



THE FOURTH NATIONAL LOTTERY LICENCE COMPETITION (4NLC)

INVITATION TO APPLY (ITA)

OJEU Reference: 2020/S 168-408296

26 October 2020



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LOTTERY[®]**

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VOLUME — A

EXECUTIVE SUMMARY

1 Executive Summary

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1 EXECUTIVE SUMMARY

1.1 INTRODUCTION

The National Lottery was launched in 1994 to raise funds to support Good Causes across the UK and offer life changing prizes to Participants. In the 26 years since it was launched, the National Lottery has raised more than £41 billion for Good Causes, transforming lives through its contribution to the arts, sports, heritage and communities up and down the UK.

The National Lottery was established under The National Lottery etc. Act 1993 (the Act) and is now regulated by the Gambling Commission (the Commission). The Commission is inviting Applications for the licence to run the National Lottery.

This Invitation to Apply (ITA) is issued by the Commission at the second stage of the Fourth National Lottery Licence Competition (4NLC). Only Applicants that have successfully passed the Selection Questionnaire (SQ) Stage of the Competition have been invited to respond to this ITA.

This document sets out details of the National Lottery opportunity, together with the process and requirements associated with submitting an Application, and information as to how Applications will be evaluated. It is accompanied by a copy of the Proposed Form of Fourth Licence. The Proposed Form of Fourth Licence sets out the detailed conditions relating to the operation of the National Lottery that Applicants must consider when responding to this ITA.

For the benefit of Applicants, this ITA describes, and gives further background information in relation to, certain requirements of the Proposed Form of Fourth Licence and other legal documents associated with the Competition and implementation and operation of the Fourth Licence. However, Applicants should note that any summary provided in this ITA is not a substitute for reading and understanding those documents themselves. If there is any ambiguity or conflict between the provisions of those documents and this ITA, those documents take precedence over this ITA.

1.2 OBJECTIVES OF THE COMPETITION

The Commission seeks to award the Fourth Licence to the Proposed Licensee identified in the Phase Two Application which proposes the highest credible and deliverable Good Causes Contribution for the Fourth Licence whilst first ensuring support for the Commission's Statutory Duties of propriety and protecting Participants' interests.

In order to achieve this, the Commission seeks to run a process that:

- is fair and transparent throughout;
- allows for genuine competition between Applicants;
- provides Applicants with the opportunity to propose innovative solutions, whilst ensuring that the Commission's Statutory Duties are met (see Section 2.2 (Statutory Duties and Public Law)); and
- delivers significant social value through the National Lottery, in terms of Good Causes Contribution as well as wider social benefit (see Section 3.4 (Social Value) of this document).

1.3 FOURTH LICENCE

1.3.1 Licence Term

The Fourth Licence will be for a period of ten years. The Commission is currently in the process of extending the term of the Licence held by the Current Operator by six months, meaning that the term of that licence will end on 31 July 2023. It is therefore intended that the Fourth Licence will start on 01 August 2023 and end on 31 July 2033. Applicants should note that the Implementation Period in advance of the Start Date is currently expected to commence in October 2021, following Award Notification.

1.3.2 Fourth Licence and Section 6 Licences

The Commission will issue two types of licence (Section 5 and Section 6) under the Act:

- the Fourth Licence - a single licence granted under section 5 of the Act covering the operation of the National Lottery. Only one Section 5 Licence can be in force at any one time; and

- separate licences which are required under section 6 of the Act to permit the promotion and conduct of each Game which will form part of the National Lottery (as licensed under section 5 of the Act).

The Act provides that Games can only be promoted as part of the National Lottery by either:

- the person who, at the relevant time, holds the Section 5 Licence which is in force; or
- any other person, pursuant to an agreement that person has with the holder of the Section 5 Licence at the time¹.

