



National Lottery
Commission

The Statement of Main Principles November 2005

The purpose of these slides is to give a short overview of the Statement of Main Principles and is intended as a guide only. It should be noted that the information in this presentation is subject to the matters set out in the Important Notice at the beginning of the Statement of Main Principles which is available at www.natlotcomm.gov.uk/competition



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Launching the UK competition

Launching the UK competition



We are launching the third UK licence competition

The Statement of Main Principles marks the start.

It sets out:

- Our approach and objectives for the competition
- The key principles underlying the competition
- The proposed timetable for the competition

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We are committed to a fair and effective competition

We are seeking to deliver a framework that:

- Generates competition for the licence
- Establishes a level playing field for all bidders; and
- Maximises returns to good causes, whilst ensuring that:
 - The lottery is run with all due propriety; and
 - And players' interest are protected

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An overview of the process

This presentation covers:

- The UK lottery framework and environment
- Highlights of the structure for the next licensing award

Launching the UK competition



We are seeking the highest quality bidders

- The UK lottery is one of the most successful in the world and deserves the best operator
- It requires an operator to provide:
 - Attractive and innovative games, services and distribution channels
 - Flexible and appropriate technology
 - A high level of competence, integrity and a track record of setting up and operating large-scale undertakings
- We are impartial as to the identity of the next operator



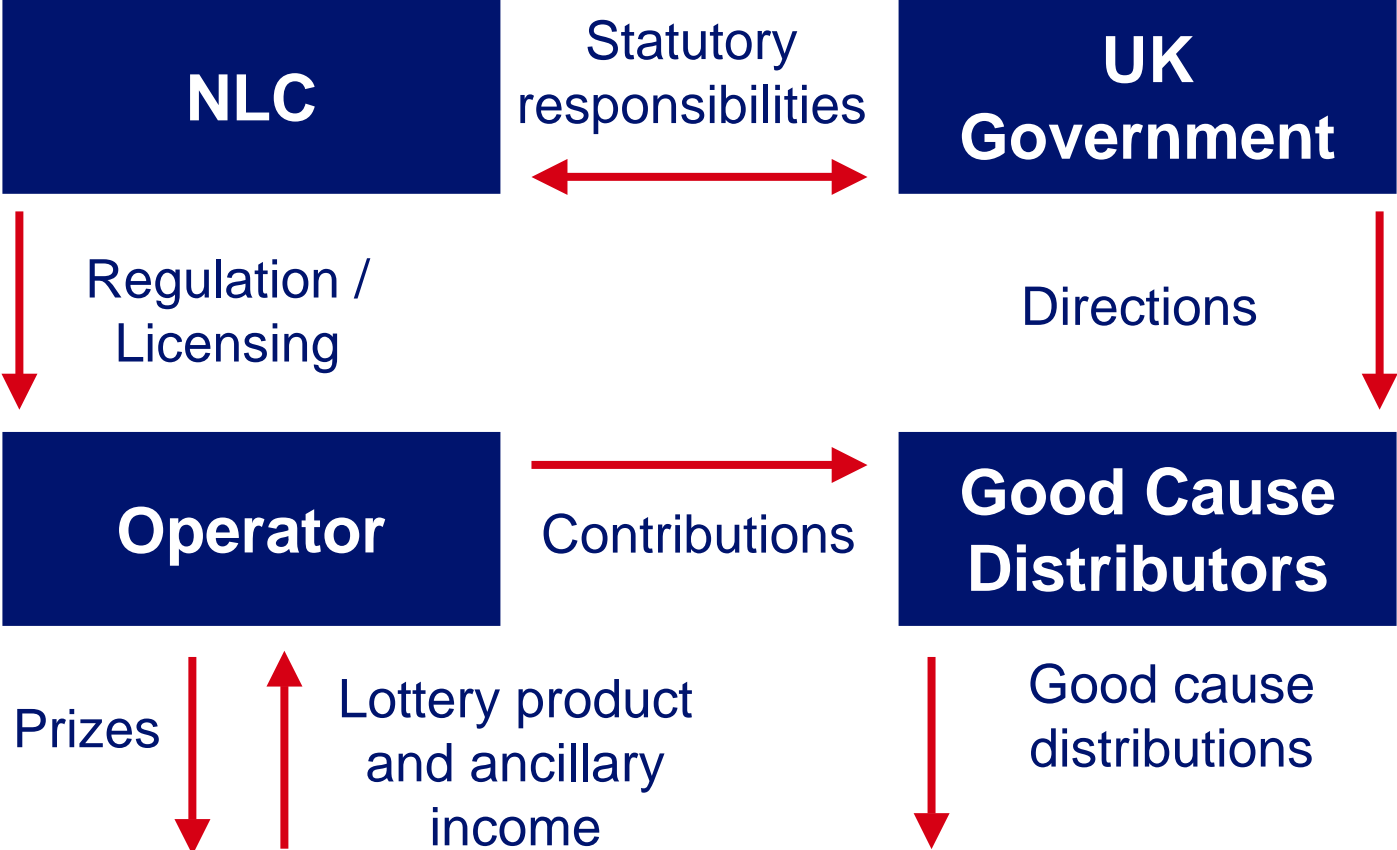
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The UK Lottery Environment

