address of its registered office;
  - a certified copy of the Memorandum and Articles of Association or other constitutional documents of the company; and
  - the names of directors and company secretary;
- c) the names and addresses of the applicant's auditors, legal advisors, principal bankers and any expert advisors engaged to provide specialist advice to the applicant in connection with the National Lottery; and
- d) certified copies of board minutes of the applicant approving the contents of the application.

The requirements in a) and b) above apply to each and every holder of more than 3% of the applicant company.

#### **Notes:**

1. The applicant must be properly incorporated at the date of submission of the application.
2. The applicant is reminded of the statement in paragraph 1.6 about the form of the licensee.

## 6.2 Financial structure

The purpose of this paragraph is to identify the financing of the applicant. This is in order to help judge its ability to continue as a going concern from the announcement of the preferred applicant, and to fulfil its obligations under the draft licence through a variety of market conditions, as discussed in chapter 9.

The applicant shall describe its present and future funding arrangements as clearly as possible. It should include any alternative arrangements that may help give it flexibility. The NLC will have close regard to how it is proposed to ensure that licence commitments are met.

In view of the fact that this is a substantial venture, the NLC must be satisfied that there is proper financial commitment in support of the business plan from suitable investors. Where the application does not identify the provider(s) of all of the financing, it shall identify those subscribing for, or providing, substantially all the equity and debt.

The applicant shall provide, in the case of companies limited by shares:

- a) details of the equity share capital of the company both currently, and as it will be following the grant of the licence, including:
  - the par value of the shares;
  - the number of authorised and issued shares;
  - the issue price of the shares;
  - the extent to which the issued shares are paid up; and
  - the voting, dividend and other (if any) rights, and obligations, attaching to the shares;
- b) details (as above, together with conversion and other specific rights) of any other share or loan capital in issue (or which will be in issue following grant of the licence), including all forms of preference shares, convertible loan stock, options, or warrants;
- c) copies of all subscription, shareholders' or consortium agreements which concern the applicant or its share or loan capital or business or affairs and any other agreements between any persons who are connected parties in relation to the applicant and which concern or relate to the applicant or its business or affairs (or, where such agreements have not yet been entered into, the latest available drafts of them);

- d) copies of any guarantees of the obligations of the applicant from significant shareholders of, or material contractors or subcontractors to, the applicant, or by or to any provider of finance to the applicant;
- e) information concerning the distribution policy and entitlements of shareholders;
- f) written evidence that, where the applicant proposes to raise new share or loan capital which is not committed under the subscription, shareholders' or consortium agreements disclosed under c) above (other than the borrowing facilities referred to in g) below), arrangements for the provision of new share or loan capital are achievable. The written evidence should set out any preconditions or other prior obligations to be met and should include a comfort letter from financial advisers or stockbrokers confirming that such a capital-raising exercise would be possible, assuming no material change in current market conditions. The applicant's attention is drawn to Note 5 to paragraph 8.3 below;
- g) certified copies of board minutes of the applicant approving any arrangements for raising additional 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% of the share capital of the applicant (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;
- h) details of all borrowing facilities available to the applicant, and the extent to which they are currently drawn down, including inter alia:
- overdraft facilities;
  - revolving credit facilities;
  - term loans;
  - mortgage and hire purchase facilities, finance and operating leases; and
  - any loans from any connected party in relation to the applicant.

- i) details of:
- the amount and terms of all borrowing repayment details, (covenants, etc.);
  - any security provided and charges against company (or any subsidiary) assets; and
  - the names and addresses of lenders of and guarantors for any of the facilities.
- j) details of any contingent liabilities and off-balance sheet financing arrangements;
- k) audited accounts for the two most recently completed financial years for the applicant, if available, and for the applicant's ultimate parent company, if the applicant is a subsidiary, or if not, for each qualifying direct shareholder (and where applicable their ultimate holding companies). If these are not yet available, audited accounts for the previous financial year, together with any interim financial statement for the most recent financial year should be provided. If audited accounts become available in the period prior to the grant of the licence, these should be provided as soon as they are available. The applicant shall inform the NLC of any material deterioration in the financial position since the most recent audited accounts in each case; and
- l) written evidence that where the applicant proposes to raise new debt, such arrangements are available in principle. This should be in the form of a letter of intent from the principal lenders, covering the following points:
- the amount, type and duration of the facility;
  - the drawdown schedule;
  - the approximate costs of the facility, within an indicative range;
  - any security or guarantee required in support of the facility;
  - the principal covenants required (including specific details of cover ratios);
  - details of any conditions precedent; and
  - 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.

If the applicant is not a company limited by shares, it shall provide information equivalent to the above.

## **Note**

The applicant is reminded that where it has to finalise its financing arrangements or obtain any approvals following notification of it being the preferred applicant, such conditions must be met within eight weeks of this notification.

## **6.3 Corporate and legal structure**

The applicant shall provide details of:

- a) any companies which will be subsidiaries of the applicant following the grant of the licence and details of their proposed activities;
- b) the corporate and legal relationships that will apply with the proposed trustee or trust corporation or other provider of prize security, any distributor or proposed distributors, other connected parties as defined in Condition 20 of the draft licence, and any identified prospective Section 6 licensees, together with details of other persons whom the applicant may consider relevant; and
- c) the legal relationships that are intended to apply between the licensees and participants in games.

Applicants for the licence whose plans include the operation of independent Section 6 licensees from the commencement of the Section 5 licence shall indicate the terms of agreements with relevant prospective independent Section 6 licensees.

## **Notes**

1. The ITA and the draft licence do not stipulate the precise legal relationships that will subsist between participants, the Section 5 and independent Section 6 licensees and any trustee or trust corporation in whose name any trust accounts are held or other provider of prize security.
2. The applicant should describe such legal relationships by specifying:
  - the proposed legal relationships between the licensees, distributors and participants regarding the issue of tickets;
  - who has title to cash proceeds generated by ticket sales (at various times as appropriate); and
  - to whom participants should look for the payment of winnings (if not the promoter of the lottery, who will always carry the legal obligation for payment).

3. The information required here does not include that in relation to contractors and subcontractors, which is required in paragraph 7.9.
4. The applicant is referred to Chapter 15 regarding the security of payments to prizewinners.
5. The attention of applicants is drawn to Condition 25(1)(e) of the draft licence as to the holding of interests in subsidiaries that will be permitted under the licence.

## **6.4 Relevant experience**

The applicant shall provide details of any relevant experience in lottery operations gained by itself, its shareholders, its directors, or its key employees in the UK or elsewhere. These shall include:

- a description of the functions undertaken;
- details of when and where this experience was obtained; and
- names, titles, roles and contact details of references.

### **Notes**

1. The NLC 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.
2. Information on experience on the part of contractors and subcontractors is required in paragraph 7.9.

## **7 ORGANISATION AND PREMISES**

### **7.1 Management capacity**

The applicant shall provide sufficient information to allow an assessment of its capacity and its ability to plan and organise a venture on the scale of the National Lottery.

### **7.2 Corporate governance and remuneration**

The NLC will need to be assured that the licensee is managed in accordance with the highest standards of corporate governance. This is in order to protect the interests of participants and to ensure propriety, and reflects the likely level of public interest.

The applicant shall provide

- a) sufficient information to allow an assessment of its commitment to high standards of corporate governance; and
- b) clear intent to apply these standards as a minimum in matters of remuneration.

#### **Notes**

1. Specifically, but not exhaustively, the NLC expects that
  - there will be appropriate board committees of the licensee, including an audit committee and a remuneration committee, consisting wholly or mainly of non-executive directors who are not associated with the shareholders of the licensee or equivalent;
  - the board will formally recognise its responsibility to maintain an adequate system of internal control, throughout the business, both in financial and other areas;
  - a nominated director will be appointed to take responsibility for the applicant's compliance with the Section 5 and Section 6 licences, the codes of practices, and all other applicable laws and regulations;

- information systems will be maintained that capture relevant, reliable and up-to-date information and provide it to the right people at the right time and frequency; and
  - the board will maintain an internal audit function to review and report on the licensee's internal control system on a planned and regular basis.
2. The NLC acknowledges that the size of remuneration packages at senior levels of management can affect the public perception of the National Lottery. It is therefore important for the applicant to be transparent over the factors determining salaries and bonuses. The NLC will wish to be satisfied that applicants have procedures that guard against levels of remuneration that are excessive in relation to the responsibilities and performance of management.
  3. The NLC reserves the right in the course of considering an application to require such information or explanations about the licensee's corporate governance as it sees fit.

### **7.3 General organisation plan**

The applicant shall provide an organisation plan which:

- a) details its organisation, identifying the applicant's departmental structure and that of any subsidiary of the applicant;
- b) specifies the roles and responsibilities of each department and the procedures for which each is responsible;
- c) identifies the key positions in the organisation (e.g. executive directors, senior managers and those responsible for each department) and provides brief job descriptions;
- d) describes how the organisation is to be implemented, i.e. how and from where the staff, facilities and other resources will be obtained; and
- e) identifies key activities that are to be contracted or subcontracted, where the activity falls within the list specified in Condition 6(1) of the draft licence.

#### **Notes**

1. The applicant will need to assure the NLC that there is clear accountability within the internal structure of the licensee's group, with responsibility for all activities delegated to responsible and competent staff who are organised and managed through a well-defined structure.

2. There must be satisfactory segregation of duties for all lottery processes and procedures.
3. References to employees include any persons engaged in the relevant lottery operations, whether as secondees, consultants or otherwise.
4. The applicant will be expected to promote and implement equal opportunities and to monitor and review performance annually.

#### **7.4 Specific organisation plans**

The applicant shall describe the IT, marketing and sales organisations in terms of:

- their roles, responsibilities and size;
- the skills profile for each key role;
- the strategy concerning the sourcing of services (what use will be made of outsourcing and how will it be controlled); and
- how the organisation is to be implemented, i.e how, when and from where the staff, facilities and other resources will be obtained.

#### **Note**

The applicant is reminded of the need to include outline long-term plans.

#### **7.5 Internal audit**

The applicant shall describe the internal audit function, resources and processes, including:

- the proposed resourcing, sizing, responsibilities and organisation plan for the internal audit function and how its independence will be protected;
- how internal audit will contribute to ensuring high standards of corporate governance;
- the proposed role of the Audit Committee;
- the skills profile of the internal audit department;
- the draft contents of the audit plan for the year following the issue of the licence;

- the audit methods and techniques to be employed (including the use of recognised internal audit standards and of computer assisted audit techniques);
- the reasons why and circumstances when external auditors might be used for internal audit purposes;
- the intended procedures for resolution of control weaknesses discovered by auditors; and
- the role of internal audit in the system development and implementation lifecycle.

**Note**

The NLC expects the applicant's internal auditor to have access to the chief executive and the board of the applicant and to report to the chief executive. The NLC will require access to all of the work of the internal auditor.

## **7.6 Quality assurance**

The applicant shall supply details of:

- a) its strategy for process and system quality assurance;
- b) the responsibilities of this function;
- c) the resources and how they will be organised; and
- d) the role of the QA function in the system development, implementation and operation lifecycle.

A formal system of process assurance and improvement, and of system quality assurance leading to a formal and recognised certification is preferred (e.g. ISO 9000).

## **7.7 Security management**

The applicant shall provide:

- a) a description of how the management of internal and external security issues associated with the National Lottery will be addressed, including a description of the size, organisation, responsibilities and skills profile

of the proposed specialist security group and any associated group to be established to investigate apparent security breaches;

- b) information describing the segregation of duties among different groups within the organisation of the National Lottery for the purpose of ensuring its secure operation; and
- c) information on the methods of incident investigation and the reporting of the results.

#### **Notes**

1. The applicant will need to demonstrate that it has sufficient resources and expertise to provide the required level of security operation and management.
2. The segregation of duties should show, for example, that staff employed in offline ticket production would not be able to authorise prizes.

### **7.8 Employee fraud**

The applicant shall demonstrate that all reasonable steps have been taken to prevent the possibility of lottery personnel benefiting from corrupt and fraudulent practices. This includes the setting up of clear and well-publicised arrangements for staff to raise concerns with a senior manager who is not the employee's line manager.

### **7.9 Contractors and subcontractors**

The applicant shall provide with respect to contractors or subcontractors which it is intended will supply goods and services of any of the types specified in Condition 6(1) of the draft licence (or, where relevant, of a type and value in excess of a limit specified in that condition) in connection with the National Lottery or the promotion of constituent lotteries:

- a) names and addresses, together with appropriate declarations as set out in Annexes G and H, duly completed by each contractor or subcontractor and by any of their connected parties as defined in Condition 20(3) of the draft licence;
- b) information summarising the legal arrangements between the licensee and its contractors and subcontractors and their respective responsibilities;
- c) information summarising the financial arrangements, including the terms of remuneration in the case of suppliers of main lottery services and how the applicant will ensure value-for-money during the period of the licence;

- d) a description of the nature of their planned activities;
- e) details of any relevant experience in lottery or other operations in the UK or elsewhere, including
  - a description of the functions undertaken;
  - details of when and where this experience was obtained; and
  - names, titles, roles and contact details of referees; and
- f) names and addresses of all persons who are connected parties in relation to such contractors and subcontractors.

## **Notes**

1. The applicant should be aware that under Condition 6 of the draft licence, it may not enter into contracts for lottery activities of certain types, unless the NLC has approved the identity of the parties other than the licensee.
2. All such contracts and subcontracts must contain provisions enabling them to be terminated at any time if the NLC, in the discharge of its duties under the Act, so requires. The NLC will normally only use this power where some change has occurred in relation to the relevant contractor or subcontractor following its approval. The NLC may request, and the applicant must submit, copies of any such contracts or subcontracts at any time.
3. The NLC reserves the right to seek references concerning past experience of contractor and subcontractors by means of written references and by directly visiting referees, and to make any other enquiries at its discretion. The applicant's attention is drawn in this connection to the note to paragraph 16.1.
4. The applicant should be aware that the NLC may request further information about all persons who are connected parties in relation to contractors and subcontractors, and that arrangement must be in place to ensure that changes in such connected parties or their details during the period of the licence are required to be notified to the NLC.

## **7.10 Prohibition on participation in the National Lottery**

All directors and staff of the licensee shall be prohibited from participating in the National Lottery. This prohibition will also apply to close family members and other persons living in the same household. The same prohibition will apply in the case of significant contractors and subcontractors to the extent that the NLC may determine. The applicant shall explain how it will enforce this prohibition.

### **Notes**

1. "Close family members" comprise for this purpose partners, parents, children (adult and minor), brothers and sisters.
2. The rules for each game (see paragraph 11.2) shall include a prohibition on the purchase of tickets by, and the payment of prizes to, persons in the categories listed above.

## **7.11 Location of the applicant's operations**

The applicant shall provide details of:

- a) the proposed location of the applicant's headquarters and principal offices; and
- b) the proposed location of the main computing operations (primary and back-up, if relevant) and other main facilities.

The applicant shall demonstrate the availability of the premises mentioned at the time and to the extent required to fulfil the commitments in the licence.

### **Notes**

1. The licensee will require the approval of the NLC before moving its headquarters or main facilities.
2. The arrangements as to location should be such as to enable the NLC to carry out its functions under the Act and the licence.

## **8 FIT AND PROPER VETTING**

### **8.1 Introduction**

The NLC has an overriding statutory duty to ensure that the National Lottery is run with all due propriety. It must therefore be able to identify those persons having interests in and/or influence over the applicant. It regards the information that is required in this section as of fundamental importance.

The attention of applicants is drawn to Section 19 of the Act, under which certain sections of the Rehabilitation of Offenders Act 1974 and the equivalent Northern Ireland Order may not apply to enquiries by the NLC. Certain convictions which would normally be regarded as spent may not be so regarded for this purpose and the NLC may take them into consideration when deciding whether or not to grant a licence.

### **8.2 Directors and key employees**

The applicant shall

- a) provide a list of the directors and key employees of the applicant and any subsidiaries (and those who are intended to be such) or holding companies, together with appropriate declarations and forms of authority and waiver (“declarations”) in the form set out in Annex G duly completed by each of those persons; and
- b) notify the NLC immediately of any changes in the identity of the above directors or key employees or of any material changes in their circumstances (such as any conviction for a criminal offence, censure by a regulatory authority or bankruptcy) during the period between the submission of the relevant declaration 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 applicant that the information set out in the declarations submitted with the application is correct. The draft requires any subsequent changes that occur whilst the licence remains in force to be notified to the NLC.

#### **Notes**

See paragraph 7.9 with respect to contractors and subcontractors and their connected parties.

1. The declarations and forms of authority and waiver previously included as Annexes G and H to the draft of this ITA are reissued with the present document. Annex H has been amended. It now includes a requirement that persons having a current or previous address in the last five years in certain countries that provide “certificates of good conduct” or an equivalent must provide the original to the NLC with the declaration. A list of the countries concerned, with relevant addresses, is appended to the annex.
2. The NLC must be notified immediately of any changes in any of the information provided in any of the declarations.
3. The draft licence requires the applicant to notify the NLC of any changes or proposed changes in the identity of directors and key once the licence has been granted.
4. The NLC reserves the right to require further information from the applicant in relation to its directors or key employees or those of its subsidiaries or the directors of any company connected with it, including in each case postholders whom the applicant may not have listed.