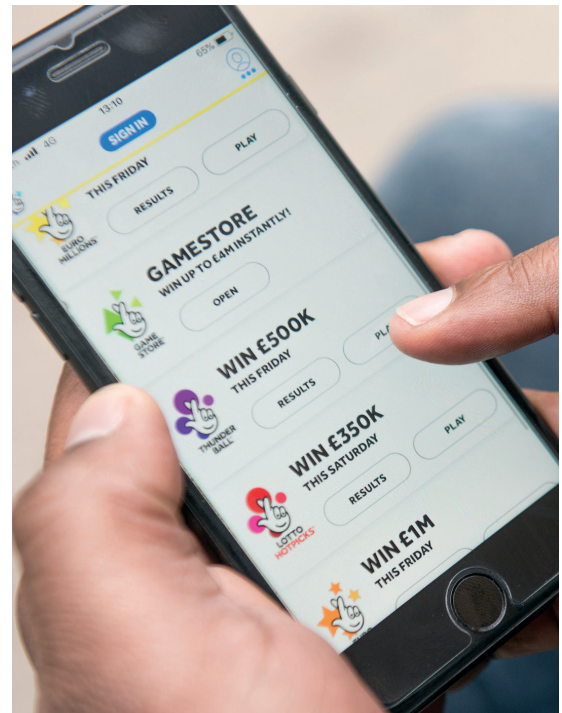
The Fourth Licence will not contain any requirement on its holder to enter into agreements with other persons who wish to promote Games as part of the National Lottery. In practice, during the Fourth Licence Term, all Section 6 Licences will be held by the Licensee under the Fourth Licence except where the Licensee decides to enter into an agreement for someone else (e.g. a third-party) to promote Games and that person is granted a Section 6 Licence by the Commission. The Commission would of course consider any applications for Section 6 Licences presented to it in accordance with the Act.

1.3.3 Fourth Licence outcomes

In addition to authorising and requiring the Licensee to operate the National Lottery, the Fourth Licence describes certain overarching outcomes which it is designed to ensure are achieved. Those outcomes are that the National Lottery be carried on:

- a) with all due propriety;
- b) in a way which protects the interests of Participants; and
- c) subject to (a) and (b), so as to maximise the amount being paid out of the net proceeds of the National Lottery to Good Causes, which, for the avoidance of doubt, will be assessed taking account both of:
 - i. the amount expected to be paid to Good Causes under the Fourth Licence; and
 - ii. to the extent the operation of the National Lottery under the Fourth Licence might affect them (for example, by enhancing or damaging the National Lottery brand), potential amounts to be paid to Good Causes out of the net proceeds of the National Lottery under subsequent licences awarded under section 5 of the Act.

Conditions in the Fourth Licence describe specific ways in which the Licensee will be required to pursue those outcomes. In addition, the Licensee is required to interpret and perform its obligations under the Fourth Licence in the manner best calculated to achieve those outcomes.



¹ Section 1(3) of the Act

1.4 FORMATION OF A SPECIAL PURPOSE ENTITY (SPE)

The Licensee must be an SPE established in the UK. Applications must therefore provide details of this SPE (or proposed SPE if not yet formed), the “Proposed Licensee”.

Phase One Applications must either be submitted by the Proposed Licensee or, if the Proposed Licensee has not yet been established as an SPE, another person who intends to take principal responsibility for the submission of that Application. The Proposed Licensee identified in an Application may therefore be a different legal entity from the Applicant who has submitted that Application.

Any Applicant which is not itself the Proposed Licensee, must have formed the SPE which is its Proposed Licensee by the end of the Phase Two Response Period in order to ensure that the Commission is able to award the Fourth Licence to the Proposed Licensee named in the successful Application (the Preferred Applicant’s Proposed Licensee). The Preferred Applicant will be required to provide evidence of their SPE’s registration as a corporate entity in the UK (such as a Certificate of Incorporation and Articles of Association) as part of its Phase Two Application.

