

## **THE NEXT LICENCE TO RUN THE NATIONAL LOTTERY:**

### **STATEMENT OF MAIN PRINCIPLES**

The National Lottery Commission is beginning the process of selecting the holder of the licence to run the National Lottery for the period after the present operating licence expires in September 2001. By announcing the main principles and timetable of the competition now, the Commission aims to help those who plan to submit bids or who may wish to join with others to do so. The Commission intends to publish a draft Invitation to Apply and a draft licence in September 1999 and to select a preferred bidder by the end of June 2000 at the latest and earlier if possible.

2. Since the National Lottery was established in November 1994, it has become a national institution. Sales in each of the last two financial years have exceeded £5 billion and during the present licence period the lottery should generate some £11 billion for the Good Causes.<sup>1</sup> The operator chosen for the next licence period will have the opportunity to run the largest lottery in the world and the one that contributes the most to Good Causes.

3. There are several major differences now as compared with the situation when applications were invited in 1993 for the first licence to run the National Lottery. First, the volume of sales has demonstrated the size of the market that exists. The risks faced by the operator should be less than last time. Second, the experience that has been gained in regulating the lottery will allow the Commission to base its Invitation to Apply more in terms of the outcomes that bidders should deliver. Third, developments in technology give opportunities for bidders to provide players with new forms of access to games.

4. The present statement takes account of views that prospective bidders and others have put to the Commission since it issued a preliminary statement on 5 May 1999. The Commission is able now to state certain conclusions it has reached and to indicate how it expects to proceed over a broader range of issues. However, it wishes to continue a dialogue with parties interested in the bidding process and reserves the right in all cases to make changes if it considers it desirable to do so.

*Statutory requirements*

5. The Commission is bound by the National Lottery etc. Act 1993 ("the Act") as amended by the National Lottery Act 1998. The Act imposes a responsibility on the Commission to ensure that the proceeds for the National Lottery Distribution Fund (NLDF) are maximised. This is subject to the lottery being run with all due propriety and the interests of players being protected. It follows that the Commission will be critically concerned with the integrity of the lottery and with consumer protection and, subject to it being satisfied on those matters, with the amount of funds likely to be provided for the Good Causes through the NLDF. The Act contains provisions regarding the fit and proper status of applicants, managers and others connected with them. It also requires that only one organisation should at any one time hold the main operating licence under Section 5 of the Act and that the licensee should be a corporate body.

6. The Commission must also comply with subordinate legislation made under the Act and with formal directions given to it from time to time under the Act by the Secretary of State. Copies of the subordinate legislation and directions currently in force are available on request.<sup>2</sup>

7. This statement deals first with issues connected with the granting of a new licence. It then describes in broad terms how the Commission will assess the bids that it receives and concludes with the timetable that the Commission intends to follow.

**A - Finance and structure**

8. The Commission welcomes bids from corporate bodies that may have a range of financial structures. These include those in which the principals do not benefit from distributions of profits ("not-for-profit operators"). The Commission will require bidders to be single-purpose bodies. Subject to its other statutory responsibilities being fulfilled, the Commission will select the bid that is most likely to maximise the proceeds for the NLDF. Recognising that there are relatively few suppliers of technology services for large-scale on-line lotteries, the Commission is open to suppliers participating in more than one bid.

9. Before confirming that it will grant a licence to the preferred bidder, the Commission must, in order to fulfil the responsibilities given to it by Parliament, know the identities of all the parties which would be principally involved in running the lottery. The Commission must be satisfied at that stage that the operator is likely as a licensed entity to deliver the commitments in the selected bid. This sets the National Lottery apart from most other state lotteries, where a public body takes responsibility for the actual operation of the lottery, making use of contractors. It makes it strongly desirable that all principal suppliers should be identified at the time that a bid is submitted, and the Commission intends to invite bids on this basis.

10. However, the Commission is prepared, before issuing the draft Invitation to Apply, to discuss with interested parties the possibility of also accepting bids which do not fully specify principal suppliers. This would be provided that the bidder was able to show that it could source relevant systems and services satisfactorily within the necessary time-frame and at appropriate cost, and without adversely affecting the bid's financial or technical soundness or impairing propriety or consumer protection.