### **8.3 Shareholders and other persons connected with the applicant**

The applicant shall provide:

- a) a list of the names and addresses of all shareholders and other persons who are or are intended to be connected parties in relation to the applicant, as defined in Condition 20 of the draft licence, insofar as they are not covered by paragraph 8.2(a) above, and excluding any connected parties who would be included only by virtue of paragraph (3) (a) (vii) of Condition 20 of the draft licence (i.e. being contractors or subcontractors within Condition 6 of the draft licence and persons who are connected parties in relation to them) . The list must explain the relationship of each connected party, its relationship to the applicant and any relationship with any other connected party, and what those relationships would be were the applicant to be granted the licence;
- b) the appropriate declarations in the forms set out in Annex G and H, duly completed by the connected parties referred to in a) above;
- c) details of the arrangements that the applicant proposes for ensuring that it can obtain information as to the persons directly or indirectly interested in its share capital, whenever so requested by the NLC, as required by Condition 20(5) of the draft licence, and to control the transfer of shares or interests in shares as indicated in that

Information with regard to such contractors and subcontractors is required in paragraph 7.9.

condition.

## Notes

1. The definition of a “connected party” given in Condition 20(3) of the draft licence applies throughout this ITA. Broadly, it is intended to apply to those who are (or may be) able to exercise significant influence over the affairs of the applicant or those who are (or are likely to be) the ultimate beneficiaries of any surpluses from the operation of the National Lottery.
2. The NLC reserves the right to require further information from the applicant concerning any person directly or indirectly interested (or appearing to be so) in the share capital of the applicant or otherwise to be connected with (or appear to be) in a position to influence the applicant.
3. The NLC must be notified immediately of any changes in any of the information provided in response to the above during the period between the submission of an application and the grant of the licence.
4. The draft licence requires the applicant to notify the NLC of any changes or proposed changes in the identity of connected parties in relation to the licensee once the licence has been granted.
5. The NLC is concerned to ensure 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 also apply where any shares or interests in shares of the licensee are transferred in breach of the undertaking set out Schedule 8 to the draft licence.

Under Condition 20(5) of the draft licence the licensee is obliged to maintain suitable arrangements for this purpose and the NLC may require that the licensee exercise these powers from time to time in a manner specified by it.

6. The NLC requires to be satisfied before announcing the preferred applicant as to the propriety of those persons who will be providing all, or substantially all, of the funding of the applicant. Accordingly the NLC will require the information required in paragraph 8.3(b) above in respect of such intended providers of funding.

## **8.4 Lottery personnel**

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

The applicant shall provide:

- a) details of the safeguards that it will include in its recruitment and employment procedures and of the relevant steps that it will take with regard to any Section 6 licensee, and of contractors and subcontractors; and
- b) appropriate forms of declaration in the form set out at Annex H duly completed by the applicant.

### **Notes**

1. The NLC will require access to information concerning personnel so that it can periodically review this information during the term of the licence.
2. References to employees should be taken to include any persons engaged in the relevant lottery operations, whether as secondees, consultants or otherwise.
3. The applicant should note that the NLC may ask questions about the past records of any employee. The applicant should be aware that the NLC will undertake such vetting procedures as it deems necessary, and that it will have access to records held by Government departments and agencies for this purpose, both in the UK and overseas.

## **8.5 Handling of “fit and proper” information during the evaluation**

The NLC would not wish to be in a position where it would be obliged to reject an application for a licence by reason only of a problem in relation to an individual who is not of major importance to a particular operation. In such an instance, the NLC would wish to discuss the position with the relevant applicant and invite it to make an appropriate change to deal with the difficulty.

The NLC wishes to make it clear that it has no knowledge or expectation that the circumstances envisaged above will arise.

## **9 BUSINESS PLAN**

### **9.1 General note**

Unless otherwise stated, the applicant should provide all financial projections requested in this ITA at December 1999 prices. The projections should reflect changes in revenues and costs net of the effects of general price inflation as measured by the retail price index from that date.

The applicant is reminded of the requirement in paragraph 3.7 for the information provided in response to this chapter to be provided on CD-ROM in Microsoft Excel spreadsheet (Version 97) as well as in printed form. The format shown in Tables 1-8 should be used in both cases.

### **9.2 Principal forecast**

The applicant shall provide:

- a) detailed profit and loss accounts, cashflow statements and balance sheets for the duration of the licence to be regarded as the applicant's principal forecast. The information shall be provided in two sets of tables, in the format of Tables 1-3 and 5-7,
  - annually for all years of the licence; and
  - quarterly for the first two financial years of the licence, i.e. up to 31 March 2003.
- b) the financial ratios listed in Tables 4 and 8 for the principal forecast given in a);
- c) details of peak borrowing requirements and the months in which they occur in each financial period;
- d) details of assumptions concerning:
  - costs of borrowings (i.e. margins over a base level) plus any special arrangements such as caps/floors on borrowing rates;
  - amortisation of intangible assets;
  - depreciation rates;
  - exchange rates (if appropriate);

The tables are at the end of this volume.

- tax rates payable;
  - dividend policy;
  - any management or other charges, to or from any connected party in relation to the applicant;
  - contingent liabilities;
  - any other material assumptions; and
  - a statement setting out forecast performance against any banking covenants.
- e) a letter from an auditor with a certificate to practise in the UK, addressed to the NLC, providing an opinion that the projections, including the sensitivity tests described in paragraph 9.3, have been properly prepared on the basis of the assumptions stated (including for the avoidance of doubt, the information provided in response to other sections of this ITA where appropriate) and that the accounting policies have been properly and consistently applied to the forecast throughout the licence period. The accounting policies should be consistent with those required for UK accounting purposes;
- f) a statement signed by the directors of the applicant confirming that, on the basis of the projections provided, the applicant has sufficient working capital for the expected period of the licence and for a period thereafter sufficient to allow for the discharge of all obligations arising out of the licence and the operation of the National Lottery during the licence; and
- g) any supporting material, other than that requested elsewhere in this ITA, that the applicant considers would be of assistance in understanding its principal forecast.

## Notes

1. Full notes on the financial statements required by this section should be provided in a form that accords with UK Generally Accepted Accounting Practice, including the note on directors' emoluments.
2. Where the applicant intends to offer fast-draw keno or video lottery terminals in their game plan, or other developments with similar characteristics, it should note the Commission's reservations about the circumstances in which they would be prepared to grant licences (see paragraph 1.4 and Note 3 to paragraph 11.2). It shall exclude them from the principal forecast, and submit separate accounts on an incremental basis for each such development in the same format as Tables 1 and 5.
3. In producing its principal forecast, the applicant should make the following assumptions:
  - real GDP growth is 2.25% p.a. throughout the course of the period of the licence;
  - base interest rates and LIBOR rates are as at 9.00 a.m. on the day of issue of

- this ITA;
- the current corporate tax regime continues unchanged; and
  - Lottery Duty is 12% and is paid monthly fifteen days after the end of the month; and
  - the licence will terminate after seven years.
4. Revenue forecasts for Tables 1 and 5 should be made using the method used to determine ticket sales in Schedule 1 to the draft licence. Ancillary activities should be taken to be the lottery ancillary activities referred to in Condition 4 of the draft licence.
  5. The applicant's attention is drawn to the notes at the end of Tables 1, 3, 5 and 7.
  6. The applicant's principal forecast must be consistent with all other information provided in response to this ITA.
  7. Although each financial year commences on 1 April, the figures in year one will only relate to the period between the grant of the licence and 31 March 2002. Similarly the final financial year will reflect less than 12 months of trading.
  8. The financial ratios in Tables 4 and 8 are defined below, and should cross-reference to the individual data items of the profit and loss accounts or balance sheets in Tables 1, 3, 5, and 7 as appropriate. "Total capital" should be taken to mean the average capital over the period in question (year or quarter).

Return on equity:

$$\frac{\text{Profit after tax}}{\text{Total capital and reserves}}$$

Return on capital employed:

$$\frac{\text{Profit before interest payable and tax}}{\text{Total capital and reserves and long-term liabilities}}$$

Gearing:

$$\frac{\text{Short-term borrowings} + \text{long-term borrowings} - \text{cash}}{\text{Total capital and reserves}}$$

Unless preference shares are irredeemable, they should be included with borrowings.

Interest cover:

$$\frac{\text{Profit before interest payable and tax}}{\text{Interest payable}}$$

Where preference shares are treated as debt, the preference dividends should be included in interest payable.

Debt ratio:

$$\frac{\text{Total debt}}{\text{Earnings before interest and tax}}$$

Debt service ratio:

$$\frac{\text{Free cashflow} + \text{debt service costs}}{\text{Debt service costs}}$$

9. The notes to the accounts should consist of the principal notes required for UK audited accounts, including a statement of accounting policies, for the first year (i.e. the year ending 31 March 2002). For subsequent years they should note any significant variations in accounting policies.
10. The applicant should state whether the quarterly information required in Tables 5 to 8 is based on calendar quarters or on 13 week quarters.

### 9.3 Sensitivity tests

The applicant is reminded that the percentages below are to be applied to values at December 1999 prices.

In order to assist the NLC to understand the applicant's business plan, the applicant shall provide the sensitivities below. The sensitivities are required in order to show how an applicant's business plan is affected by changes to particular features.

The applicant shall provide summary profit and loss accounts, cash flow statements and balance sheets, as shown in Tables 1-3, for the following scenarios:

- a) all games produce only 90% of the revenue forecast for them in the principal forecast and operating costs (i.e. excluding payments for prizes and other costs) are 5% higher in each year than has been assumed in the principal forecast given in response to paragraph 9.2;
- b) the main draw game (or other major on-line games in the game plan, as appropriate) produces only 75% of the revenue forecast (in each year) in the principal forecast;
- c) all other games, other than those mentioned in b), produce only 75% of the revenue forecast for them in the principal forecast;
- d) all games produce only 75% of the revenue forecast in the principal forecast;
- e) all games produce 125 % of the revenue forecast in the principal forecast;

- f) marketing expenditure is 75% of that shown in the principal forecast;
- g) marketing expenditure is 125% of that shown in the principal forecast;
- h) the prize payout percentage is (i) 5 percentage points, (ii) 10 percentage points above the total prize payout percentages given by the applicant in response to paragraph 11.2;
- i) the prize payout percentage is (i) 5 percentage points, (ii) 10 percentage points, below the total prize payout percentage given by the applicant in response to paragraph 11.2;.
- j) real GDP growth is 1.5% per year over the licence period; and
- k) any other sensitivity test, with supporting written commentary, which the applicant believes may be relevant or of assistance in providing an understanding of its business plan.

For each of the cases a) to j) (and k) where applicable), the applicant should provide for the parameters to be adjustable in the Excel spreadsheet by the NLC. This does not affect the requirement to provide the information in printed form. The applicant shall provide sufficient information for the NLC to form an understanding of the relationship between the various cost and revenue lines in the business plan.

The applicant shall provide for each of the above cases (except as noted below) supporting summary commentary explaining how the variations would affect the applicant's:

- game plan (including terms offered to major suppliers);
- player access plan (including terms offered to retailers);
- marketing plan (including terms offered to major suppliers), except for cases (f) and (g);
- investment in and expenditure on computing and other systems;
- profitability;
- cashflow; and
- financial structure including borrowing headrooms.

#### **Notes**

1. In each case it should be clearly shown what steps the applicant would take in order to meet the licence requirements.

2. One purpose of the above sensitivity tests is to assure the NLC that the applicant is capable of sustaining the business over a wide range of possible economic outcomes for the market. If the applicant's financing, business plan or terms offered to the NLDF place it, in the NLC's judgement, at undue risk over the period of the licence, the application is liable to be rejected.
3. Another purpose of the tests is to assure the NLC that the applicant is offering the NLDF fair terms over the wide range of possible outcomes for the market, and in particular that it offers the NLDF a fair share of the benefits, whatever the level of sales of the National Lottery.
4. The applicant is not required to provide notes to the accounts required in paragraph 9.3 but should ensure that accounting policies adopted in the principal forecast have been consistently applied in the sensitivity tests.
5. The applicant shall describe any co-promotions planned or envisaged and state in detail their expected impact on the financial forecast.

#### **9.4 Staffing and remuneration**

The applicant shall provide details of the expected numbers and the total remuneration of staff by department or function as appropriate, and distinguishing between full and part-time staff. The information shall cover the first three years of the licence and relate to the organisation plan provided in response to paragraph 7.3. The applicant shall also provide information on the planned timing of recruitment prior to the commencement date of the licence by department or function as appropriate.

**Note:**

The NLC needs to be satisfied that the applicant is adequately staffed in all areas of activity necessary for the successful achievement of its business plan objectives, and that it intends to follow best practice in its human resources policy.

#### **9.5 Pre-operational and development expenditure**

The applicant shall provide details of its proposed expenditure prior to the grant of the licence on 1 October 2001. This will reflect the information provided in the start-up plan provided in response to chapter 20. The applicant shall also describe its planned subsequent development expenditure and the timing and underlying assumptions upon which this is based. Details of expenditure shall include that relating to the installation of terminals in retailers (paragraph 13.3), retailer recruitment and training (paragraph 13.8), retail sales force (paragraph 13.9), marketing expenditure (paragraph 12.3) and systems installation (chapters 16-20).

## Notes

1. The information should be in both expenditure and cashflow formats on a quarterly basis. The applicant should also indicate the proposed accounting treatment of pre-operational and development expenditure.
2. The precise format of the details of pre-operational and development expenditure is for the applicant to decide, but it should include at least the following headings:
  - staff and related costs by area (e.g. general management, salesforce);
  - expenditure on telecommunications equipment and services;
  - capital expenditure on other equipment;
  - expenditure on software and software development;
  - expenditure on materials (e.g. ticket stock);
  - other facilities and services costs;
  - expenditure on “lottery ancillary activities” if relevant;
  - systems testing;
  - development of the logo if relevant;
  - installation of terminals;
  - distributor recruitment and training;
  - advertising and promotion;
  - retail materials (e.g. display materials, signage); and
  - owned or franchised retail outlets.
3. Any significant expenditure intended for contractors should be clearly defined as such and the name of the proposed contractors indicated.

## 9.6 Business plan for lottery ancillary activities

The applicant shall provide the information set out below for "lottery ancillary activities" (as defined in Condition 4 of the draft licence):

- a) the type of ancillary activities planned, e.g. broadcast rights to any draw, use of terminals for other activities, sale of merchandise (including details of, for example, the types of merchandise considered appropriate);
- b) details of expected sales, costs and net profits from ancillary activities by type of activity and, where appropriate, by year. Figures should reconcile with those given in Table 5;
- c) where appropriate, a description of how the ancillary activities will be sold, advertised and promoted (e.g. whether any merchandise will be sold direct or through retail outlets or other distributors); and
- d) details of whether the licensee itself or a wholly-owned subsidiary or some other person will undertake these activities, and the relationship between the licensee and the person undertaking the activities.

**Notes:**

1. Condition 4 of the draft licence provides that any activity that is ancillary or related to the National Lottery is deemed a lottery ancillary activity.
2. The NLC is keen to maximise revenue from lottery ancillary activities within the objectives of propriety and consumer protection, and therefore welcomes plans in this area. It is important, however, that emphasis on ancillary activities does not in any sense jeopardise the core business of the National Lottery. The requirements in this section give the applicant the opportunity to justify its forecasts of specified lottery ancillary activities.
3. The NLC is unlikely to approve the exploitation of equipment used in the lottery for any ancillary activity that competes with the National Lottery for sales or puts the operation of the National Lottery at risk.

## **10 COMMITMENTS AND UNDERTAKINGS**

### **10.1 Instructions to the applicant**

Two directors, or equivalent, of the applicant must sign the responses to the requirements in this chapter on each page of the master copy. All requirements must be responded to in full. The attention of the applicant is drawn to the note in chapter 4 concerning the validity of applications. It is intended that the responses to requests in this section should form the basis of the Section 5 licence if the application is successful.

#### **Notes**

1. For contextual completeness, these requirements may have been duplicated elsewhere in this ITA. The responses given here take precedence.
2. The NLC reserves the right to base elements of the Section 5 licence on other parts of the successful application.

### **10.2 Licensee retentions and the primary contribution to the NLDF**

The NLC wishes to establish a basis of licensee retention that is related to the amount raised by the licensee for the NLDF. This is so as to ensure there is a strong incentive to the licensee to maximise the proceeds for the NLDF. Under the terms of the licence a significant part of the licensee's retentions will be based on the proceeds of the National Lottery, net of prizes won by players, Lottery Duty and a separate sales-related retention for the licensee (see below). These arrangements will avoid the situation in which, in certain circumstances, the licensee can under the present licence have an incentive to increase its retentions by increasing sales without the NLDF benefiting.

The separate sales-related retention allows for the fact that some of the licensee's costs will be directly proportional to sales. It provides for the situation where those costs might, at the margin, exceed the return to the licensee if retentions were based solely on sales net of prizes and Lottery Duty and where it would therefore not be in the licensee's interest to maximise the amount raised for the NLDF. The sales-related element will be based on those of the licensee's external costs that are directly proportional to sales. It will be calculated using the excess of sales above a "Sales Reference Point" set at a level of £4000 million, indexed as stated in Note 6 to this paragraph, with proportionate amounts for 2001/02 and 2008/9.

### *Calculating licensee retentions*

The licensee's retentions will be the sum of two amounts. The first amount will be based on sales of National Lottery tickets. The second amount will be based on tranches of sales net of prizes won by players, Lottery Duty and the first component of the licensee's retentions. The licensee's overall retentions will be determined by the following formula:

$$\begin{aligned} \text{Licensee retentions}_j &= A_j \max(\text{sales}_j - \text{SRP}_j, 0) \\ &+ \text{Summation } B_{i,j} [\text{tranche } i \text{ of } (\text{sales}_j - \text{prizes}_j \\ &\quad - \text{Duty}_j - A_j \max(\text{sales}_j - \text{SRP}_j, 0))] \end{aligned}$$

where  $A_j$  and  $B_{i,j}$  are percentages, subscript "i" denotes a tranche, subscript "j" denotes the financial year and  $\text{SRP}_j$  is the Sales Reference Point with respect to that year. The percentage  $A_j$  shall be based on the proportion of the applicant's external costs that are directly proportional to sales.