As further described in Section 5.6.1 (Execution of the Enabling Agreement), when the Proposed Licensee named in the Application submitted by the Preferred Applicant enters into the Enabling Agreement, it becomes the “Incoming Licensee”. References in this document to the “Licensee” are references to that entity once it has been granted the Fourth Licence.

This ITA sets out the process for Applications for the Fourth Licence. Applicants will also need to set out details of the Section 6 Licences for which they intend to apply in respect of Games to be available on and from the Start Date and during the first year of the Licence as part of their Application. For further detail regarding the Section 6 licensing process, see the Section 6 Licensing Guidance Note.

1.5 FORMAT OF THE ITA

This ITA is composed of the following:

ITA Introduction (Vol. B)

The Introduction provides Applicants with information on the National Lottery and the Competition for the Fourth Licence. This includes an overview of the National Lottery, an overview of the licensing regime, the Competition process, and instructions to Applicants.

Process and Instructions (Vol.C)

This volume sets out the various stages of the Competition that Applicants will need to comply with. The timelines for each stage indicate the deadline by which Applicants must submit documents for their Application to be compliant. The instructions element of this section sets out the terms of the Competition, which Applicants must comply with. Applicants should refer to this volume for information relating to consortia and Restrictive Agreements.

Evaluation (Vol.D)

The Evaluation volume sets out the approach that the Commission will take to evaluate Applications. This includes the different sections of the Application and how they will be evaluated i.e. through a mechanical calculation or a review and analysis of a narrative response or document provided by the Applicant. It also details the scoring mechanics used to determine an Applicant’s total score through the Evaluation. We have included worked examples to help Applicants to understand how the different elements of the evaluation mechanics fit together.

Statement of Requirements (SoR) (Vol. E)

For each area of the SoR, a context section provides an overview of the relevant area and its significance to the National Lottery. The requirements section describes certain outcomes the Licensee must achieve throughout the Fourth Licence Term referencing for context relevant Licence conditions. Applicants are required to demonstrate how they will meet the requirements and their obligations under the Fourth Licence in their Application.

Your Application (Vol. F)

The application section sets out the questions Applicants will have to respond to and the artefacts they will need to provide as part of their Application. Each question provides Applicants with detail on key elements which should be included in their Application, as well as references to relevant ITA sections and other Competition documents which provide further context and will help Applicants to understand the Commission’s requirements.

Declaration (Vol. G)

Applications must be compliant in order to be evaluated by the Commission. The Submission Checklist (set out in Section 24.1 (Submission Checklist) outlines all documentation and supporting evidence which must be provided as part of a compliant Application. Volume G contains a Declaration, which must be signed on behalf of each Applicant in relation to the information provided in its Application.

Glossary (Vol. H)

Capitalised terms used in this ITA have the meaning given to those terms in the Glossary.

Appendices (Vol. I)

The following appendices can be found in Jaggaer and the VDR

- Financial Template (Locked)
- Financial Template (Unlocked)
- Key Subcontractor Financial Strength Template
- Proposed Form of Fourth Licence Feedback Form
- Section 6 Licensing Guidance Note
- Applicant Game Feedback Request Form
- 4NL Trust Explanatory Note
- Short Form Trust Deed
- 4NL Trust Feedback Form (Applicant)
- 4NL Trust Feedback Form (Proposed Trustee)
- Transition Guidance Note
- Implementation and Transition Documents Feedback Form
- Form of Deed of Commitment

1.6 HIGH-LEVEL COMPETITION TIMELINE

The diagram below provides a high-level overview of the Competition timeline.

The Commission intends to run the Competition in line with the timeline shown below. It should be noted that these dates are provisional only, and the Commission reserves the right to vary the timeline and/or to terminate or alter the Competition stages and/or phases in any way at its sole discretion.