11. The Commission will wish to satisfy itself on the means that bidders use to obtain value-for-money from their suppliers, whether or not they are also shareholders. It will expect bidders to look for ways of exerting continuing downward pressure on costs. It will require them to disclose information concerning the terms of their contracts with major suppliers.

#### *Contributions to the NLDF*

12. The Commission expects the new licence to prescribe contributions to the NLDF that are based on the value of ticket sales ("primary contributions"). Bidders will be asked to indicate the relevant proportion for different tranches of sales for each year of the new licence.

13. The Commission will also invite bidders, whether not-for-profit bodies or others, to make proposals for contributions to the NLDF from surpluses gained from running the lottery ("secondary contributions"). It recognises that the public's perception of the lottery, and therefore its willingness to buy tickets, may be affected by the way in which surpluses are applied.

14. In addition, the Commission will invite bidders to identify ancillary activities that they might put to it for approval in return for contributions to the NLDF. These activities could include the use of lottery facilities for other purposes (but not for other lotteries or for betting or gaming).

#### *Remuneration*

15. The Commission acknowledges that levels of remuneration at senior levels of management can affect the public perception of the National Lottery. It will expect bidders to demonstrate that they will satisfy the highest standards of corporate governance, in this respect as in others. This includes being transparent over the factors determining salaries and bonuses. The Commission will wish to be satisfied that bidders have procedures that guard against levels of remuneration that are excessive in relation to the responsibilities and performance of management.

*Length of licence*

16. In fixing the length of the new licence, the Commission has to balance the likely proceeds for the NLDF during the licence period, taking account of the need for the operator to recover its investment, with the possible benefits of having a new competition for the licence earlier rather than later. The Commission expects to grant a licence lasting for seven years.

**B - Operating the new licence**

17. The Commission will expect bidders to indicate the games or types of games that they expect to be able to offer, whether at the beginning of the new licence period or later. It expects that these games will include an equivalent to the main on-line game currently offered by the present licensee but will be prepared to consider alternative proposals. Bidders will need to demonstrate that they have a clear strategy for maximising the proceeds for the Good Causes over the life of the licence, subject to the other statutory objectives.

18. Bidders will need to explain fully how they intend to prevent under-age and excessive play and to set out the steps they would take to deal with them if they occur.

19. The Commission will seek to secure the following key outcomes:

- an operator with a strong and effective internal control framework;
- games that enhance the image of the National Lottery;
- 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 innovative use of technology;
- marketing that offers fun and excitement to the British public through the opportunity to win a range of prizes, with advertising and public relations activities being conducted in an appropriate and responsible manner;
- fair treatment of players, with effective and rigorous arrangements in place to counter under-age and excessive play;
- safeguards for the funds required to meet obligations to prizewinners, with prize validation and payment taking place in a quick, secure and efficient manner without unduly inconveniencing players;

- computer-based systems that are robust, reliable and secure, provide confidentiality, integrity and availability and support the likely volume of transactions and processing;
- systems used for the collection of proceeds from lottery activities that ensure that revenue is collected in full and that the correct amounts are paid to the NLDF and secured for prizes;
- security of all lottery games, materials and premises; and
- consistency of ancillary activities with the overall objectives of the lottery.

### *Section 6 licences*

20. In accordance with Section 6 of the Act, the successful bidder for the main Section 5 operating licence will need to submit separate applications for the particular games that it wishes to promote. In the interests of encouraging innovation and diversity, and of maximising the proceeds for the Good Causes, the Commission will expect the successful bidder to welcome third parties with creative and practicable proposals as independent Section 6 licensees promoting games alongside itself. The Commission will ask bidders to set out how they intend to encourage such proposals and the basis on which they expect to reach agreements with those making them.

21. While the Commission expects retailers to continue to play an essential role, it will ask bidders what use they propose to make of new technology for providing players with access to games. It will also ask bidders how they would respond to any developments that might lead to an opening up of the international lottery market.