In order to reflect the possible impact on the licensee's costs of a change in the mix of distribution channels, the NLC may establish values for A and B that are specific to individual Section 6 licences if it grants such licences for games that are played wholly or partly using non-retail distribution channels. It may also do this if at any time it amends a Section 6 licence to allow a game to be played using such a channel or channels. In the latter case it may also be appropriate to make a change by agreement with the Section 5 licensee to the values for B and/or the tranche boundaries that apply for the generality of games other than that being treated separately. Individual arrangements will also be made in the case of independent Section 6 licences.

### *The primary contribution to the NLDF*

Although the presentation above focuses on licensee retentions, it is convenient for Schedule 1 to the draft licence to be expressed in terms of a "primary contribution" to the NLDF. This is defined in the licence on the basis of sales less Lottery Duty, prizes and the licensee's sales-related retention, taking account of values for  $A_j$  and  $B_{i,j}$ . The balance of sales after paying the primary contribution, Lottery Duty and prizes constitutes the total of the licensee's retentions, some part of which may flow to the NLDF as a secondary contribution (see paragraph 10.3).

### *Requirements of the applicant*

The applicant shall state the following values that it proposes for insertion into Schedule 1 to the draft licence:

The primary contribution may be enhanced by the operation of penalties relating to commencement and distribution as described in Note 2 to paragraph 10.5 and Note 2 to paragraph 10.6.

### **Percentages for the part of licensee retentions that is sales-related**

<b>Financial year ending</b>	<b>Percentage</b>
31 March 2002	$A_0$
31 March 2003	$A_1$
31 March 2004	$A_2$
31 March 2005	$A_3$
31 March 2006	$A_4$
31 March 2007	$A_5$
31 March 2008	$A_6$
31 March 2009	$A_7$

(A pro forma for the values of  $U_{i,j}$  and  $B_{i,j}$  is on the following page.)

#### **Notes**

1. The applicant shall base the values it gives for  $A_j$  on those of its external costs that are directly proportional to sales. These costs are likely to be principally commissions to distributors but should also include, for example, any element of payments to suppliers that is directly proportional to sales. The values proposed should be consistent with the commission rates included in the response to paragraph 13.4 and with the principal forecast in the business plan provided in response to chapter 9. The applicant should make clear the nature of any sales-related costs that are included apart from commission to distributors. It is important that these values reflect as accurately as possible actual costs over the period of the licence.
2. Each value for  $B_{i,j}$  applies to the amount up to the next highest tranche boundary,  $U_{i,j}$ , except that  $B_{n,j}$  applies above the highest tranche boundary; the way in which the higher rate of UK income tax applies may be a useful analogy to the mode of operation.
3. The applicant can, but is not required to, propose a single value for  $B_{i,j}$  that applies in all cases, to each tranche in a financial year or to the same tranches in all financial years. Similarly, it is open to the applicant to propose one or more tranches in respect of any financial year.

Tranche boundaries and percentages for the part of licensee retentions that is based on total sales net of prizes won by players, Lottery Duty and sales-related retentions

**Financial year  
ending 31.3.2002  
(j=0)**

**Financial year  
ending 31.03.2003  
(j=1)**

**Financial year  
ending 31.03.2004  
(j=2)**

**Financial year  
ending 31.03.2005  
(j=3)**

*Tranche  
boundary  
 $U_{i,j}$*

$U_{1,0} =$

$B_{i,j} (\%)$

$B_{1,0} =$

*Tranche  
boundary  
 $U_{i,j}$*

$U_{1,1} =$

$B_{ij}$  (%)

$B_{1,1} =$

*Tranche  
boundary*  
 $U_{ij}$

$U_{1,2} =$

$B_{ij}$  (%)

$B_{1,2} =$

*Tranche  
boundary*  
 $U_{ij}$

$U_{1,3} =$

$B_{ij}$  (%)

$B_{1,3} =$

$U_{2,0} =$

$B_{2,0}$

$U_{2,1} =$

$B_{2,1} =$

$U_{2,2} =$

$B_{2,2} =$

$U_{2,3} =$

$B_{2,3} =$

$U_{3,0} =$

$B_{3,0}$

$U_{3,1} =$

$B_{3,1} =$

$U_{3,2} =$

$B_{3,2} =$

$U_{3,3} =$   
 $B_{3,3} =$

$U_{4,0} =$   
 $B_{4,0}$   
 $U_{4,1} =$   
 $B_{4,1} =$   
 $U_{4,2} =$   
 $B_{4,2} =$   
 $U_{4,3} =$   
 $B_{4,3} =$

$U_{5,0} =$   
 $B_{5,0}$   
 $U_{5,1} =$   
 $B_{5,1} =$   
 $U_{5,2} =$   
 $B_{5,2} =$   
 $U_{5,3} =$   
 $B_{5,3} =$

$U_{6,0} =$   
 $B_{6,0}$   
 $U_{6,1} =$   
 $B_{6,1} =$   
 $U_{6,2} =$   
 $B_{6,2} =$   
 $U_{6,3} =$   
 $B_{6,3} =$

and so  
forth as necessary

$B_{n,0}$   
and so  
forth as necessary

$B_{7n1}$   
and so forth as necessary

$B_{n,2}$   
and so forth as necessary

$B_{n,3}$

**Financial year  
ending 31.03.2006  
(j=4)**

**Financial year  
Ending 31.03.2007  
(j=5)**

**Financial year  
ending 31.03.2008  
(j=6)**

**Financial year  
ending 31.03.2009  
(j=7)**

*Tranche  
boundary  
 $U_{i,j}$*

$U_{1,4} =$

$B_{i,j}$  (%)

$B_{1,4} =$

*Tranche boundary  
 $U_{i,j}$*

$U_{1,5} =$

$B_{i,j}$  (%)

$B_{1,5} =$

*Tranche boundary*

$U_{i,j}$

$U_{1,6} =$

$B_{i,jj}$  (%)

$B_{1,6} =$

*Tranche boundary*

$U_{i,j}$

$U_{1,7} =$

$B_{i,j}$  (%)

$B_{1,7} =$

$U_{2,4} =$

$B_{2,4} =$

$U_{2,5} =$

$B_{2,5} =$

$U_{2,6} =$

$B_{2,6} =$

$U_{2,7} =$

$B_{2,7} =$

$U_{3,4} =$

$B_{3,4} =$

$U_{3,5} = ?$

$B_{3,5} =$

$U_{3,6} =$

$B_{3,6} =$   
 $U_{3,7} =$   
 $B_{3,7} =$

$U_{4,4} =$   
 $B_{4,4} =$   
 $U_{4,5} =$   
 $B_{4,5} =$   
 $U_{4,6} =$   
 $B_{4,6} =$   
 $U_{4,7} =$   
 $B_{4,7} =$

$U_{5,4} =$   
 $B_{5,4} =$   
 $U_{5,5} =$   
 $B_{5,5} =$   
 $U_{5,6} =$   
 $B_{5,6} =$   
 $U_{5,7} =$   
 $B_{5,7} =$

$U_{6,4} =$   
 $B_{6,4} =$   
 $U_{6,5} =$   
 $B_{6,5} =$   
 $U_{6,6} =$   
 $B_{6,6} =$   
 $U_{6,7} =$   
 $B_{6,7} =$

and so forth as necessary

$B_{n,4}$   
and so forth as necessary

$B_{n,5}$   
and so forth as necessary

$B_{n,6}$   
and so forth as necessary

$B_{n,7}$

4.  $U_{1,0}$  denotes the upper boundary of the lowest tranche in the financial year in which the licence is granted (year 0),  $U_{2,0}$  denotes the upper boundary of the second lowest tranche and so on.
5. The tranche boundaries proposed need not be round numbers.
6. The tranche boundaries and the Sales Reference Point will be adjusted for each financial year using the change in the all items Retail Prices Index between that published in respect of April of that year and that in respect of December 1999.
7. The start and end dates of the licence will not coincide with the beginning and end of financial years. Accordingly, for the first and last financial years the tranche boundaries will be pro-rated according to the number of days that the licence is effective in those financial years.
8. In deciding at what points to fix tranche boundaries, the applicant should note that the NLC will take account of the possibility that ticket sales may fall short of the applicant's principal forecast. The applicant should note that the NLC must be satisfied that the applicant would be able to continue the business for the period of the licence, and is reminded of the way in which the financial details of applications will be evaluated (chapter 4).
9. The total amount in a given year to which the percentage  $(1 - B_{i,j})$  will be applied for the purpose of calculating part of the primary contribution to the NLDF will be increased if the operator commences the main draw game later than the target date in the licence or if the extent of player access falls behind schedule (see paragraphs 10.5 and 10.6 below and Schedule 1 to the draft licence).
10. The amounts to be used for total sales are those for ticket sales recorded on the system, whether or not the licensee receives the money from the sale. The applicant should refer to Schedule 1 to the draft licence for the definition of sales and of prizes within a given year.
11. The applicant will be required to pay to the Secretary of State for benefit of the NLDF any prizes which are unclaimed 180 days after the relevant draw in the case of on-line games or 180 days after game closure in the case of others.

### **10.3 Secondary contributions to the NLDF**

The NLC recognises that the public perception of the lottery, and therefore the willingness to buy tickets, may be affected by the amount of surpluses and how they are used. The applicant is therefore invited to make proposals for contributions to the NLDF from surpluses gained from running the lottery (“secondary contributions”). If the applicant does so, it shall also make proposals concerning the definition and verification of such surpluses.

The applicant shall propose drafting for insertion into Schedule 1 to the draft licence to reflect its proposals.

#### **Notes**

1. It is open to the applicant to propose the basis for calculating secondary contributions. Examples of possible proposals include: the allocation of a predetermined share of profits to the NLDF; setting a level of profits above which amounts would be paid wholly or in part to the NLDF; and payment of all surpluses to the NLDF. The NLC will require that the principles underlying the calculation are capable of producing objective results for a given outturn.
2. In evaluating the overall proceeds for the NLDF, the NLC will make an appropriate allowance for secondary contributions. It will, however, expect the applicant in constructing its offer to regard primary contributions as providing the main method of making payments to the NLDF.

### **10.4 Adjustments for changes in Lottery Duty**

Schedule 1 to the draft licence provides that in the event of a change in the rate of Lottery Duty from its current rate of 12%, the amount retained by the licensee shall be the same amount as the licensee would have retained had Lottery Duty not been changed.

### **10.5 Commencement of sales and coverage**

The applicant shall propose for insertion into the licence, at Condition 2 (3), the date on which tickets for the equivalent of the present main online game will first be on sale and the level of national coverage through retail outlets to which the applicant commits itself at that time.

If the applicant proposes means of distribution that are additional to retail outlets, it shall indicate the extent of that coverage.

#### **Notes**

1. The licence itself will commence on 1 October 2001.
2. Schedule 1 to the draft licence provides for a late commencement penalty to be included in the calculation of the primary contribution to the NLDF if the commitment referred to in this paragraph is not met.

3. The NLC will expect the successful applicant to provide convenient access to games for players, with a retail network covering the United Kingdom and the Isle of Man that may be augmented by additional distribution methods based upon the innovative use of technology.

## 10.6 Distribution build-up

The applicant shall:

- a) complete the following table with regard to retail distribution outlets:

**Date**  
**Number of retail outlets**

*equipped*    *other*  
*for on-line*   *outlets*

1 October 2001\*  
30 November 2001  
31 January 2002  
31 March 2002

*functions*

\* or the first day on which tickets for the equivalent of the present online game are available for sale.

- b) If the applicant proposes other means of distribution in addition to retail outlets, it shall also provide equivalent information. This will have the effect of committing the applicant to the extent of the distribution it proposes, and will give rise to financial incentives to achieve the proposed extent of distribution and the timing of achieving that extent.

### Notes

1. The NLC will take account of the applicant's response in framing Condition 2 of the licence and Schedule 1.
2. Schedule 1 to the draft licence provides for a distribution penalty to be included in

the calculation of the primary contribution to the NLDF if the commitments referred to in this paragraph are not met.

3. The NLC may from time to time agree to adjustments to the relevant commitments if the licensee is able to convince the NLC that such an adjustment, together with any consequent adjustments to the provisions for contributions to the NLDF, would increase the returns to the NLDF.

### 10.7 Minimum marketing expenditure from 1 April 2006

The licensee will be required to offer a minimum percentage of ticket sales, by tranche, that it will spend on marketing the National Lottery from 1 April 2006 onwards. Any underspend will be paid annually to the Secretary of State for the benefit of the NLDF.

The applicant shall state the values of  $M_1, M_2$  and so forth, written as percentages, and the tranche boundaries  $V_{1,0}, V_{2,0}$  and so forth for the value of ticket sales, written as sums of money, that it proposes should be inserted into the table in Schedule 2 to the draft licence, according to this pro forma:

$M_1$  =  
%  
 $V_{1,0}$  =  
£

$M_2$  =  
%  
 $V_{2,0}$  =  
£

$M_3$  =  
%  
 $V_{3,0}$  =  
£

$M_4$  =  
%  
 $V_{4,0}$  =  
£

$M_5$  =  
%  
 $V_{5,0}$  =  
£

$M_6$  =  
%  
 $V_{6,0}$  =

£

and so forth as necessary

and so forth as necessary

$M_n =$

### Notes

1. The tranche boundary  $V_{i,0}$  will apply in the financial year 2006/07,  $V_{i,1}$  in the financial year 2007/08 and  $V_{i,2}$  in the financial year 2008/09.
2. The tranche boundaries will operate in the same way as those described in paragraph 10.2 above (though they apply to sales rather than to sales net of prizes, duty and sales-related retention). They will be adjusted annually for inflation, as in Schedule 1 to the draft licence.
3. The applicant should refer to the draft licence for a definition of relevant expenditure. The applicant may wish to specify more precisely the costs that are included here.

4. The commencement and end-date of the licence will not coincide with the beginning and end of financial years. Accordingly, in the year the licence ends the tranche boundary (subscripted V) will be pro-rated according to the number of days the licence is effective in that financial year (see Schedule 8 to the draft licence).
5. The tranche boundaries proposed need not be round numbers.
6. Schedule 2 to the draft licence provides for payments to be made to the Secretary of State if marketing expenditure in a relevant year falls short of the committed marketing expenditure for that year.

## **10.8 Lottery ancillary activities**

The applicant shall state any lottery ancillary activities in which it proposes at this stage to engage within the meaning of Condition 4 and Schedule 3 of the draft licence. The applicant shall make proposals on payments which it would make to the Secretary of State in respect of those activities.

Information on the range of ancillary activities undertaken by the current licensee is given in Annex I.

### **Notes**

1. Applicants are not required to include any lottery ancillary activities in their applications, although they are free to do so. It is important that emphasis on ancillary activities does not in any sense jeopardise the core business of the National Lottery.
2. Condition 4 of the draft licence envisages that any commercial transactions which exploit the existence of the National Lottery for profit, or have the potential so to do, will be pursued as “lottery ancillary activities”.
3. Schedule 3 to the draft licence provides for “the ancillary activity payment”. The aim of the ancillary activity payment is to ensure that the NLDF shares in the benefits of any commercial activities that are derived wholly or partly from their connection with the National Lottery.
4. The applicant may propose a scheme for calculating a payment. The applicant is not limited to any standard arithmetic formula, and the payment may be specified to vary in different circumstances, but the applicant shall bear in mind the need for auditing and verifying the amount due and the requirement above regarding benefit to the NLDF.

## **10.9 Performance measures**

The NLC intends to set performance standards for the Section 5 licensee under Condition 17 of the draft licence, taking account of the features of the successful application. The condition enables the NLC to set standards that are requirements on the licensee, with the result that failure to meet them will constitute a licence breach. The NLC will set such standards for the broad areas covered by those set for the present licensee. It will include in them a standard for terminal availability that takes account of the likely impact to the NLDF of loss of service at particular times. (There is a list of the current standards at Annex I.)

In addition, the NLC will be able to set performance targets. These may be in the same areas as standards but failure to meet the targets will not constitute a licence breach.

The NLC will publish in its annual report the achievements of the licensee against both performance standards and targets. The draft licence enables the NLC to require the licensee to do so in its own annual report as well.

The applicant shall propose appropriate standards and targets in the light of the above.

## **10.10 Pre-licence agreement and transition**

Before confirming the decision to grant the licence in the way described at paragraph 3.1 above, the NLC will expect the successful applicant to enter into a legally enforceable agreement by deed. This would bind the successful applicant *inter alia* to implement the agreed pre-launch timetable.

If a new licensee is chosen, there will need to be arrangements for the payment of any prizes on tickets sold before the end of the present licence that are outstanding after the end of the present licence period. The present licensee has agreed that in the relevant circumstances it would either make arrangements to pay the relevant prizes itself after 30 September 2001 or meet the reasonable incremental costs incurred by the new licensee in carrying out the function of prize payment. The present licensee would decide between those options by no later than 31 December 2000 or within 14 days of the conclusion of the pre-licence agreement referred to above, whichever is the later. The applicant shall be willing to carry out the function of prize payment in respect of the relevant prizes if it is required to do so.

If the present licensee opts for the carrying out of the payment function by the new licensee, the present licensee would meet incremental costs incurred by the new licensee under three heads: retailer commission; the cost of converting winners files from an industry standard format to the new licensee's own format; and, in respect of the new licensee's prize security structure, legal costs for the transfer of the relevant prizes into that structure and other professional costs charged by the new licensee's prize security provider to the new licensee for the transfer.