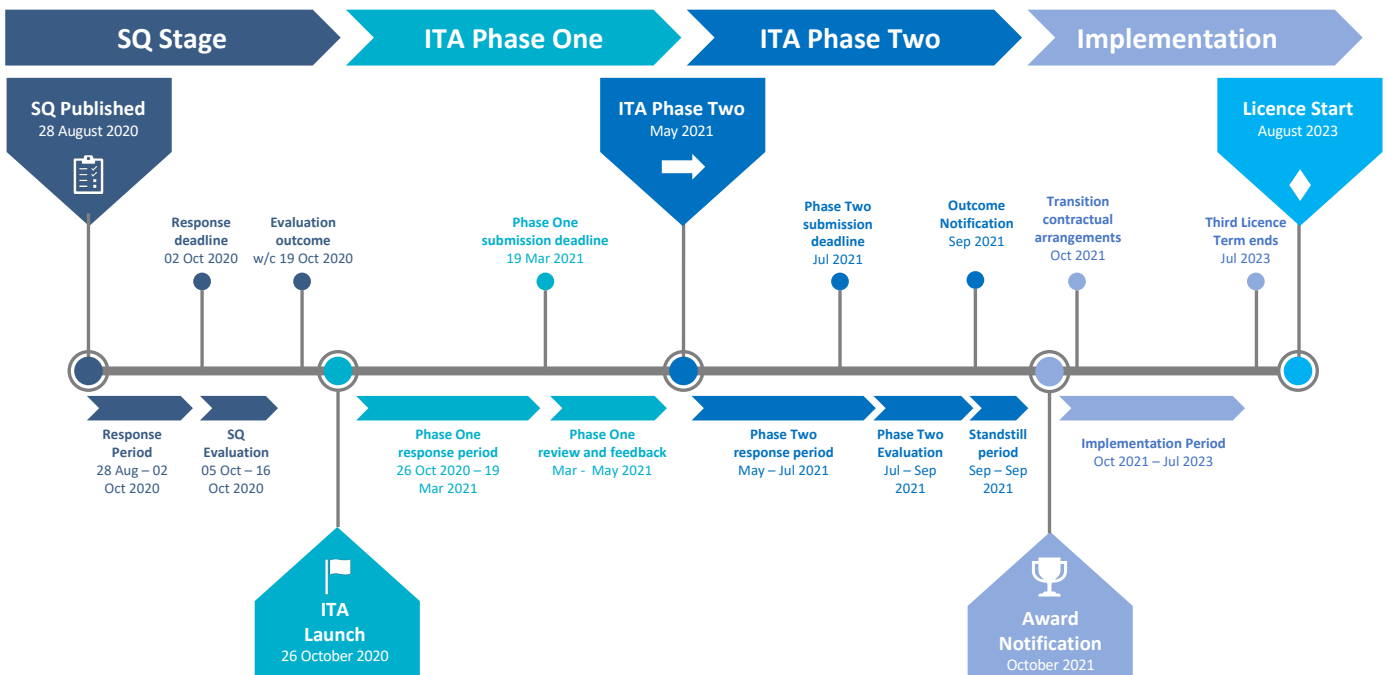


Figure 1: High-level competition timeline

VOLUME — B

ITA

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2 FOUNDATIONS OF THE NATIONAL LOTTERY

2.1 INTRODUCTION

The National Lottery was launched in 1994 to raise funds to support Good Causes across the UK and offer life changing prizes to Participants. In the 26 years since it was launched, the National Lottery has raised more than £41 billion for Good Causes, transforming lives through its contribution to the arts, sports, heritage and communities up and down the UK.

The National Lottery was established under the Act² and is regulated by the Commission. The Government, through the Secretary of State, has certain functions with respect to the National Lottery. The Department for Digital, Culture, Media and Sport (DCMS) is the relevant Government department.

2.2 STATUTORY DUTIES AND PUBLIC LAW

In exercising their responsibilities with respect to the National Lottery, each of the Secretary of State and the Commission (subject to Directions given to it by the Secretary of State – see below) have three Statutory Duties:

- to ensure the National Lottery is run, and every lottery that forms a part of it is promoted, with all due propriety;
- to ensure that the interests of every participant in a lottery that forms part of the National Lottery are protected; and
- (subject to those two duties) to do their best to ensure the net proceeds from the National Lottery are as great as possible.