### **C - Maintaining operations**

22. The Commission attaches importance to any transition to a new operator taking place as smoothly as possible. It will expect bidders to minimise any interruption of service. The operator must have sufficient business, delivery and communications systems to ensure that players have convenient access as soon as operations begin, even though the intended distribution channels may not necessarily be fully in place from the start.

23. The Commission will assist potential bidders by publishing information on matters listed in Condition 20 of Camelot's Section 5 licence. This includes the breakdown of sales by region and type of retailer and the number and geographical distribution of retailers. This information will be included in the draft Invitation to Apply.

24. The Commission has no power under the present Section 5 licence to impose requirements on Camelot to transfer assets to a new operator or to assist a new operator in

other ways at the expiry of Camelot's licence period. However, the Commission has secured an assurance from Camelot that it would co-operate fully and professionally in planning and supporting the transition if another operator were chosen.

25. As regards the payment of prizes from games that it has run, the Commission has established that Camelot would be willing in those circumstances to discuss arrangements for the new operator to make payments up to the end of the normal 180-day limit for claims. Camelot would be prepared for all relevant files and validation data to be transferred in a mutually agreed format.

26. Although bidders can make no assumption in other areas, Camelot has indicated its willingness to hold discussions in good faith about other possible areas of co-operation if it were approached by a new operator once selected. These might include Camelot making advance sales for the new operator towards the end of the current licence period and the use by a new operator of Camelot's stock of Instant tickets. In the case of communications, where Camelot's network makes use of rights to use facilities provided by others, a new operator could approach Camelot at the time on the scope for co-operation in the changeover to a new network.

27. The Commission intends to continue its discussions with Camelot on issues that might arise if another operator were chosen to run the National Lottery in the next licence period.

28. The Commission will expect the successful bidder to provide full co-operation in the event of a transfer at the end of the next licence period and expects to include appropriate provisions in the new licence.

#### **D - Criteria for evaluation**

29. In accordance with its statutory responsibilities, the Commission will make assessments of the probity of each applicant, including whether all who are likely to be concerned with managing the lottery or for whose benefit the business is likely to be conducted are "fit and proper". Such assessments will also cover key contractors. The Commission will need to be satisfied with bidders' plans and capacity for ensuring continued probity.

30. The Commission will also make assessments of bidders' plans for consumer protection and their ability to fulfil them.

31. The paramount consideration, provided that the Commission is satisfied with the results of the assessments mentioned, will be an evaluation of the prospective proceeds for the NLDF. This will take account of all the contributions referred to above.

32. In assessing the ability of bidders to fulfil their commitments, the Commission will take into account the extent to which their bids have the following attributes:

- financial soundness;
- robustness of business plans under various scenarios;
- overall ability of management, capacity of organisational structures 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.

33. The order in which attributes are listed above is not intended to indicate their relative importance. Prospective bidders should also take account of what is said elsewhere in this statement on what the Commission will expect them to demonstrate.

#### **E - Timetable**

34. The Commission aims both to allow adequate time for the preparation of bids and their evaluation and to give a possible new operator enough time to prepare for taking up its responsibilities. It intends to proceed as follows:

- September 1999. Publication of draft Invitation to Apply and draft licence, with comments invited to reach the Commission by early November.
- October 1999. Open bidders' and suppliers' conference.
- November 1999. Issue of final Invitation to Apply and revised draft licence.
- February 2000. Deadline for bids.
- May/June 2000. Announcement of preferred bidder.

- October 2001. Start of new licence.

July 1999

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<sup>1</sup> Includes interest earned by the National Lottery Distribution Fund.

<sup>2</sup> Available from Public Affairs Division, National Lottery Commission, 2 Monck Street, London, SW1P 2BQ, tel. 0171 227 2027. Copies of the current Section 5 licence and of Section 6 licences are available for purchase. The subordinate legislation and directions, the current Section 5 licence, the Section 6 licences for the current on-line games and a representative licence for Instants can be found on the Commission's website, [www.natlotcomm.gov.uk](http://www.natlotcomm.gov.uk).