In default of agreement between the present licensee and the new licensee as to the amount of the incremental costs to be charged to the present licensee by the new licensee, the NLC would use powers under the new Section 5 licence to set a reasonable maximum for them, taking into account appropriate professional advice.

### **10.11 Possible handover at end of licence**

Condition 26 of the draft licence requires the licensee to assist and co-operate with a subsequent licensee in that licensee's establishment of the facilities necessary for the operation of the National Lottery, and also to effect transfers of property or rights that the NLC considers ought reasonably to be available for use by the subsequent Section 5 licensee or by an independent Section 6 licensee. The draft licence provides for the possibility of independent arbitration in both cases. In addition, Condition 7 of the draft licence contains provisions on intellectual property that are relevant to a possible handover.

The applicant should indicate any specific limitations that it would wish to see made to the provisions of Condition 7(4) or 26.

## **11 GAME PLAN**

### **Key outcome:**

**games that contribute to the goals of the National Lottery and which enhance its image.**

### **11.1 Introduction**

The game plan will form the basis of applications made by the Section 5 licensee for Section 6 licences as described in paragraph 2.9. Subject to the licensee providing an equivalent to the present main on-line game, the NLC does not intend to stipulate particular games or types of games. The game plan must be consistent with the business plan, the player access plan and the marketing plan and with the applicant's strategies to prevent excessive and under-age play. The NLC recognises that the game plan may need to be modified during the period of the licence in the light of experience.

Information on the development of the game portfolio since the launch of the National Lottery by the current licensee and on the current performance of the games is provided in Annex I to this ITA.

### **11.2 Game design and portfolio**

The applicant shall provide the following:

- a) for each game or type of game, a description of the game type and game design, including:
  - the game format and indicative rules;
  - themes, play symbols etc., where appropriate;
  - how the game relates to games currently offered to the public by the present licensee;
  - how the game is to be delivered to the player (e.g. whether there are on-line functions);
  - expected ticket prices;

- the proposed prize payout percentage and prize structure, including the relationship between first and second tier and other prizes, and the odds of winning at each tier;
  - the likely level of jackpot prizes under different conditions (e.g. rollovers);
  - superdraw and any other planned promotional arrangements;
  - the expected frequency of playing;
  - the number of games running in parallel; and
  - in the case of games to be introduced after the commencement of the new licence period, any expected cannibalisation of sales of games that are by then already available, together with estimates of its extent;
- b) the rationale for the design of each game or type of game, i.e. how the particular elements of the design fit together and why the design will appeal to participants without encouraging excessive or under-age play;
- c) for each game or type of game, details of:
- the positioning of the game in the market;
  - the market segments, for example the socio-economic groups it is expected to appeal to and why;
  - explanation of the timing of the planned introduction;
  - the expected breakdown of sales by market segment; and
  - the expected frequency and value of purchases by market segment;
- d) assumptions concerning the effect of jackpots of particular sizes on total sales and the likely reaction of players and the media, and the impact on the image of the National Lottery;
- e) the relationship between the planned games and competing products in the UK, as regards in particular:
- the structure of the games and the target market segments; and
  - the proportion of sales of planned games expected to come from the market for competing products;
- f) the planned timings for the first introduction of each game or type of game, including the rationale for choosing to introduce the games in that order and with those timings;
- g) the planned evolution of games over the licence period and the criteria that will be used to judge the suitability and timing of subsequent game introductions to both maximise NLDF contributions and prevent excessive and under-age play. The applicant shall discuss in particular:

- how many simultaneous games of the same type are expected to be sustainable in the UK market;
  - how the eventual market positioning of the games will minimise cannibalisation;
  - what marketing techniques will be used to manage the game portfolio, e.g. the timing of draws, different advertising and promotion approaches; and
  - how the portfolio will be refreshed to maintain market interest.
- h) the applicant should also provide the results of market research undertaken to support the positioning of games and target market segments, and to provide assurance that the games will not encourage excessive or under-age play;
- i) developments in game design, game evolution or game portfolios in other countries that the applicant may have used to guide its game plans for the UK; and
- j) calculations, for the aggregate of games, of the likely participation in the National Lottery by age, sex and socio-economic group.

**Notes:**

1. In respect of a) - f) above, the applicant shall give a detailed description of the game or type of game for games planned to be introduced in the first three years of the licence. For later years it will be sufficient to refer to games more broadly.
2. The NLC does not expect that the applicant will have planned every individual game to be introduced and accepts that the design of some games may evolve rapidly to maintain market interest. It is, nevertheless, important that the NLC should understand the characteristics of the games that the applicant proposes to introduce, especially for the early years of the licence.
3. The NLC, noting its responsibilities to protect the interests of participants and the need to evolve the National Lottery in a sustainable way, has taken the view to date that:
  - a £1million top prize for a National Lottery scratchcard would at this moment in time be too high. (The highest prize for an Instant game to date has been £100,000, and there has been one game offering £240,000 in 24 monthly instalments of £10,000);
  - the prize percentage payout for standard games has progressed appropriately to some 58%, and to 65% for “ratchet” games (those with high payouts – currently limited to three games a year);
  - gaming themes would be inappropriate for scratchcard or other game designs; and

- ticket prices should be predominantly £1.

If the applicant wished to make proposals outside these current boundaries, the NLC would require strong evidence, underpinned by appropriate research, that such changes would not encourage excessive or under-age play and that they would benefit the NLDF.

4. Any proposal for a game featuring branded merchandise in the prize structure must offer value for money.
5. The promoter of any game with fixed prize levels may be expected to bear the risk of prizes exceeding the forecast payout.
6. The NLC and the present Section 5 licensee have established a process for considering new games that ensures that the NLC has the opportunity to raise any regulatory concerns from the early stages of game development. This has helped identify some of the current constraints identified in these notes. The NLC intends that such a process should be established for the next licence period.
7. The NLC has reservations about granting licences for games such as fast-draw keno and video lottery terminals, owing to the inherent dangers of them encouraging excessive participation. If the applicant wishes to include either or both in their game plan, they should, in addition to covering points detailed in a) to f) above, provide details of any operational safeguards which would alleviate this concern.
8. Given the degree of NLC reservation about these game types, coupled with the proven ability for them to generate significant revenues in other lottery jurisdictions, the applicant should, if it includes them in its game plan, exclude them from the principal forecast required in Chapter 9. Separate accounts should be submitted for each game type, as described in Note 2 to paragraph 9.2.
9. In considering applications for Section 6 licences, the Commission will be mindful of the need for game introductions that provide for a pace of development that sustains the National Lottery for the future and avoids excessive participation. It will therefore consider issues such as proposed prize payout percentages and the value of top prizes in the light of historical developments.
10. The applicant should take into account the existing portfolio of games provided to the public by the current licensee, and explain how the proposed game portfolio relates to it. (The NLC may, of course, grant new Section 6 licences for new games during the remaining term of the current Section 5 licence.)

11. The applicant is reminded that individual games will need to be covered by separate Section 6 licences (see paragraph 2.8).
12. The NLC is particularly interested that, in giving the rationale for game design, the applicant should discuss:
  - why a particular game format has been chosen; and
  - why particular functions are on- and offline.
13. The NLC is likely to be concerned about a game whose prize structure and rules may from time to time produce a situation where it would be advantageous for an individual or group to purchase a large number of tickets expecting a positive return.
14. The NLC has been directed by the Secretary of State to take into account the price of the ticket in considering applications for Section 6 licence(s). If, in the NLC's opinion, having regard to its duties under Section 4 of the Act, the ticket price is unreasonably high or the player is required to buy a minimum number of tickets for an unreasonably high total cost, it will decline to grant a Section 6 licence.
15. Games offered by the National Lottery need to be legal and in particular to come within the case-law requirement that “there should be a distribution of prizes by lot or chance and that the chance of winning is secured by a payment”.
16. The applicant's attention is drawn generally as regards the suitability of games to the National Lottery Regulations 1994 and the Directions made by the Secretary of State (both at Annex C). The Directions include a requirement that unclaimed prizes should be passed to the NLDF.
17. The NLC is concerned that there should be an appropriate strategy for game evolution that develops the market for the National Lottery effectively without compromising its long-term potential by over-exploitation, both generally and by market segment.
18. "Participation" is intended to mean the percentage of each group participating in a game over different time periods, and the likely amount spent per head per year.
19. If the UK decided to adopt the Euro, the NLC would take a view at the time on ticket pricing in consultation with the Section 5 licensee and any independent Section 6 licensees.

### **11.3 Prize payout percentage**

The applicant shall provide details of:

- a) the rationale for the payout ratios for the various games and why these payout ratios are likely to maximise the return to the NLDF;
- b) if the overall payout ratio for the various games is expected to change over time, the rationale for the change in the context of the planned game evolution;
- c) if pay-out ratios of the various games are expected to vary over time, the rationale for these changes in the context of the planned game evolution;
- d) the estimated levels of unclaimed prizes; and
- e) the estimated total prize payout percentage for each financial year

The applicant should provide details of:

- f) UK or overseas experience on the optimum payout ratios for different games which the applicant may have used to guide its plans.

#### **11.4 Use of non-retail channels**

Where the game mechanic or the applicant's distribution proposals involve use of non-retail channels (including Internet, interactive TV and telephone), the applicant shall provide a full account of the means by which it will secure:

- control of under-age play;
- security of the identity of players;
- safeguards to prevent excessive play;
- security of cash transfer;
- method(s) of prize payment; and
- accounting safeguards including a reliable audit trail.

#### **11.5 Plans for Section 6 licence(s)**

The applicant shall provide an outline of its policy and plans for Section 6 licence(s), by game or type of games, covering:

- a) whether it intends to apply for Section 6 licences itself and/or whether other persons who are or are intended to be connected parties in relation to the applicant intend to apply;

- b) how it intends to encourage third parties applying for a Section 6 licence (or licences), the procedures according to which it will evaluate proposals made to it by third parties, and the criteria according to which it will decide which of such proposals it will accept. (Any known proposals at the time of application should identify the third part(ies) involved);
- c) the planned roles and responsibilities of the applicant and other parties (whether connected or third parties) holding a Section 6 licence (or licences) for managing, marketing, advertising and operating games, and the likely contractual arrangements;
- d) how the applicant will ensure separation of, and proper accounting for, its activities from those of other parties (if any) holding a Section 6 licence, in accordance with the Procedure for Application which is provided with this ITA;
- e) how the applicant will ensure that independent Section 6 licensees fulfil their obligations as described in paragraph 2.9 of this ITA; and
- f) if appropriate, plans for the commissioning of game designs from outside parties.

The applicant shall propose drafting to cover b) for insertion into the draft licence.

**Note**

A draft Section 6 licence for a draw game is at Annex E.

In the interests of encouraging innovation and diversity, and of maximising the proceeds for the NLDF, the NLC will expect the applicant to welcome third parties with creative and practicable proposals as independent Section 6 licensees promoting games alongside itself.

## 12 MARKETING PLAN

### **Key outcome:**

**a long-term marketing strategy and plan which is effective in encouraging all potential players to participate in lottery games, but not excessively, provided they are 16 or over.**

### **This means:**

the strategy must include a game development programme, consumer target markets, positioning statement and communication strategy for the major game-styles;

the launch of all new games must be supported by a relevant package of communication, with the purpose of informing the public and encouraging play, though not to excess; and

an appropriate brand image must be fostered and maintained.

### **12.1 Introduction**

The marketing plan is one of the main mechanisms by which the applicant can demonstrate to the NLC its understanding of how the National Lottery will continue to appeal to participants and thereby maximise proceeds for the NLDF.

The applicant should provide a full marketing plan, detailing strategy over the period of the licence and the relevant support programmes to be used. It should include information on the market, competition, product portfolio, positioning, target market(s), and support tactics to be used (e.g. advertising, promotions, public relations).

In the marketing plan, the applicant should demonstrate that the level and mix of marketing expenditure planned is sufficient to support the sales forecasts, is sufficient to buy the planned volume of media coverage, is effective in accessing target markets for the games, and satisfies the constraints of propriety and customer protection.

The NLC recognises that the marketing plan is only a plan and may need to be modified in the light of experience. The marketing plan should be consistent with the business plan, the game plan and the retail distribution plan.

From 1 April 2006 onwards, the licensee will be committed to the minimum marketing expenditure given in response to paragraph 10.7. The commitment is intended to ensure that the National Lottery has adequate marketing support to maintain sales levels in the last years of the licence period and to maintain the value of the licence.

## **12.2 National Lottery logo(s)**

The National Lottery logo (and associated logos) has become established as one of the best recognised logos in the UK, with high levels of consumer awareness. These logos are currently owned by the Secretary of State and the operator has the use of them for the duration of the licence.

The applicant has the opportunity to continue the use of the current logo and associated logo(s), propose changes, or use another. Any such proposed changes should be detailed, and supported by a full rationale and relevant research.

The National Lottery logo must be displayed on documents and in places as specified in the draft licence, and the licensee must obtain the NLC's approval of guidelines for its use.

### **Note**

All new logos, associated logos and any associated intellectual property rights used or created in connection with the National Lottery are required to be assigned to the NLC and, where registration is relevant, the NLC is to be registered as the proprietor of such properties. Under the draft licence the draft licensee will be entitled to use these items for the duration of the licence.

## **12.3 Total marketing expenditure**

The applicant shall provide:

- a) for each game or type of game and, where appropriate, for all games combined:
  - the planned marketing expenditure by type (e.g. television, radio, press, posters, consumer promotions, trade promotions, point of sale, public relations, trade relations, and other costs); and

- the percentage of sales for each game or type of game to be spent on marketing.

Expenditure shall be given in detail for each game, quarterly for the first three financial years of the licence and annually thereafter;

- b) a comparison of the level and mix of planned marketing expenditure to that currently spent by competing products in the UK, and an explanation of how the planned expenditure maximises the competitive advantages that the National Lottery may have; and
- c) any appropriate benchmarks, other than marketing expenditure by the current operator (e.g. comparable overseas markets, market research the applicant may have used), and an explanation of how any differences relate to UK market conditions (e.g. to different customer characteristics, different media effectiveness and cost), or to the different portfolio of games proposed for the UK.

#### **Note**

Marketing expenditure shall be shown in the table on the following page.

## **12.4 Advertising and promotion**

The applicant shall provide details of the intended mix of advertising and promotion, i.e. proportions of total advertising and promotion expenditure by type, including:

- a) the mix of advertising and promotion planned for each game or type of game, and in total;
- b) how the mix of advertising and promotion expenditure will vary at different stages in the life of a game. The applicant shall state, in particular, the mix of advertising and promotion to be used prior to, at, and subsequent to the launch of a game;
- c) the rationale for the planned mix, particularly how the mix relates to the characteristics and target market of the game or type of games;

**MARKETING EXPENDITURE**

**TYPE OF MEDIA/  
PROMOTION BY TYPE OF GAME  
YEAR\* OF LICENCE**

**YEAR 1**  
*2001/2002*

Q3 Q4

**YEAR 2**  
*2002/2003*

Q1 Q2 Q3 Q4

**YEAR 3**  
*2003/2004*

Q1 Q2 Q3 Q4  
YR 4  
YR 5  
YR 6  
YR 7  
YR 8

**TOTAL**

*\* year ending 31 March.*

- d) the objectives of the different elements of the mix, including:
- the balance between long-term support and short-term stimulation;
  - the proportions of any generic advertising for the National Lottery, and advertising of specific games or brands;
  - the proportion of media expenditure expected to be spent on appealing to players' desire to win prizes and that spent on the appeal of funds from the lottery going to the Good Causes.
- e) the broad themes planned to be used in advertising and promotion for each game or type of game and, if appropriate, how they might vary by type of media;
- f) plans for using the following types of advertising and promotion:
- consumer promotions
  - retailer promotions;
  - co-promotions with manufacturers, or other commercial companies;
  - sponsorship (e.g. of sports events);
  - point of sale material;
  - use of TV, radio and the Internet; and
  - ancillary activities;
- g) the type of market research planned to be undertaken, including estimated proportion of qualitative and quantitative work, new product research tracking studies during the licence period, etc.
- h) how the National Lottery logo is intended to be used in advertising and promotion for example, in which types of advertising and promotion the logo is likely to be most prominent and effective;

The applicant shall provide a marketing plan, including the following:

- i) a positioning statement and an advertising agency communication brief for the National Lottery brand and the individual games;
- j) a description of what the expenditure is expected to buy (e.g. number of 30-second commercials, coverage and opportunity-to-see among the target market segments);

- k) the objectives of the advertising and promotion at different stages of the life-cycle of the National Lottery and individual games, e.g. awareness, increased participation, increased purchase levels;
- l) the customer profile for the chosen media compared to that targeted by different games;
- m) UK or overseas experience, or other experience or market research, on the appropriate mix of advertising and promotion the applicant may have used in guiding its plans, and how it sees this experience relating to current UK conditions; and
- n) overseas, or relevant examples, of the types of theme the applicant may have studied in guiding its plans on the appropriate themes in the UK context.

The applicant shall provide a draft of the Advertising and Sales Promotion Code of Practice that the NLC intends to require under Condition 9 of the draft licence. The applicants shall indicate the measures planned to be taken to meet the provisions of code, both generally and specifically, as regards provisions relating to advertising to persons aged under 16.