The UK Environment



The UK Lottery Model



The Commission's responsibilities

Responsibilities

- Ensure the Lottery is run with all due propriety
- Ensure players' interests are protected
- Maximise the income for 'good causes'

Functions

- Selects and licences the operator
- Licences the games
- Monitors and reports on operator performance
- Enforces the licence

The operator's responsibilities – a 'turnkey' solution

- Develop games
- Create and execute marketing strategy
- Manage retailers and other distribution channels
- Provide complete technology and communication solution
- Deliver systems availability
- Organise draws
- Pay large prizes to winners
- Takes legal action to protect intellectual property
- Provide customer service / care



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The third licence competition

We have adopted a number of key principles

These are aimed at:

- Creating an attractive framework for the competition
- Balancing the needs of bidders, players and good causes
- Securing a fair and transparent evaluation and award of the licence

Key principles



Encouraging competition

- A single, ten-year licence to operate the UK lottery, with the possibility of awarding extensions
- Suppliers and contractors may participate in more than one bid
- Certain restrictive agreements will not be allowed, to avoid the competition being unfairly or artificially reduced

Key principles



Encouraging high quality bids

- Bids to be submitted in a single stage process
- Proposals must demonstrate the full capability to manage the operations of the undertaking and deliver the proposal
- We are encouraging bidders to deliver innovation by reference to demanding output specifications
- We do not propose to provide assistance with bid costs

Key principles



Levelling the playing field

- Modern and flexible technology will be required from the start of the third licence
- Sufficient information will be provided to ensure that bidders can adequately assess the opportunity

Key principles



Levelling the playing field – a hurdle approach to evaluation

- “Hurdle-approach” – We will evaluate certain aspects of bid proposals in relation to required standards
- We accept there is some transition risk associated with a competition – this will be reflected in our approach to defining this hurdle
- The assessment of each hurdle will not impact upon our evaluation of the overall returns to good causes or be used as a comparator between bids.

Increasing incentives to increase returns to good causes

- We will simplify retention structures where possible – further analysis is being undertaken
- Retention rates may vary by class of game
- We will introduce arrangements to encourage investment during the licence period
- We will permit the use of the lottery infrastructure for ancillary activities where this benefits the return to good causes

Key principles



Increasing transparency

- We will simplify our requirements where practicable and provide detailed guidance in certain areas e.g. player protection
- The evaluation will be simplified to increase transparency of the process
- Steps will be taken to ensure sales projections are realistic and comparable

Key principles



Managing the transition

- We are planning a transition period – the period between the award of the new licence and expiry of the current licence - of 20 months
- We will be providing further information on the obligations that will transfer to the third licensee to ensure smooth transition
- The current licence provides for co-operation from the existing operator

Assisting future competition and licence award

- We will retain an ability to implement an interim licence of up to two years
- We will be reviewing licence provisions relating to provision of information
- We are considering requiring the third licensee to provide for the potential transfer of material operating assets and contracts to its successor

Evaluation objectives

- This will be carried out to ensure consistency with the Commission's statutory duties:
 - Ensuring the Lottery is run with all due fitness and propriety
 - Ensuring the interests of players are protected, and subject to these
 - Maximising returns to good causes

Evaluation criteria

- Bids will be assessed against required standards or hurdles, including:
 - Propriety
 - Player protection
 - Management of transition risks
 - Overall ability of management and capacity of organisational structure;
 - Financial soundness
 - Security, capacity, resilience and integrity of the technology design, its implementation and operation, and its suitability as a basis for a modern lottery
- Having considered all of the above on a hurdle basis, the final evaluation will depend upon our assessment of the expected returns to good causes

Evaluation



Evaluation process

- Bidders will be given an opportunity to address any areas where they might otherwise not meet a required standard or hurdle
- In addition, bidders may all be given an opportunity to address deficiencies in other areas of their bid – however, they will not be allowed to amend retention rates or returns to good causes



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The competition process

Timetable



Proposed timetable

Draft Invitation to Apply	- April 2006
Final Invitation to Apply	- June 2006
Bids submitted	- October 2006
Licence finalised and awarded	- May 2007
Transition period	- May 2007 to January 2009
Start of third licence	- 1 February 2009

Website: www.natlotcomm.gov.uk