These duties apply at all times and are therefore relevant to:

- the Secretary of State's decisions regarding the issue of Directions; and
- the Commission's decisions as to the conditions which should be included in licences granted under the Act, and its management of those licences, as well as the process to grant a licence.

The legislative framework therefore requires the Commission to uphold high standards of propriety and Participant protection. These are paramount under the legislative regime; the Commission must be satisfied that these standards are met before it considers the amount to be paid to Good Causes as the Good Causes Contribution.

In addition, with respect to the decision to grant a licence, the Act specifically requires that the Commission must be satisfied that a person is a fit and proper person to run the National Lottery before granting that person a Licence to do so. This requirement also applies to the grant of any Section 6 Licence to promote a Game.

In exercising their functions with respect to the National Lottery, and in the context of the statutory framework, each of the Commission and Secretary of State could be subject to legal challenge if they fail to comply with the principles of public law (which include requirements to act within their powers, with due process and rationality).

2.3 KEY INSTITUTIONS

2.3.1 DCMS

DCMS helps to drive growth, enrich lives and promote the UK abroad. It protects and promotes our cultural and artistic heritage and helps businesses and communities to grow by investing in innovation and highlighting the UK as a fantastic place to visit. It is a ministerial department, supported by several arms-length bodies. DCMS has the same Statutory Duties as the Commission in relation to the National Lottery. The Commission works closely with DCMS to ensure those Statutory Duties are fulfilled by both the Commission and the Secretary of State.

The Secretary of State has specific functions with respect to the National Lottery which include the power to:

- make Regulations in relation to the promotion of Games. It is an offence, in certain circumstances, not to comply with those Regulations;
- give Directions to the Commission with which it must comply. These typically deal with matters that the Commission must consider when deciding whether to issue a licence or specify conditions which the Commission must include within licences which it grants under the Act;

² <http://www.legislation.gov.uk/ukpga/1993/39>

- direct the Commission to provide the Secretary of State with information relating to the National Lottery; and
- appoint members of the Commission.

The current Regulations made, and Directions given, by the Secretary of State are available on the 'Regulating the Lottery' section of the Commission's website³.

In addition, DCMS oversees the management of the National Lottery Distribution Fund (NLDF), which will receive the Good Causes Contribution under the Fourth Licence. Funds paid to the NLDF are distributed by the National Lottery Distributors. In addition to the Good Causes Contribution paid by the Licensee, the NLDF also receives income from unclaimed prizes and operator fines.

2.3.2 The Commission

The Commission is the UK's independent statutory body responsible for awarding the Licence, and licences to promote lotteries that form a part of the National Lottery (as described in Section 1.3 (Fourth Licence)). The Commission is established as an executive non-departmental public body of DCMS. Schedule 2A of the Act sets out detailed provisions in relation to the Commission's organisation, status, capacity and powers of delegation.

The Commission's jurisdiction is limited to the UK and the Isle of Man, and the Fourth Licence will grant the Licensee the right to operate the National Lottery in these territories. National Lottery Games are currently only available for sale via authorised Sales Outlets based in the UK and Isle of Man. Where Games are played online, the Participant must have a UK bank account and a UK residential address.

2.3.3 National Lottery Distributors

The National Lottery Distributors play a critical role in ensuring that funds paid to Good Causes are distributed effectively, in order to make a positive impact across communities, heritage, sports, and the arts. The four areas of focus for Good Causes funding are set out in the Act, with funding decisions made at arm's length by 12 distributing bodies (the Distributors).

The Act sets the apportionment of sums that are paid into the NLDF which are to be allocated to each area of focus for Good Causes funding and then distributed by the Distributors. Applicants should note that the Licensee has no ability to influence the way in which funds paid to Good Causes are distributed by the National Lottery Distributors.