#### **Notes**

1. The applicant must ensure that its advertising, public relations and sales promotion activities are compatible with the Advertising and Sales Promotion Code of Practice (as required by the provisions of the draft licence) and with the relevant advertising codes of the Advertising Standards Authority, Broadcasting Standards Commission, Independent Television Commission and Radio Authority in force at any time.
2. The Advertising Code operative under the current Section 5 licence has recently been amended and a copy is contained in this volume at Annex J. Under “1.2 Scope of the Code”, the ban on unsolicited telephone calls and facsimile transmissions has been extended to include unsolicited letters. Condition 9 of the draft Section 5 licence contains the same prohibition.
3. The NLC is concerned to ensure that the applicant's plans include a consistent and effective advertising and promotion plan which will support the sales forecasts, is appropriate to the games and target market segments described elsewhere, and meets the objectives of propriety and consumer protection.
4. The NLC is concerned to ensure that the broad themes used in advertising and promotion will appeal to the target audience on the one hand, and, on the other, will fit with the high quality image of the National Lottery. This includes point-of-sale and other retail promotional materials.

5. The NLC is concerned to ensure that the licensee tracks the performance of the lottery in terms of awareness, participation rates, etc. Such market research shall be made available to the NLC as part of normal management information.
6. The NLC is aware that, at this stage, the applicant is unlikely to have prepared any advertisements, but expects that the applicant should be clear on the type(s) of theme it will use. Reference to current advertising or overseas examples of advertising themes could illustrate the applicant's intentions, without necessarily implying any approval by the applicant of specific messages, taste or other aspects of the advertisements chosen.
7. The applicant's attention is drawn to the provisions in Condition 7(3) of the draft licence concerning the use of the National Lottery logo(s) by the licensee and the requirement to propose guidelines for its use.
8. General conditions covering codes of practice are given in Schedule 6 to the draft licence.

## **12.5 Public relations**

The applicant shall give details of:

- a) its strategy for maintaining or refreshing interest in the National Lottery and its games on the change from the current to the new licence;
- b) its strategy for public relations over the Licence period, including:
  - the target image of the National Lottery, and how this will be managed;
  - the role of public relations in supporting advertising and promotion; and
  - the type of events or issues likely to be used in public relations;
- c) any specific plans it has for using public relations in the launch of new games;
- d) how relationships with key stakeholder groups will be managed (eg players, media, retailers, distribution bodies) over the period of the licence; and
- e) its plans for handling specific issues, in particular:
  - how, the opportunity provided by winners prepared to offer publicity will be used;
  - how attitudes to public and social issues relating to gambling will be managed;
  - how the public will be assured that persons aged under 16 are not being put at risk and excessive play is not being encouraged; and

- the part that PR will play in contingency planning (e.g. temporary loss of network, problems with draws).

### **Notes**

1. Events in the National Lottery are newsworthy, and will need to be managed effectively to create a positive image for the Lottery, promote ticket sales, and handle problems with tact and sensitivity. The successful applicant must show maturity of judgment in this area.
2. The applicant's attention is drawn to provisions in the draft licence relating to:
  - provisions in the Advertising and Sales Promotion Code of Practice (Condition 9); and
  - the Consumer Code of Practice (Condition 8), particularly the confidentiality of winners' names, unless their specific approval is given to waive this right.

## **12.6 Broadcasting**

The applicant shall give details of:

- a) agreements that have been reached with a broadcaster with regard to broadcasting any draw shows and any plans for gameshows;
- b) outline formats for each of the broadcast activities;
- c) details of financial arrangements that have been reached on the sale of broadcasting rights as an ancillary activity; and
- d) how editorial control on programme format and content will accommodate any views of the licensee and the NLC.

### **Note**

The content and presentation of broadcasts of draws and other events in connection with National Lottery games must be consistent with the provisions of the Advertising and Sales Promotion Code of Practice and must not in any way bring the National Lottery into disrepute.

## 13 PLAYER ACCESS PLAN

### Key outcome:

**convenient access to games for players, with a retail network covering the United Kingdom and the Isle of Man which may be augmented by additional distribution methods based upon the use of new technology.**

### This means

the licensee must ensure that there are an appropriate number of outlets where tickets can be purchased, both in total and by geographical distribution;

the licensee must ensure that clear criteria are employed for retailers to qualify for selection and de-selection;

display material must, where legally possible, be effectively positioned both outside and within the store to designate the outlet as a place where lottery tickets can be purchased;

the licensee and all its appointed retailers who sell tickets for any game in the National Lottery must be familiar with the games and their operation, the procedures for collection and payment of cash and the codes of practice;

the licensee must apply measures to prevent children under the age of 16 from selling or buying tickets and that discourage excessive play; and

the licensee must provide means that encourage retailers to transmit operational enquiries to it quickly and must ensure that it deals with such queries quickly and effectively;

### 13.1 Introduction

The NLC recognises that the applicant will need form its views on the form of its distribution network in the light of its game and marketing plans and the use it proposes to make of new technology. It is important that the applicant has a strategy that reflects the needs of the National Lottery up to 2008.

It is likely, though not obligatory, that the next licensee will in practice wish to make use

of many of the 35,000 or so retail outlets that currently support National Lottery sales. These outlets are individually contracted to the current licensee. The network of retail outlets has established a means by which players have convenient access to lottery games. The current operator also provides a means of mail subscription for playing the main National Lottery draw game.

The NLC recognises that new technology provides opportunities for additional means of player access to augment retail outlets (e.g. Internet, interactive digital TV, telephone). The NLC will need to be assured that there are proper safeguards for consumer protection. The applicant will need to consider both the benefit to the player of familiar means of accessing National Lottery games and the advantages that new technology can provide over the life of the next licence period.

The applicant shall demonstrate in its player access plan that it can provide

- adequate player access for each game;
- a mix of access points whose profile best matches the characteristics and buying behaviour of the target market for each game; and
- an appropriate level of commission and other support to retailers and/or providers of additional channels of distribution.

The applicant shall demonstrate an understanding of each distribution channel and a realistic view of the sales potential from each type. The player access plan shall be consistent with the business plan, the game plan and the marketing plan and with the applicant's strategies to prevent excessive and under-age play.

The commitment to an adequate minimum size of retail network and any other distribution channel is one of the main mechanisms by which the applicant will demonstrate to the NLC its commitment to the success of the National Lottery.

## **13.2 Means of player access**

The applicant shall state, for its planned peak coverage, and distinguishing among games where appropriate:

- a) the planned number of each type of retail outlet (e.g. grocery shops, convenience stores, post offices) and the types of any other distribution channel expected to handle each game;
- b) the rationale for the planned number and mix of retail outlets and similar details for any other distribution channel;
- c) the expected average annual sales for each type of distribution channel;

- d) the expected number of retail outlets per head of population and appropriate information for any other distribution channel, by geographic region or equivalent breakdown; and
- e) the rationale for the planned density of retail outlets and any other distribution channel (see Note 2 below).

The applicant should provide:

- f) the proportion which the response to a) represents of the total number of each type of retail outlet or any other chosen distribution channel in the UK and Isle of Man;
- g) the percentage of the total average annual sales of each type of retail outlet or any other distribution channel expected to be accounted for by sales of tickets;
- h) the typical shopper profile and purchasing pattern of each type of distribution channel and how this matches the characteristics and buying behaviour of the target market for each game;
- i) details of provision made for the infirm and housebound;
- j) the strategy and expected criteria for the selection of individual distribution channels;
- k) details of any UK or other evidence or experience, or market research, that the applicant may have used to guide its plans for the mix and density of outlets; and
- l) evidence of detailed planning (e.g. use of geo-demographic software) for determining the placement of the most effective retail outlets.

The applicant shall state how it would provide for the limitations on access by overseas players required by the definition of the Permitted Territory in the draft Section 6 licence at Annex E, as amended by Annex O.

## Notes

1. Condition 2 of the draft licence sets out the requirements in relation to distribution outlets. The applicant should note that the requirement to have at least one retail outlet in each Postcode District with 2000 residents or more is intended to ensure a minimum geographical coverage in all parts of the country. It does not indicate a minimum acceptable level of distribution outlets across the country as a whole at the commencement of the licence.
2. The NLC has agreed arrangements with the present licensee to enable applicants generally to obtain the names and addresses of retailers. The NLC will inform parties who submit a Letter of Intent to Apply or who ask to be included on its circulation list (see paragraphs 3.3 and 3.4) how they may obtain from the NLC a list of independent retailers who would wish to be considered for the purposes of the new licence period.
3. The rationale for the planned number and density of distribution outlets should include discussion of why this is considered the optimum coverage and what would be the impact in terms of sales, proceeds for the NLDF and the long-term market position of the National Lottery of a significantly higher or lower density.

### 13.3 Distribution build-up

The applicant shall provide information on the planned build-up of distribution outlets during the 12-month period prior to the start of the licence in October 2001.

The applicant shall provide a profile of the build-up of retail distribution and any other means of distribution, consistent with different types of games. The profile shall show, for each type of game, by two-month period for the first six months of the licence period, and annually thereafter:

- a) the number of retail outlets by geographic region or equivalent, with the numbers of terminals catering for all games and for those not requiring on-line functions at the time of play;
- b) the density per head of total population of retail outlets (of all types combined);
- c) other means of distribution; and
- d) details of the growth in sales per retail outlet and any other distribution channel underlying the principal sales forecast given in Chapter 9.

The applicant shall also provide:

- e) details of how the distribution build-up will be achieved up to the launch date, including the criteria for the selection of retail outlets and the match with the build-up of salesforce resources, systems, etc.

#### **Notes**

1. The profile of build-up for retail outlets and any other distribution means shall be shown in the table on the following page.
2. The applicant is referred to paragraph 10.6 for supporting notes concerning its distribution commitment.
3. The applicant should have regard to the prohibitions on the sale of lottery tickets in certain places and by certain means contained in the National Lottery Regulations 1994 (see Annex C).

### **13.4 Financial arrangements with distribution channels**

The applicant shall provide:

- a) details of the planned remuneration of retailers and any other providers of distribution channels, including:
- any planned commission rate(s), showing any variations by game, sales level or type of distribution channel;
  - any proposed charges, e.g. any terminal or line installation or leasing charge, or charges for other services;
  - plans for any financial support, e.g. loans to purchase terminals, or provision of free signage;
  - a broad description of any further incentives in cash or kind planned to be paid and the nature of any incentive schemes;
  - the expected total net remuneration implied by the payments and charges above, expressed as a percentage of sales. The percentage can be shown by tranche of sales or as a range, should be consistent with the costs shown in Tables 1 and 5 in Chapter 11; and
  - the planned length of contracts (i.e. the length of time for which the financial terms detailed above are fixed from the time a distributor is retained).

- b) the rationale for the planned remuneration of distribution channels. The applicant shall relate the rationale to the game plan and the retail distribution plan; and
- c) details of the proposed financial arrangements for:
  - crediting and remitting earned commission to distributors for each type of game; and
  - settling prize pay-outs and handling payment by customers by charge card, credit card or debit card.

### **Notes**

1. The draft licence provides that the licensee shall not reduce the commission offered to distributors below level(s) approved by the NLC.
2. The applicant is reminded the draft licence requires the licensee to comply with the Consumer Code of Practice (Condition 8 and Schedule 5).
3. The licence permits, but does not require, retailers and any other distribution channel to accept payment by credit, charge or debit cards. Whether to do so is a matter for the commercial judgement of the applicant. Should the applicant propose to accept payment by such cards, the NLC will be concerned to know how the applicant intends to guard against excessive playing and fraud, including playing using stolen cards.

**RETAIL DISTRIBUTION BUILD-UP**

**TYPE OF OUTLET  
YEAR\* OF LICENCE**

**YEAR 1  
2001/2002**

Q3 Q4

**YEAR 2  
2002/2003**

Q1 Q2 Q3 Q4

**YEAR 3  
2003/2004**

Q1 Q2 Q3 Q4  
YR 4  
YR 5  
YR 6  
YR 7  
YR 8

**TOTAL**

**TARGET NUMBER OF RETAIL OUTLETS**

*\* year ending 31 March.*

### **13.5 Commitments by distributors**

The applicant shall give details of any commitments already received from retailers and any other distribution channel to sell National Lottery tickets. Such details should

include;

- a) the number, type and geographic region involved;
- b) the nature of the commitments e.g. commitment in principle, conditional or firm contract, etc.; and
- c) the broad terms of the commitment, including commission levels and support.

### **Note**

The NLC's must be satisfied that there is a strategy and selection process that can deliver the applicant's plans, with appropriate geographic coverage in the case of retailers. The applicant will not be penalised for failing to have commitments from distributors, provided that this condition is met, nor be given credit for having retailers in place. The NLC believes that interest from retailers wishing to work with the new licensee will be considerable. The period of at least fifteen months between the announcement of the preferred applicant and the commencement of the licence should be sufficient to enable it to ensure that it has an adequate distribution network in place. Attention is drawn to paragraph 10.6 above and to Condition 2 in the draft licence.

## **13.6 Non-independent distributors**

The applicant shall state if it intends to use retail outlets or other distribution channels that are not fully independent of the applicant. This includes those that are wholly-owned, partly-owned or franchised by the applicant for the sale of lottery tickets, and those that are owned or franchised by persons who are or are intended to be connected parties in relation to the applicant.

The applicant shall give details of:

- a) the planned number of such retail outlets or other distribution points, their type, location and, in the case of outlets owned or franchised by the applicant, their expected opening hours and type of staffing;
- b) the expected build-up of such distribution relative to the build-up of total distribution;
- c) the expected average annual sales of tickets in total and per distribution channel; and
- d) the proposed contractual arrangements.

## Notes

1. The NLC is aware that in some countries outlets owned or franchised by the lottery operator can provide a useful service to customers. In addition, where the applicant is a consortium, members of the applicant consortium may, for example, be retailers who wish to sell National Lottery tickets through their outlets.
2. The NLC will be concerned that any such arrangements are clearly defined, and that funds transferred between the applicant and persons who are or are intended to be connected parties in relation to the applicant or related companies are properly accounted for and costs properly allocated among them.

### **13.7 Payments and receipts by customers other than at retail outlets**

Where the applicant plans to provide means of payment and/or receipts by customers other than at a retail outlet, it shall give details of:

- a) the types of payment which are planned (e.g. subscriptions, mail order, credit/debit card);
- b) the games or types of games to which such arrangements might apply;
- c) the market segments which they address, and how this relates to the target market segments for each game;
- d) the expected sales from these forms of payment;
- e) specific arrangements, including:
  - any specific charges that might apply (e.g. a service charge);
  - planned operational arrangements (e.g. with banks);
  - what lower and upper limits (if any) will be placed on payment by these non-cash means;
  - how these payment mechanisms will be marketed; and

- how consumer protection issues (e.g. prevention of excessive and under-age play, security of payments made and receipts of winnings) will be addressed.
- f) the rationale for the types of payments planned, and how this relates to the game plan and player access plan, where not already covered in the responses above;
- g) where a registration scheme is planned (whether participation would be at a retail outlet or not), how the applicant proposes to operate the scheme; and what charges, if any, will apply; and
- h) which of the arrangements described above are intended to fulfil the requirements of Condition 3 of the draft licence.

### Notes

1. The NLC will need to know the details of planned forms of payments other than at a retailer in order to satisfy itself on issues of security, propriety and consumer protection.
2. The NLC recognises that players have benefited in other countries from a player registration scheme being available. If the applicant is proposing to operate such a scheme, the NLC will wish to have information on the circumstances under which registration would be offered or required, and what charges, if any, the applicant proposes should apply. Condition 8 of the draft licence prohibits the licensee from making any charge for a registration scheme unless the charge has been approved by the NLC. The provision of a registration scheme is not a requirement.
3. Condition 9 of the draft licence prohibits the use of unsolicited telephone calls, facsimile transmissions, letters and electronic mail to encourage the purchase of National Lottery tickets.

## 13.8 Support and control of distributors

Regarding monitoring of performance and the selection and de-selection of distributors, the applicant shall state:

- a) the expected criteria for selection and de-selection that are proposed to fulfil the requirement set by Condition 34 of the draft licence;
- b) the security and other checks on potential distributors that it expects to use;
- c) how adherence to Procedures, Codes of Practice, display of materials, and prevention of sales or paying prizes to persons aged under 16 will be monitored and the resource in terms of person/hours to be devoted to test

purchases to detect and deter under-age sales. Plans shall provide for each distributor to be subject to test purchases on at least two occasions during the currency of the licence; and

- d) what is likely to trigger de-selection of a distributor, and the procedures once a distributor is de-selected, e.g. removal of terminal and materials. The applicant shall commit itself to ensure that the terms of its agreement with distributors permit de-selection where a sale is made to a person who is, or who appears, under the age of 16 or where a distributor fails to implement safeguards to prevent such sales.

Regarding training and support for distributors, the applicant shall provide details of:

- e) the level of initial and continuing training to be provided to retailers and their staff, e.g. in game rules, terminal operation, dealing with customers, avoiding sales to under-16s, the use of advertising and other promotional materials, and the appropriate equivalent for any other distribution channel;
- f) the level of continuing support to be given to retailers and others, including the supply of tickets and other materials, and support in the event of failure of terminals or of any part of the system which renders terminals inoperable, and the appropriate equivalent for any other distribution channel; and
- g) the store display materials and exterior signage to be provided to retailers, the expected location of the materials (e.g. on the counter, free-standing) and how the materials will be installed, maintained and controlled, and the appropriate equivalent for any other distribution channel.

#### **Notes**

1. The NLC needs to assure itself that the licensee has effective control over retailers and any other distribution means in terms of selection, training and continuing support, monitoring of performance, and de-selection where necessary, particularly in view of the significant amounts of cash that may be handled in some cases. Security and other checks on distributors will be the responsibility of the licensee; the NLC will need to approve the licensee's procedures and have access to the licensee's records, as detailed in paragraph 19.5. The NLC is also concerned that the applicant should have the means of securing retailer adherence to the draft licence requirements, including Codes of Practice.
2. Under Condition 7 of the draft licence, the licensee is required to observe certain conditions on the use of the National Lottery logo on retail equipment, signage and point-of-sale materials.
3. Condition 8 of the draft licence requires that material is available at every retail outlet and through other distribution channels giving information to customers.

Condition 8 of the draft licence requires that the licensee complies with the Consumer Code.

### **13.9 Salesforce to manage the retail network**

The applicant shall give details of:

- a) the numbers of salespeople planned to be used. In the build-up of the salesforce, figures should be shown at monthly intervals up to the start of the licence and six-monthly thereafter;
- b) how the numbers relate to the planned launch of games or types of games and to the applicant's proposals for the distribution build-up;
- c) the number of retail outlets per salesperson, and the rationale for this number;
- d) the planned expenditure, including staff costs, related costs and overheads of the retail salesforce; and
- e) management of the salesforce, including:
  - the planned organisation structure of the salesforce;
  - the tasks to be performed by the salesforce; and
  - the planned salesforce training and support.

#### **Notes**

1. The NLC anticipates that the licensee will employ a sufficient, well-trained salesforce to support and monitor retail outlets.
2. The NLC will wish to assure itself that the applicant understands the requirements of such a salesforce and has thought through how the salesforce will be trained and managed.

### **13.10 Management of distributors other than retailers**

Equivalent information to that sought in paragraph 13.9 above shall be provided for distribution means other than retail outlets that the applicant intends to use.

## 14 CONSUMER PROTECTION

### Key outcome:

**the fair treatment of players, with effective and rigorous arrangements in place to counter excessive and under-age play.**

### This means:

comprehensive information about the National Lottery must be readily available;

measures must be taken to prevent play that is excessive or by under-16s;

information about draw results must be disseminated in ways that give players a reasonable opportunity to claim any prize to which they are entitled;

validation of tickets and payment of prizes must be prompt and secure and not unduly inconvenience players;

a winner's identity must not be disclosed unless clear and informed consent has been given. There must be no pressure upon any winner to allow their identity to be disclosed;

winners of major prizes must be offered, free of charge, appropriate information and advisory services;

players must be able to make contact with the licensee without undue cost or inconvenience;

procedures for dealing with complaints must be well publicised, inexpensive to the player, quick and objective. Complaints must be fully and accurately recorded and adequate reasons for decisions given to complainants; and

players must be treated fairly and courteously at all times.

Other parts of this ITA also have a strong bearing on consumer protection, notably chapters 11-13 on the game, marketing and player access plans, chapter 15 on prize money and banking and paragraph 18.8 on establishing a public enquiry service.

## **14.1 Introduction**

The NLC has duties to protect the interests of players and to ensure that the National Lottery is run with all due propriety. The NLC believes that this will be achieved by offering a high quality of service to the customer, benchmarked against the best, and by adopting effective strategies to prevent excessive and underage play.

Applicants will need to provide information, as set out below, on handling information and complaints, the procedures for prizes and winners, the prevention of excessive and under-age play and a code of practice.

## **14.2 Information and complaints**

The applicant shall provide details of:

- a) the strategy for informing people about the National Lottery, including descriptions of games, the chances of winning, the value of prizes, the game rules and procedures, and the proposed codes of practice;
- b) the avenues which will be available to make enquiries and complaints;
- c) the procedures to resolve complaints and disputes, and how quickly these procedures will operate;
- d) any proposals to compensate players for sub-standard service, e.g. a significant delay in prize payouts; and
- e) any arrangements for those with special needs.

### **Notes**

1. The continued success of the National Lottery depends partly on it continuing to be an inclusive institution. Access to player information and other services should therefore be as open as is practicable. (Access to games is covered in chapter 13.)
2. Complaints and enquiries need to be captured and dealt with fully and promptly. A complaint should be treated as a positive contribution, promoting the continuous improvement of the National Lottery and its services.

### **14.3 Prizes and winners**

The applicant shall provide details of:

- a) how customers will be able to find out if they have won, and gain assurance of any validation carried out by the operator or its agents;
- b) any prizes that may be paid out by distributors, including their value;
- c) how players will claim prizes other than those paid by distributors;
- d) methods for the secure payment of prizes, including to winners without bank accounts;
- e) how quickly prizes (other than those paid by distributors) will be paid;
- f) how the privacy of winners will be protected;
- g) how winners who waive their right to privacy will be treated;
- h) the advisory services intended to be offered to winners of large prizes;
- i) any special arrangements for players in groups; and
- j) any arrangements for those with special needs.

### **14.4 Strategies to prevent excessive and under-age play**

Evidence suggests that some individuals may be susceptible to excessive and problem play. Steps can, however, be taken to minimise any such risk. The applicant shall provide strategies for preventing excessive and under-age play. The NLC believes that these strategies should cover, amongst other things:

- game research and design;
- marketing;
- public information and education;
- accessibility;
- staff and retailer training;
- monitoring the strategies' effectiveness; and
- support for the treatment of problem gamblers.

## **Notes**

1. Consumer protection is delivered best by developing an organisational culture with the values to ensure that everyone builds consumer protection into all they do, from the game design team through to the IT staff and the retailer.
2. “Excessive” play is not a concept that can be simply measured in terms of spend per head. What is excessive to one player may not be excessive to another, even to those with similar incomes. It is better to think of ‘problem’ rather than ‘excess’ play. A minority of people may be predisposed to develop gambling problems for a combination of reasons related to finance, health, family and social circumstances. Bidders will need to be alert to these issues, which are well documented, and develop a portfolio of games, made available and promoted with appropriate safeguards, to ensure as far as possible that players do not become ‘problem players’.
3. The NLC considers that positive identification of age is important and that effective proof-of-age card schemes can be valuable in avoiding sales to those who are under 16. The applicant may not necessarily choose to operate its own scheme.

## **14.5 Consumer Code of Practice**

The applicant shall provide a draft of the Code of Practice that the NLC intends to require under Condition 8 of the draft licence.

## **15 PRIZE MONEY AND BANKING**

### **Key outcome:**

**safeguards for the funds required to meet obligations to prizewinners, with an efficient payments system, together with assurance that revenue is accounted for in full and that the correct amounts are paid on time to the NLDF and as Lottery Duty.**

### **This means:**

funds must be available to meet all obligations whenever they crystallise;

prize payments must be consistent with the licensed prize structure and be accounted for in full;

electronic transfer of funds must be by accepted bank transfer methods;  
and

all unclaimed prize money, with interest due, must be transferred to the NLDF on time.

### **15.1 Prize money**

The applicant shall provide details of how it will ensure that funds required to meet obligations to prizewinners and potential prizewinners are safeguarded in all circumstances, including during the currency of the licence, on the expiry of the licence and in the event of the revocation of the licence.

#### **Notes:**

1. In order to meet the obligations laid down in Section 4 of the Act, and to preserve the image of the National Lottery, the NLC is concerned that monies owed to prizewinners are paid in full in all cases, including that of the failure of the licensee.
2. The NLC recognises that there is a range of measures that might be used to provide prize winners with such security, including but not limited to,

- the segregation of the necessary funds into separate bank accounts, in the name of independent trustees, with restricted bank mandates;
  - guarantees; and
  - bonds or other forms of surety.
- 3 The NLC expects to be a party to any negotiations in relation to the form of security to be provided, including the costs of operation.
  - 4 The NLC expects that interest on any accounts maintained as part of any security arrangements should other than in defined circumstances be paid to the NLDF.

## **15.2 Banks and accounts**

The applicant shall give details of:

- a) the identity of the bank(s) at which all lottery-related accounts will be held; and
- b) the proposed account structure and management procedures for controlling the funds flowing into and out of each of the proposed accounts.

If the applicant proposes the use of distribution channels in addition to retailers, it shall describe the accounting and payment processing involved, and shall identify any third party financial institutions (e.g. banks, credit card processors) that would be involved.

### **Notes:**

1. The applicant shall provide read-only on-line access for the NLC to lottery-related bank accounts.
2. The banks, building societies or other financial institutions named must be able to offer BACS and CHAPS facilities or other appropriate money transmission facilities.
3. The licence is likely to provide that the licensee should make payments to the NLDF on the same day that it receives money from distributors.

## **15.3 Reconciliation and control**

To ensure the integrity of the licensee's cash management it is a requirement of the licence that the licensee carries out timely financial reconciliation between the detailed game playing transactions held by the central gaming computers and other financial control and accounting systems.

The applicant shall provide:

- a) a description of the procedures and systems to be used to ensure that cash is received, secured and recorded for each and every valid lottery ticket, that is issued;
- b) a description of the procedures and systems to be used, on both scheduled and event-driven bases, to reconcile gaming system records with bank transactions and other financial management and accounting controls. The description shall address:
  - daily ticket sales details (including voids and cancellations);
  - event triggers, e.g. after close of sale prior to a draw (drawbreaks);
  - draw game results;
  - prizes won;
  - prizes paid;
  - ticket sales payments to the NLDF;
  - bank transactions and balances;
  - internal cash transfers including retailer commissions, passive ticket stock movements; and
  - any other game related financial transactions.
- c) a description of the means of delivering bank account statements and transaction details, in computer-readable form to the NLC; and
- d) a description of the means of delivering to the NLC transaction details and control records for the licensee's internal cash transfers, including:
  - distributor commission earned; and
  - scratchcard ticket stock movements, levels and locations.

**Notes:**

1. In order to be satisfied that the licensee has deposited the correct amounts into the NLDF bank account, the NLC will wish to carry out frequent reconciliations among all of the information supplied as per the above, and will use its Independent Verification System as described at paragraph 19.6 to do so. Applicants may wish to offer additional information to that requested above to assist the NLC.
2. The reconciliation processes carried out by the licensee must be of sufficient quality and control that, should it wish so to do, the NLC may use its outputs to verify the integrity of each and every game within any time period.

## **15.4 Transaction matching**

The applicant shall provide a description of the controls that will be employed to guarantee that:

- a) a movement of cash anywhere within the system will be reflected in a bank account on the date on which the movement occurred; and
- b) bank-initiated transactions will be reflected in the licensee's accounting records in the same manner as specified in a) above.

**Notes:**

1. Transactions must be accounted for by the date and the game(s) to which they relate.
2. A movement of physical cash anywhere within the system, must be reflected within one or more bank accounts appropriate to the transaction. Similarly, a movement in one bank account resulting from an inter-bank account transaction must be reflected in the corresponding bank account on the same date.
3. The NLC will want to be certain that, at any point, the physical cash and the underlying records are reconcilable for all the parties. It will want to assure itself that the individual lottery records of one party can be reconciled with those of the other parties and that overall, the National Lottery's cash management operations reconcile.

## **15.5 Accounting period control**

For the purposes of providing management information, the applicant shall define the accounting periods to be adopted and describe:

- a) how the proposed systems and processes will control all transactions within each accounting period; and.
- b) the accounting processes, including details for cut-off procedures.

**Notes:**

1. Matching cash transactions to accounting periods is required for controlling cut-off and the reconciliation of cash to games. Matching receipts (and claim payments) to specific tickets and/or games to ensure that proceeds and claims match to the game to which they apply, is particularly relevant where multiple game, panel and repeat insertions are allowed.
2. The NLC will want to be satisfied that the correct monies are remitted to their proper destination, within the defined accounting periods. It will want to be sure that amounts owing to others are clearly identified and that the payment due date is clearly stated.

## **15.6 Timing**

The applicant shall provide a description of the systematic processes that ensure that all monies due to the NLDF are remitted to the correct bank account in accordance with the timings defined in Condition 5 of the draft licence.

## **15.7 Management accounts**

The applicant shall provide:

- a) a description of its internal management accounting structures and reporting frequency; and
- b) a definition of its internal management accounting processes and outputs that will be made available to the NLC.

### **Note:**

The NLC will wish to see that the licensee is exercising good controls over its internal costs.

## 16 OVERALL SYSTEMS FUNCTIONALITY AND PERFORMANCE

### Key outcome:

**the computer-based systems necessary for the operation of the lottery shall be robust, reliable and secure, and ensure confidentiality, integrity and availability from the start of operations.**

### This means:

the gaming and other significant computer systems implemented to operate the National Lottery shall conform to the functional descriptions of operations approved by the NLC;

all computer system and network changes shall be properly planned, authorised, tested, documented and, where appropriate, approved by the NLC prior to implementation;

staff responsible for operating lottery computer systems shall have appropriate training, skills and documentation to perform their duties. All departures from standard procedures shall be authorised;

the lottery computer systems shall be resilient. Systems and data shall be recoverable, in a timescale appropriate to the system's significance, in the event of a failure or disaster, and there shall be a written and tested recovery plan;

all valid transactions shall be accurately and completely entered and processed, and data integrity shall be maintained; and

completion of transactions for the sale or cancellation of tickets, validation and payment of prizes to players shall take place quickly, accurately and efficiently, even at peak times.

## **16.1 Introduction**

This and the next four chapters set out the requirements for system(s) that support lottery games. It shall be noted that performance data shall be substantiated in the submission with evidence of appropriate performance testing.

Each applicant's submission shall identify evidence that the systems, whether software or hardware, described in this and the following chapters are proven (or to what extent proven), and supply relevant reference sites and details, e.g. names, address (postal and e-mail), phone, fax and contact person.

### **Notes**

1. The requirements above are not intended to exclude systems that are not in current use in the gaming industry, provided that credible evidence is given of their successful use in comparable situations.
2. In this and the following chapters, performance data shall be substantiated with evidence of appropriate testing. The NLC reserves the right to call on independent third parties for the auditing of any performance data, recovery plans, etc. supplied by the applicant, and may require additional tests to be performed at its sole discretion.

## **16.2 System functionality**

The main objectives of the gaming system(s) shall include, but may not be limited to providing:

- a) a nationwide network for the delivery of National Lottery products and services;
- b) the ability to accept plays and cancellations on all active online games and to record all such transactions in a secure and auditable manner;
- c) the ability to produce physical tickets for active online games in a secure manner consistent with best lottery standards and practice;
- d) the ability to validate claims and pay prizes for all games;
- e) the ability to manage National Lottery distributors. This includes, but is not limited to, managing billing and accounts, including reimbursement of prize payments, payment of commissions and termination;

- f) managing the ordering, storage, distribution and activation of all consumables (e.g. instant ticket stocks, playslips, stationary);
- g) functionality to support non-retail distribution channels where these are included in the application;
- h) information for distributors;
- i) information for the licensee; and
- j) control of the licensee's activities by the NLC.

These objectives are expanded in the paragraphs 16.3-8 below. The applicant should describe any additional objectives in a similar manner.

**Note**

The applicant shall make clear what it is actually proposing to implement. Any optional features or multiple possible implementations shall be clearly identified as such.

### **16.3 Games support**

The applicant shall describe how the games proposed in response to chapter 12 will be supported by the computer-based systems. This shall include elaboration on the following points:

- a) an end-to-end description of how each type of game would be played, identifying the system functionality involved at each step;
- b) an outline description of how the proposed technology could support potential future game types, with an explanation of the technical activities involved in adding new games or modifying the parameters of existing games;
- c) the method of processing, recording and tracking all individual transactions;
- d) the control of prize validation allowing prize payments to be made by retailers and by any other means; and
- e) any other points that may be specific to certain types of games proposed by the applicant.

### **16.4 Ticket sales**

The applicant's submission shall describe how the gaming system(s) will support sales of National Lottery tickets.

Where this function is performed online, this shall include but not be limited to:

- a) the use of playslips and manual entry of selections;
- b) any proposed facilities for subscription and advance play, automatic selection, systematic play, bonus draws, and services intended for use through access mechanisms other than retailer terminals;
- c) accepting and logging of transactions and printing tickets for players; and
- d) provisions for ticket cancellations, misprints, etc.

The equivalent information shall be provided where this function is carried out offline or through alternative access channels.

## **16.5 Validation and payment of prizes**

The applicant shall describe, for all game types proposed, how the proposed systems will validate winning tickets and where appropriate support the payment of prizes. In particular each applicant shall describe its proposals regarding:

- a) recognising the redeeming retailer, if appropriate;
- b) providing appropriate messages to the redeeming retailer indicating what action to take;
- c) updating all necessary records to reflect the payment of the prize, e.g. the winning tickets file and accounting files enabling prize payments and bonuses/commissions for retailers;
- d) how winning ticket details will be entered into the system e.g. via a bar code reader or manual entry;
- e) security features and procedures associated with the payment of prizes;
- f) handling local validations of low-tier scratchcard winning tickets; and
- g) any added value services to assist retailers or players, e.g. group registration, ticket checking.

## **16.6 Distributor accounting**

The applicant shall describe how the systems will handle distributor accounting and billing including collection of amounts due to the National Lottery and payment of distributor credit balances (e.g. where prizes paid exceed sales in a billing period). In particular, the applicant shall specify how the systems will account, on a distributor by distributor basis, for the following:

- a) sales of all tickets;
- b) payment of prizes;
- c) sales and validation commissions;
- d) distributor adjustments;
- e) how electronic funds transfer (EFT) will be used to support distributor billing and the system functionality which will support the use of EFT; and
- f) responses to this paragraph shall be consistent with, and take account of, the applicant's response the following paragraph and to chapter 15.

## **16.7 Distributor reporting**

The applicant shall describe how the proposed system(s) facilitate reporting of financial and other information to distributors. Such information should include, but not necessarily be restricted to:

- a) daily activity/financial reports (sales, validations, commissions, etc.) for the current and previous days;
- b) weekly and week-to-date activity/financial reports;
- c) weekly invoice reports for the current week and previous weeks;
- d) inventory reports; and
- e) winning numbers reports for current and previous drawings, etc.