2.3.4 The National Lottery Promotions Unit (NLPU)

The National Lottery Promotions Unit (NLPU) was established in 2003 to raise positive public awareness of National Lottery funding for Good Causes. The NLPU is funded by, and works in partnership with, the operator of the National Lottery from time to time and the National Lottery Distributors. The NLPU is governed by a Memorandum of Understanding between Distributors, the operator of the National Lottery and DCMS and submits an annual report to the Secretary of State.

The NLPU's core objectives are:

- To increase knowledge of the variety and extent of National Lottery funding; and
- To encourage Participants to make a direct link between National Lottery spend and the social, cultural and economic investment in their community.

Further details about the impact of Good Causes funding is available on the NLPU website⁴.



³ <https://www.gamblingcommission.gov.uk/for-the-public/National-Lottery/How-we-regulate-the-National-Lottery.aspx>

⁴ www.lotterygoodcauses.org.uk

3 LICENSING REGIME

3.1 INTRODUCTION

The Commission's corporate strategy for 2018-21⁵ states its aim to be a risk-based, evidence-led and outcomes-focused regulator. The strategic approach to regulating the Fourth Licence will seek to encourage and enable innovation while improving operator accountability in terms of delivering positive outcomes. The National Lottery operates in a dynamic environment and ongoing innovation is likely to be key to maintaining and building its relevance in society and the continued provision of the substantial social value that is generated by the Good Causes Contribution.

The Commission is currently in the process of extending the term of the Third Licence by six months, meaning that it will expire on 31 July 2023. It is therefore intended that the Fourth Licence will be granted for a term of ten years, starting on 01 August 2023.

The Commission will grant two types of licence (Section 5 and Section 6):

- the Fourth Licence - a single licence granted under section 5 of the Act covering the operation of the National Lottery. Only one Section 5 Licence can be in force at any one time;
- separate licences which are required under section 6 of the Act to permit the promotion and conduct of each Game which will form part of the National Lottery.

The Act provides that Games can only be promoted as part of the National Lottery by either:

- the person who, at the relevant time, holds the Section 5 Licence which is in force; or
- any other person, pursuant to an agreement that person has with the holder of the Section 5 Licence at the time⁶.

The Commission will therefore consider applications for Section 6 Licences which are made by the person who holds the Section 5 Licence. This ITA sets out the process for Applications for the Fourth Licence (the licence to be awarded under section 5). As part of their Application for the Fourth Licence, Applicants will need to set out details of the Section 6 Licences for which they intend to apply in respect of Games to be available on and from the Start Date and during the first year of the Licence if that Application is successful.

This is described in further detail in Section 22.8 (Portfolio). For further detail regarding the Section 6 licensing process, see the Section 6 Licensing Guidance Note. The Commission will consider Section 6 Licence applications during the Implementation Period for Start Date and First Year Committed Games. Applicants may not apply for Section 6 Licences during the Competition.

Applicants should note that the Act allows for the promotion of a lottery (under a Section 6 Licence) by a third-party (i.e. a party other than the person who holds the Section 5 Licence) provided that such party is licensed under section 6 of the Act by the Commission and an agreement is reached between the Section 6 Licence holder and the Section 5 Licensee. The Section 5 Licensee may therefore, additionally, at any point during the Licence Term, agree to one or more independent parties carrying out activities described in section 6 of the Act. The Commission would then consider the application from any such independent party for a Section 6 Licence.

Applicants should note that every National Lottery Game must be a lottery as defined in the Gambling Act 2005.⁷

3.2 Fourth Licence

The Fourth Licence represents a step-change in the approach to regulating the National Lottery. The Fourth Licence is centred on an outcomes-focused approach to regulation and will be less prescriptive in nature than the Third Licence, providing greater opportunity for innovation and flexibility to cope with changing future conditions.