Responses to this paragraph shall be consistent with and take account of responses to paragraph 16.6 above.

## **16.8 Consumables inventory management**

The applicant shall describe how the proposed system(s) will facilitate the management, ordering (by retailers) and control of consumables such as playslips, leaflets, pre-printed

tickets, printer rolls, ribbons and any other consumables required by the applicant's proposals. Specific areas to be addressed include:

- a) how the system(s) will manage loading stock details specific to each game, warehousing, ordering, order filling, despatch and delivery, receipt at retailers;
- b) how the system will monitor and record changes in the status of stock;
- c) security and reporting features in relation to stolen, missing or undelivered stock;
- d) special features such as return of stock; and
- e) end of games features such as return of stock (if allowed), balancing, etc.

## **16.9 Functional descriptions**

Each game, gaming procedure and related operational procedure shall be defined by a functional description. The NLC will designate those descriptions which will require its approval before that game, gaming procedure or operational procedure can be implemented. Operational procedures cover all systems, services and manual procedures essential to the core National Lottery processes. General administration procedures and general office systems need not be covered.

In respect of the games and gaming and related systems, the licensee will be required to provide functional descriptions which specify, at a high level, the functionality of the systems in order to deliver the games to the players.

All functional descriptions shall be clear, concise and capable of correct interpretation by non-technical personnel. They shall be maintained on an ongoing basis.

To ensure high quality of both content and presentation, the applicant shall:

- a) identify the standards to be applied to functional descriptions, including the standards required by Condition 13 of the licence; and
- b) list the functional descriptions that will be produced relating to the applicant's portfolio of games.

The applicant shall also include examples of functional descriptions to illustrate the proposed standard.

## **16.10 Systems development**

The applicant shall outline any system development standard and methodologies that they propose to use. Project management methods and tools shall also be described.

#### *Change and configuration control*

Configuration and change management procedures shall be required for all core National Lottery systems. The successful applicant shall implement rigorous change control procedures, and adherence to such procedures will be monitored by the NLC. Proposed change control procedures shall be included in the application.

#### *Acceptance testing*

Before they may be used for lottery operations, the NLC will require independent verification that all gaming systems and processes conform to the appropriate functional descriptions. The successful applicant shall submit functional descriptions and agree the scope and method of testing with the NLC. Test plans and scripts shall also be agreed with the NLC. Verification, certification and approval by the NLC shall be required prior to the initial launch and subsequently in respect of any significant changes in functionality. A copy of the independent testers' findings, management report and certificate of approval shall be provided to the NLC.

At a suitable interval prior to launch, the successful applicant shall nominate independent system testers and describe fully how they intend to have core National Lottery systems tested. The NLC reserves the right to reject the successful applicant's suggestions and appoint its own testers. The successful applicant will bear, in full, the cost of all acceptance testing.

The applicant shall describe the process by which the independent system testers will be nominated and subsequently managed.

### **16.11 Preparedness for the single European currency**

The applicant shall describe the present impact of the Euro and its possible future impact, if it is adopted by the United Kingdom, on all systems and processes proposed (including retailer terminals, revenue collection and accounting systems). The description should address:

- a) current status of proposed systems;
- b) what development may be necessary to fully support the Euro if it is adopted by the UK; and
- c) any impact on performance, availability or functionality that may occur either during any conversion activity and during normal operation.

See also note 19 to paragraph 11.2 on ticket pricing.



## **16.12 Systems capacity, performance and throughput**

The applicant shall demonstrate the capacity, performance and throughput of the complete integrated system from end to end and each of the proposed components.

The applicant shall show how forecasts of potential sales have determined system capacity, performance and throughput and relate this to the available sales channels or mechanisms. Relating the information to the business plan, the applicant shall provide evidence of the capacity to handle expected peak transaction volumes (e.g. prior to a multiple rollover draw). The evidence might draw on:

- a) reference data from an existing lottery system;
- b) supplier's gaming systems performance data; and
- c) component performance data.

The applicant shall also show the following estimates of capacity of the systems that it plans to install, shown by quarter, over the first two years of the new licence:

- a) practical maximum speed of ticket issue at terminals at peak periods;
- b) expected timing pattern of sales through each day and over the week;
- c) production of pre-printed tickets for scratchcard games;
- d) capacity of consumables distribution systems, including those for pre-printed ticket stock;
- e) capacity of gaming system(s), network and terminals to handle peak volumes of transactions;
- f) capacity of money handling systems; and
- g) any other factors which might constrain the practical capacity of the systems.

The applicant shall provide details of:

- a) target system availability, both on a weekly average basis and on the busiest day of each week, expressed as percentages of maximum terminal-hours per day, and the planned method of monitoring and reporting actual achievement;

A terminal-hour is defined as one retailer terminal being fully operational for one hour. Hence it reflects the end-to-end system availability from the viewpoint of a single terminal. Maximum terminal-hours per day is therefore the total number of retailer terminals deployed multiplied by the number of hours a day that the systems enable ticket sales to be made (regardless of individual retailer opening hours).

- b) plans to maximise the availability and reliability of the National Lottery central systems;
- c) measures to be taken to avoid system failures;
- d) measures to be taken in the event of a whole and partial failure of each proposed communications network to maintain availability, security and performance of lottery functionality (including game playing, prize validation, etc.);
- e) recovery procedures from total or partial system failures, including those failures due to natural or man-made disasters.

After the NLC has confirmed that it will grant the licence, but before live operations begin, the successful applicant will be required to test and demonstrate system performance to the NLC or its designated agents in order to substantiate the evidence provided in the application.

**Note**

Transaction profiles will be dependent on the applicant's game plan. However, the peak transaction rate that the present licensee has experienced was in the week of a double rollover when the hourly sales volume peaked at approximately £9 million on the Saturday and the peak transaction rate was approximately 51,000 per minute. On response time, the current systems achieve an average of about 5 seconds from insertion of the payslip to completion of ticket printing.

### **16.13 Maintenance arrangements**

The applicant shall describe the arrangements for preventive maintenance and repair in the event of faults of retailer terminals, network and gaming systems. Where any or all of these activities will be subcontracted, the applicant shall state:

- a) the name and experience of the subcontractor(s); and
- b) the number of staff, their skills, existing clients and the turnover of the subcontractors(s).

The applicant shall also provide a plan for establishing a field service programme and response times for repairing faults in different geographic locations.

## **16.14 Game drawing equipment and procedures**

The applicant shall provide a description of the proposed game drawing equipment and where applicable other drawing equipment, e.g. a game wheel for a TV show. In addition, the applicant shall provide a description of the procedures to be employed for game draws, including how the drawn results will be recorded, and how any validation will be performed.

It is highly desirable that, where practical, the equipment to be used for all drawn games, and where applicable other games, should be mechanical and not electronic. It shall be capable of inspection and certification by an independent body to verify that the result of any draw, using the equipment, is random. Attention shall be given to the management and safekeeping of all equipment used in the process and the steps to be taken to ensure the correct standards of randomness and fairness.

The draft licence requires that the NLC must be satisfied, through inspection of draw equipment, before, during, and after each and every draw that the equipment is properly maintained, used and protected from unauthorised access.

## **17 GAMING SYSTEMS**

### **17.1 Introduction**

The licensee will be required to provide and operate (computer room operations) all hardware, software (including operating systems, applications software, and management software and network software), applications and supporting systems to run any proposed games. This includes the physical and manual facilities required as well as the systems themselves.

The functional objectives of the central computer system(s) that the applicant shall address are as follows:

- a) providing continuous online availability to distributors for sales, validations, reporting, etc.;
- b) preventing compromise of the integrity of games; and
- c) providing recovery in the shortest time in the event of any failure of a system component.

### **17.2 Computer configuration**

The minimum requirements to meet the general objectives stated above are that the licensee shall provide a fault-tolerant or redundant computer configuration that is capable of meeting the current industry “best practice” availability requirements.

The applicant shall describe completely the system configuration and architecture. It shall also discuss how this configuration meets all the objectives of this ITA, and any other features that may be desirable in the successful operation of the National Lottery. Specific areas to be addressed include:

- a) the topography, i.e. the overall computer system architecture, location and connectivity;
- b) planned availability, e.g. percentage uptime, scheduled operating hours;
- c) disk or system mirroring;
- d) machine standby arrangements (hot, warm or cold);

- e) number and locations of central computer sites and disaster recovery facilities;
- f) backup procedures and storage;
- g) the testing frequency and coverage of disaster recovery contingency plans;
- h) scheduled operating and maintenance procedures; and
- i) telecommunications infrastructure requirements and data transfer procedures.

The applicant shall also identify how all functions are distributed across the gaming application systems and the resulting implications, including but not limited to, communication between applications, allocation of system resources/priority, sharing of peripheral devices and specific security issues.

In addition to supplying details on the specific proposed computer system, the applicant shall also describe the relevant “family” of computer systems and where the proposed model fits in the range of compatible hardware. Growth capability (in transactions per minute) and flexibility in sizing shall be included by the applicant. Upgrade paths shall also be described, and the platform family’s current maximum configuration provided.

The applicant shall describe the software to be used including applications, operating systems, databases, development languages, and any other software tools or management systems.

### **17.3 Gaming system management**

The applicant shall describe the central system management and diagnostic capabilities. This shall include the following:

- a) scheduled operating procedures;
- b) capability of monitoring system and component performance;
- c) capability of monitoring and reporting system and component failures; and
- d) ability to identify preventative maintenance needs by component.

## **18 DELIVERY SYSTEMS**

### **18.1 Retail network**

In this chapter paragraphs 18.1- 4 relate to the provision of a retail network (terminals and a communications network) that has similar functionality to the current licensee's retail network. Paragraph 18.5 addresses the possible use of other technologies, and hence other communication networks, which may not be dedicated to lottery operations.

All equipment to be used in the applicant's proposed lottery operations shall conform to the relevant safety and EMC regulations. Applicants shall identify the regulations that are appropriate to their proposals and identify the conformance status of all proposed equipment.

Any certification required by these regulations shall be obtained before the item is to be installed for use or sold to a third party.

### **18.2 Telecommunications network - design and configuration**

The applicant shall describe its proposed telecommunications network including:

- a) the geographic coverage of the network(s) to be employed;
- b) the overall network topography, including resilience and redundancy features;
- c) the proposed use of any other network for backup or resilience purposes;
- d) security features of the network and the types of threat that they counter (see paragraph 20.3);
- e) proposed data communication links (types, configuration, speeds);
- f) compliance with international and de facto communications standards, expressed in terms of the OSI 7-layer communications reference model;
- g) voice communications including retailer help desks, player help desks and telesales, if applicable;
- h) a reliability model of the network, demonstrating the end-to-end availability, reliability and service response times (maintainability) that will be achieved and identifying any evidence for specific claims and any other underlying assumptions;

- i) a performance model of the network, demonstrating throughput capabilities and relating them to the principal forecast in chapter 9 for the purpose of estimating network traffic requirements. The applicant shall identify any evidence for performance claims and any other underlying assumptions;
- j) the capacity of the network and any bottlenecks that may exist;
- k) scalability and growth path of infrastructure components proposed; and
- l) identification of any portions of the network that utilise shared infrastructure. In the case of infrastructure shared with other enterprises, the applicant shall provide an analysis of the non-National Lottery traffic on the gaming applications.

### **18.3 Telecommunications network - management**

The applicant shall describe in detail the network management and diagnostic capabilities available with the proposed communications network. This shall include the following points:

- a) on-going monitoring capabilities of communications links, network infrastructure components and terminals;
- b) switching and routing control;
- c) accumulation of performance statistics by component;
- d) reporting of component failures and performance; and
- e) ability to identify preventative maintenance needs by component.

All network management hardware, software, processes and tools shall be described.

### **18.4 Retailer terminals**

In the specific case of retailer terminals, the applicant shall fully describe, for each type of proposed retailer terminal, the capability with regard to the following points:

- a) the gaming functions that the terminal supports (including any training or maintenance functionality and future functions that may be supported by the technology);
- b) ability to send and receive individual messages to and from the host computer system;

- c) ability to send messages and receive broadcast messages;
- d) remote diagnostic capabilities;
- e) method of loading software, how long the download process takes and the method of verification that all terminals have the current and valid version of the software. In the case of terminals having multiple layers of software that can be updated (e.g. OS, application, firmware), the procedures for each type of update shall be described;
- f) the ability of the gaming system to monitor each terminal and to disable or enable each terminal, groups of terminals or all terminals;
- g) any recovery action required by retailers in the event of any system or network failure.
- h) any non-lottery functions that are provided and the use to which they may be put; and
- i) the technical specification, which shall include but not be limited to:
  - dimensions and footprint;
  - power requirements, including any that the terminal must be supplied with power at all times, with a description of the process of restoring terminal operation following a power interruption;
  - any special environmental requirements;
  - specification of principal elements (e.g. screen resolution);
  - any need for user maintenance such as changing paper and ribbons;
  - environmental protection features (e.g. membranes, lint screens, thermostatic controls, power isolations);
  - security features to prevent the unauthorised use of the terminal, password security keys, etc.;
  - safety features; and
  - log-on and log-off procedures.

The applicant shall describe the content of all transactions for the system, the type of interaction required from the retailer, and the nature of the interaction between the terminal device, any front-end processor or other network components, and the central system. Transaction delays or latencies shall also be identified and described. The

applicant should describe recovery action required by retailers in the case of power interruption to the terminal.

The NLC recognises that local validation of low-tier prizes on scratchcards can reduce operating costs and ensure a fast response time for the majority of validation requests. If the applicant's proposal includes scratchcards, the applicant should describe its capability to provide local validation, the subsequent batching of transactions, and how this function interacts with the need for online validation of other prizes.

#### **Note**

Condition 1 to the draft Section 5 licence requires that terminals (including all internal parts and printers) used for online functions and installed in retail outlets shall be new at the time when online ticket sales begin. "New" is defined as unused for any purpose before 1 July 2000.

### **18.5 Printers**

If separate printers are proposed, the applicant shall provide the same information as in b) to d) in paragraph 18.4 above.

Examples of game tickets, sample reports and other documentation produced by the printers shall be included in the proposal. Factors that may affect print speed shall be specified.

The applicant shall also describe any experience or plans relating to outputs that are printed on environmentally friendly material such as recycled paper.

### **18.6 Other access channels**

The applicant shall describe how the systems, technologies and operational procedures will support proposals for non-retail access. This description should identify the impact of the different access methods under the following headings:

#### *Domestic*

This considers ways in which the National Lottery could be played from home using new technologies, which include Internet, interactive TV and telephone.

#### *Mobile*

This shall address how the systems, technologies and procedures will support playing the National Lottery at temporary locations, e.g. fetes, exhibitions etc, that make use of mobile communication technologies.

### *Non-electronic*

The applicant shall describe how the systems, technologies and procedures will support participation by non-electronic means (e.g. postal subscriptions).

## **18.7 Distributor services**

### *Distributor support*

The licensee shall be responsible for establishing and operating a problem reporting system for all calls from distributors regarding problems with all game systems. This capability shall be available throughout the operating day. All calls shall be logged and the details recorded and handled in the appropriate manner (i.e. resolved immediately or routed to operations staff, maintenance staff, repair staff, etc.).

The applicant shall indicate the number of telephone lines to be operated for this purpose, both for the start-up period and for normal operation, what staff resources will be allocated, and what will be the intended average response time. The licensee shall monitor this hotline facility for results and effectiveness. The NLC will periodically review and audit the problem reporting system. Hotline response reports shall be delivered to the NLC on a regular basis.

### *Telephone sales and order processing*

The applicant shall describe how it proposes to handle orders from retailers for instant tickets and other consumables.

### *Retailer training*

The applicant shall describe proposals for training retailers both initially and at any other times.

### *Monitoring of distributor performance*

The applicant should describe how it will ensure the performance of distributors meets expected standards (e.g. sales, complaints, integrity).

## **18.8 Public enquiry service**

The licensee shall be responsible for establishing and operating a telephone, postal and e-mail enquiry service for the general public. The purpose of this service shall be to handle any queries, prize claims (other than those handled at retail outlets) and complaints.

This capability shall be available throughout the operating day. All calls and correspondence (electronic or otherwise) shall be logged, voice-recorded and handled in the appropriate manner (i.e. resolved immediately or routed to the appropriate staff). The applicant shall describe the number of telephone lines to be operated for this purpose, both for the start-up period and for normal operation.

The applicant shall detail what staff resources will be allocated, and what will be the intended average response time for telephone and correspondence enquiries. The licensee shall monitor this facility for results and effectiveness. The NLC will periodically review and audit the public enquiry service. Service response reports shall be delivered to the NLC on a regular basis.

## **19 MANAGEMENT REPORTING AND CONTROL**

### **19.1 Introduction**

The applicant shall describe how the proposed system(s) will provide information for the applicant's own management reporting and control. It is expected that this will take two forms, online access to information and management reporting.

### **19.2 Terminals**

In addition to retailer terminals and operator consoles, the computer system shall provide terminals to allow management to access information relating to overall system operation. This should include, but may not be limited to, the following:

- a) monitoring of current sales activity and other transactions;
- b) requesting various management reports provided by the system;
- c) monitoring reliability, availability and usage of retailer terminals, the communications network(s) and gaming application systems;
- d) entry of winning numbers for draw games;
- e) recording of the enabling/disabling of online functions and specific game features;
- f) recording the enabling/disabling of retailer terminal functions by individual terminal, groups of terminals or all terminals;
- g) enquiry on the status of individual tickets, including the ability to prevent a particular ticket from being validated;
- h) ability to send messages to individual terminals, groups of terminals or all terminals; and
- i) other information and processing functions which may be required.

The applicant shall describe how access to, and transfer of, information will be achieved and controlled. The information should be available at all times without compromising or otherwise impacting on day-to-day operations.

### **19.3 Reports**

The system shall provide for a range of standard reports and the ability to produce ad-hoc reports covering all types of system transaction as and when required. The applicant shall describe:

- a) the range and content of standard reports proposed; and
- b) the tools used to produce ad-hoc reports.

Where possible, sample reports shall be provided.

The applicant shall also provide details as to the capability of the system(s) to support investigation of system or terminal problems e.g. through the use of utilities and analysis of transaction master files, etc.

### **19.4 Information software**

The applicant shall also describe any options available for the presentation of management information other than on standard system reports. Such options may include on-line inquiries of selected information, graphic displays on terminals, printed graphic displays on printers or plotters, extracts to personal computer, or any other output options.

### **19.5 Access to data by the NLC**

In support of the licence conditions requiring access to data by the NLC, the successful applicant shall at all times provide it with appropriate facilities and resources.

Data shall include, but not be limited to:

- a) performance and reliability data covering the end-to-end system and specific components;
- b) that necessary to monitor compliance with functional descriptions and licence conditions; and
- c) point-in-time, periodic and trend reports and analyses; and
- d) all the underlying data and records used to conduct the reconciliation described in the applicant's response to paragraph 15.4 above.

Facilities shall include, but not be limited to:

- e) management terminals, in accordance with condition 22 of the draft licence, both at the licensee's premises and at the NLC's offices, that provide online read-only access to all data, information and programs identical to that available to the senior management of the licensee or its auditors;
- f) the tools, data dictionary and schemas necessary to interrogate and analyse the data without impacting operations; and
- g) in-house office accommodation and full office facilities for NLC staff. The applicant shall describe the facilities to be made available. As a guide, there are currently seventeen NLC staff based at the current licensee's premises.

Resources shall include, but not be limited to the appropriate training of NLC staff in the use of the management terminals and the associated software tools, and timely support, to include maintenance and updating of terminals and tools as appropriate.

The applicant's submission shall describe the resources and facilities that will be provided for both regular and ad-hoc use by the NLC.

## **19.6 Independent Verification System**

In order to ensure that the NLDF receives all money due to it from ticket sales the NLC will operate its own computer based Independent Verification System (IVS). It will reprocess an exact copy of every daily lottery transaction for all games that the licensee shall provide. The NLC will balance the output from its IVS with the equivalent output from the licensee's own operational gaming systems and reconciliation processes. The NLC requires the licensee to provide such data in a format and to a timetable to be agreed with the NLC.

The applicant shall include a proposed specification of the transaction data and files that it plans to provide together with a proposed timetable for its delivery and use.

The proposed specification shall include:

- a) high level descriptions of the source and content of each data file;
- b) the technical structure of each file;
- c) descriptions of the use and content of each data field on each file;
- d) the proposed method and frequency of delivery of each file with due regard to any significant event e.g. a drawbreak or a draw;
- e) a description of the validation and checking that the licensee will use to ensure the integrity of files prior to delivery to the NLC; and
- f) a description of the control procedures to be used to ensure successful delivery and receipt by the NLC.

The data contained in these files shall include but not be limited to that listed in paragraph 15.3 of this ITA.

The applicant shall describe the process by means of which the specification shall be maintained by the licensee such that the NLC may keep its own computer system compatible with the licensee's live systems at all times.

The specification will become the property of the NLC upon the termination of the licence.

## **20 SECURITY REQUIREMENTS**

### **Key outcome:**

**the security of all National Lottery games, materials and premises.**

### **This means:**

an adequate system must be in place to prevent, detect, record and investigate all security incidents;

access to all the licensee's premises and to other facilities housing network equipment must be adequately controlled and all attempts to breach security must be logged and investigated;

access to data, software and computer facilities shall be restricted to authorised personnel and adequate physical and logical access controls must be in place;

all aspects of IT operations, development and security must be regularly reviewed by appropriately skilled and experienced staff, independent of the IT function;

retailer terminals must be secure and tracked on a continuous basis;

printed tickets must meet acceptable quality and security standards;

the prize structure for each game must conform with the relevant licence;

ticket data received from printers for scratchcard games must be secure;

the licensee must take all reasonable measures to ensure the physical security of tickets at all stages;

there must be adequate arrangements for the timely investigation of any discrepancies as to the status and location of printed tickets and of missing and stolen packs;

clear procedures must exist for game closure and unused ticket recall; and

printed tickets must be destroyed in a secure and controlled manner.

## **20.1 Introduction**

Given the high profile of lotteries and their reliance on sophisticated computer systems and telecommunications, the NLC will need to be satisfied that the highest standards of security are in place. All applicants shall note the provisions set out in Condition 10 of the draft licence.

## **20.2 Ticket security**

The applicant shall describe the controls and procedures that will be implemented to ensure that all lottery ticket stock (including instant tickets) is secured during all parts of their life cycle. In particular these measures shall focus on the prevention of counterfeiting.

Specific attention shall be given, but not limited, to:

- a) the security of ticket rolls during design, manufacture, distribution and storage;
- b) the tracking of blank ticket rolls, instant tickets during manufacture, delivery, storage and distribution, winning tickets when returned to the National Lottery or its retailers; and
- c) the counterfeit avoidance and detection measures envisaged.

## **20.3 System security and integrity**

The applicant shall describe:

- a) the measures that will be taken to ensure the integrity of the National Lottery system(s); and
- b) the proposed security features and procedures for prevention, detection and recovery in the event of attempted security breaches.

In particular the NLC will wish to ensure that National Lottery system(s) provided by the licensee:

- a) calculates receipts, prizes and fund allocations correctly;
- b) properly records and logs all transactions and provides adequate audit trails;

- c) records all transactions in real time, on multiple magnetic media, on the primary system in the primary data centre, and preferably on backup system(s) in the primary data centre and / or in an alternative data centre;
- d) records all operator commands executed by the system and any system warnings or problem messages are printed immediately on a numerically sequenced console log. This console log will be made available to the NLC for periodic inspection and at any other time, when requested;
- e) has controls to ensure that specific games or functions are cut off at certain dates and / or times after which no or restricted transactions will be permitted as appropriate;
- f) has controls to ensure that winning tickets cannot be cashed more than once or after any relevant expiry period has passed;
- g) has controls to ensure that the central system will have the ability to recover in a timely manner in the event of failure of one of the computers;
- h) has the capability to determine the validity of all winning tickets and to authenticate tickets produced online;
- i) supports logical access security (e.g. password protection and user specific access rights); and
- j) has controls to handle the security implications raised by low-tier validations.

Specific areas to be addressed are covered below.

## **20.4 Access controls**

Access controls shall cover:

- a) physical access to computers, terminals and network nodes; and
- b) logical access (e.g. computer password protection)

and the applicant shall describe in full its proposals in this regard.

## **20.5 System operation**

The applicant shall provide details of the following:

- a) the planned security policies and procedures within the operational area;
- b) password standards and controls;

- c) the separation of development and operational computing areas;
- d) the techniques to be used for distributing new software and parameter files to retailer terminals; and
- e) procedures to ensure the security of all gaming software.

### **Note**

In the case of third party or subcontractor software maintenance, the applicant shall describe in detail the security procedures employed by them. Such procedures must be at least as robust as the procedures implemented at the primary processing site.

## **20.6 Security of transactions and data**

There is a risk that the unauthorised generation, insertion, browsing, modification or deletion of transactions within the National Lottery system(s) could compromise the integrity of the National Lottery. Each applicant's submission shall provide a description of what techniques and algorithms will be used, where, and how they will be set up, managed, protected and controlled, to minimise the risks of unauthorised access to transaction messages and National Lottery data.

The description should particularly address the issues and measures to be taken where use is made of any non-dedicated networks. For any proposed network that is not solely used for the lottery and controlled by the applicant, this description shall address:

- a) the level of service offered (e.g. functions supported, availability and coverage);
- b) security controls (e.g. access controls, encryption, firewalls); and
- c) incident detection mechanisms.

The NLC would prefer the licensee to use established, proven and published encryption methods. The applicant shall provide a specification of such methods, including details of:

- a) the algorithm used for encryption/authentication and a narrative describing why this algorithm is considered appropriate and adequately secure;
- b) key length;
- c) the key generation method used;
- d) the key distribution method used and frequency of change;

- e) the key storage location at terminal and centrally;
- f) the key destruction method used;
- g) the level of tamper resistance provided at terminals and applications systems;
- h) the device (e.g. terminal) authentication technique proposed; and
- i) the transaction/message numbering system proposed.

## **20.7 Audit trails**

The applicant shall provide details of which activities will result in an audit trail entry, where this data will be collected from, how it will be organised where it will be stored and how it can be assured that the data is accurate. In particular, audit trails shall exist for all security related activities including:

- a) all financial movements; and
- b) all accesses and changes to the operational system(s) and their environment.

## **20.8 Audit logs**

To enable substantive testing of the National Lottery's integrity through audit processes, backwards and forwards traceability of transactions is required. This shall be possible from the lowest level of detail, e.g. that part of a payment that relates to a single panel on a multi-panel draw coupon. The tracing process shall be easy to follow.

The applicant shall provide the following information:

- a) a description of how the proposed system provides accurate and reliable information on all transactions passing between the processes involved;
- b) a description of the tracking of individual transactions to the point of consolidation with other similar transactions, and the subsequent distribution of aggregated values to destination accounts;
- c) a description of the audit trail and log investigation/analysis tools that will be supplied by the applicant to assist the NLC exercise its right to inspection and review, as described in Condition 22 of the licence; and
- d) a description of how the audit trail information will be used to identify potential frauds.

## **20.9 Dispute avoidance measures**

A player, retailer or licensee may dispute the contents of an audit or audit log, for example, if a counterfeit ticket has been tendered for payment (and paid), before the legitimate ticket is tendered for payment. Resolution of such incidents may require arbitration. This would be facilitated if a mechanism providing non-repudiation of transactions were included in the proposed systems.

The applicant shall provide a description of the means of evidencing all transactions and associated retrieval processes for the purposes of resolving potential disputes.

## **20.10 Physical security**

Physical access to all areas of the National Lottery buildings shall be controlled using accepted industry best practice. Sensitive areas will include, but are not limited to:

- a) computer operation areas (including production, development and testing areas);
- b) network areas;
- c) physical inventory storage (warehouse);
- d) draw equipment; and
- e) terminal storage and maintenance areas, etc.

The applicant shall describe its physical security plans including:

- a) locks, magnetic card/smart card access;
- b) security cameras;
- c) security personnel plans;
- d) rules for visitors, subcontractors, maintenance of visitor logs, etc.; and
- e) controls to avoid tapping or illegal access of communication lines.

In addition, the applicant shall describe how it proposes to assist or advise retailers in relation to physical security over tickets, cash, and National Lottery equipment (e.g. terminals) at their premises.

## **21. START-UP PLAN**

### **21.1 Introduction**

The applicant shall include a start-up plan. The NLC will wish to be satisfied that the plans for setting up and commencing operations are both complete and credible. It will also wish to match the plan with the appropriate business and marketing plans to determine their consistency.

The start-up plan should integrate the target launch date and retailer coverage plan, plans for the development and implementation of systems, transition planning and all activities related to launch.

The NLC has secured an assurance from the current licensee that it would co-operate fully and professionally in planning and supporting the transition if another applicant were chosen. The start-up plan should demonstrate how the applicant will ensure that the transition takes place as smoothly as possible.

### **21.2 Approach**

The applicant shall describe its approach to achieving start-up of the lottery under the new licence. The description shall identify:

- a) underlying assumptions and principles;
- b) the project management methods and tools to be used to ensure that the plan is executed to the timescales proposed;
- c) the organisation and resources that will deliver the plan, including key roles and responsibilities; and
- d) the personnel that will perform the key project/programme management roles, including their skills and experience that demonstrate their capability to successfully deliver.

Annex N contains responses given by the present licensee to questions about its position in the event that it is not awarded the next Section 5 licence.

### **21.3 Scope**

The start-up plan shall cover all activities necessary to achieve the launch of the lottery by the target launch date. Hence it will include but not necessarily be limited to:

- a) the launch of all games in the initial portfolio;
- b) acquisition of premises and facilities;
- c) appointment of all suppliers;
- d) recruitment and training of staff;
- e) establishment of the retail outlets, including contracts and installation of equipment, and how that will be synchronised with retailer training;
- f) specification, design, development, testing and implementation of all proposed systems required to support National Lottery operations; and
- g) transition from the existing licensee.

The applicant shall describe, for each element of the overall systems, the extent of development required, i.e. what elements are “off-the-shelf”, require minor or extensive modification or are new developments. Developments may include work necessary to meet UK/European safety and EMC regulations. The overall systems include the terminals, communications network infrastructure, gaming systems and any other systems required to meet licence obligations.

### **21.4 Content**

The applicant’s start-up plan shall include:

- a) timescales, with detailed time-chart (Gantt or similar);
- b) key milestones;
- c) details of the sources and quantities of the human and any other resources required to complete each step of the plan; and
- d) details of external dependencies, including the NLC and the current licensee.

## 21.5 Transition

The applicant's start-up plan shall specifically detail how the transition from the current licensee shall be managed. The following shall be described:

- a) the overall transition strategy identifying the objectives in terms of continuity of sales and other functionality (e.g. prize payments) and how the applicant intends to achieve those objectives;
- b) a detailed transition plan, as part of the overall start-up plan, including timescales, with key milestones;
- c) the nature, timing and purpose of dependencies on the current licensee;
- d) the nature, timing and purpose of dependencies on the NLC;
- e) any assumptions on which the transition plan is based, identifying where these assumptions relate to the existing licensee and/or the NLC; and
- f) implications for lottery retailers, including the nature and timing of any specific actions required of them.

The applicant shall describe the steps already taken, and to be taken, to satisfy any dependencies on any external parties, including the current licensee and the NLC. Options and risks associated with these dependencies should be addressed in the risk assessment to be provided in response to chapter 22.

Dependencies on the current licensee may include:

- the payment of prizes relating to sales made during the current licence period;
- the making of advance sales on behalf of the successful applicant;
- information on games and performance;
- transfer of assets;
- take-over of supply and service contracts; and
- transfer of stocks of media and other consumables.

The discussion on dependencies required by this section shall address all of the above as a minimum (if only to explain why it is not a dependency), plus any others that the applicant identifies.

### Note

The NLC has no power under the current Section 5 licence to impose requirements on the present licensee to transfer assets to a new operator or to assist a new operator in other

ways at the expiry of the current licence period. The assurance that the NLC has secured from the current licensee is that it would co-operate fully and professionally in planning and supporting the transition if another licensee were chosen.

## **21.6 Minimising interruption**

The successful applicant will be expected to minimise any interruption of service during the transition from the current licensee. The applicant shall describe how its approach to transition will affect key lottery performance parameters through the transition period, including the impact on, and links between:

- a) the flow of funds to the NLDF;
- b) the current total installed retail outlet base; and
- c) the ability of the public to play (e.g. geographic coverage of sales outlets, changes to functionality, such as games available).

## **22 RISK MANAGEMENT**

### **22.1 Introduction**

The applicant shall describe how in organisational and other terms it will approach risk analysis and risk management before and during the period of the licence. There shall be an effective methodology or procedure for identifying and assessing risks, and for selecting the most appropriate mitigation and control strategies. The methodology or procedure must address risks to the National Lottery as well as to the applicant itself. The results of a formal risk analysis (e.g. using CRAMM) should be provided.

### **21.2 Start-up**

The applicant shall provide a quantified risk assessment with regard to the start-up plan that identifies:

- a) the risks to the start-up plan (including transition);
- b) an assessment of their likelihood and potential impact; and
- c) the management actions and contingencies that are proposed to counter the risks.

The applicant shall also describe the process whereby this assessment is maintained and used in the management of the start-up activities (including transition) and how this process shall be made visible to the NLC.

### **22.3 Operational risk**

The applicant shall provide details of all operational risks to the security of National Lottery systems that it has identified and propose countermeasures to remove or reduce such threats. The results of a formal risk analysis should be provided.

The risks that the applicant should cover include:

- a) disaster recovery: in the event of the loss of, for example, the main computer site, telecommunications network, warehouse, etc, how is service maintained?
- b) duplication of tickets or prize claims: what measures will be put in place to prevent or detect such occurrences?
- c) lost/stolen/mutilated tickets: what handling procedures are planned?
- d) stolen terminals: how will the proposed system minimise the risk that a stolen terminal is used to issue tickets without any funds being collected by the licensee?
- e) terminal malfunction: in the event of a terminal malfunction during the issuing of an on-line transaction (e.g. paper jam), what mechanisms are proposed to ensure a secure and accurate completion of the transaction?
- f) cancellation of sales: what procedure is planned to prevent a retailer from cancelling a ticket after the player has bought a ticket and left the retail outlet?
- g) under-reporting of game revenue by the licensee: what procedures will prevent the licensee under-reporting takings to the NLC?
- h) insertion of winning entries by the licensee or others after the draw, but prior to payment of winnings: what procedures are planned to prevent this occurring?
- i) non-claimants: what controls are planned to ensure that the licensee or others do not divert unclaimed prizes?
- j) retailer protection: what facilities will be provided to retailers to protect their takings?
- k) licensee protection: what controls will the licensee operate to protect against fraud and theft by the retailers?
- l) syndicates: what measures will be in place to detect and stop attacks on game prizes by commercial syndicates?
- m) unauthorised identification of winning instant tickets: what actions will be put in place to prevent unauthorised identification of winning instant tickets prior to sales?