The Fourth Licence reflects the Statutory Duties of the Commission. The approach taken is to place responsibilities on the Licensee to operate the National Lottery to achieve outcomes which are consistent with those required by the Act. Wherever possible, the Fourth Licence avoids prescribing in detail how the Licensee should go about meeting those outcomes. Instead, it requires the Licensee to provide assurance to the Commission as to what it has done to achieve them (for example, by being able, when required, to evidence the fitness for purpose of its policies, processes and procedures and its compliance with them).

⁵ <https://www.gamblingcommission.gov.uk/PDF/Strategy-2018-2021.pdf>

⁶ <https://www.legislation.gov.uk/ukpga/1993/39/section/1>

⁷ <https://www.legislation.gov.uk/ukpga/2005/19/contents>

In more detail, the way the Fourth Licence achieves this is as follows:

- Condition 1.2 (Purposes and Outcomes) sets out the overarching outcomes intended to be secured and delivered by the Licensee. These outcomes are that the National Lottery be carried on:
 - a) with all due propriety;
 - b) in a way which protects the interests of Participants; and
 - c) subject to the first two outcomes, so as to maximise the amount being paid out of the net proceeds of the National Lottery to Good Causes, which, for the avoidance of doubt, will be assessed taking account both of:
 - i. the amount paid and to be paid to Good Causes under the Fourth Licence; and
 - ii. to the extent the operation of the National Lottery under the Fourth Licence might affect them (for example, through impact on the National Lottery Brand), potential amounts to be paid to Good Causes out of the net proceeds of the National Lottery under subsequent licences awarded under section 5 of the Act,

and the Licensee must interpret and perform its obligations under the Fourth Licence in the manner best calculated to achieve those outcomes.

- The Fourth Licence contains certain absolute requirements on the Licensee (i.e. where the Licensee “must” do something) as to matters under its control. These include matters specifically required by the Directions.
- The Fourth Licence also contains a number of other specific outcomes and defines a concept of the Licensee of being required to “do everything it can” to achieve each of those outcomes. Where a Condition of the Fourth Licence provides that the Licensee must do everything it can to ensure a specified outcome is achieved, the Licensee may be in breach of that Condition if that outcome is not achieved, unless the Licensee can satisfy the Commission that it has taken all reasonable steps and exercised all due diligence to achieve that specific outcome and, in doing so, to secure the outcomes set out in Condition 1.2 (Purposes and Outcomes) of the Fourth Licence.
- The Fourth Licence requires the Licensee to ensure that the running of the National Lottery operation and any Ancillary Activity complies with all laws, regulations and licences applicable to the National Lottery or that activity, as the case may be.

- The Fourth Licence requires the Licensee to ensure that the way in which National Lottery products are promoted, sold and made available does not damage any of the Matters to be Protected, being:
 - the interests of Participants in the National Lottery referred to in Condition 8 (Protecting Participants’ Interests);
 - that the National Lottery is run with integrity and that Games are, and are perceived as being, honestly and fairly run and that Prizes are accurately awarded and paid in accordance with the rules of each Game;
 - the National Lottery Brand;
 - the reputation of the National Lottery; and
 - the ability of the Licensee to otherwise comply with the Licence.
- In addition to complying with law and regulation, the Licensee must comply with Best Practice, being the standard to be expected of an experienced and professional person doing a particular thing and seeking to secure the outcomes set out in Condition 1.2 (Purposes and Outcomes) of the Fourth Licence.

3.3 Managing the Fourth Licence in life

The Commission’s working approach to regulating the Fourth Licence will reflect its Statutory Duties and functions under the Act, Directions and the Regulatory Handbook (which can be found in the VDR).

The Commission expects to have an open and cooperative working relationship with the Licensee that facilitates the delivery of the obligations under the Licence. The Commission considers that this approach will allow the Licensee the ability to operate flexibly and innovate where it is satisfied it has met its obligations.

The Commission will use the Implementation Period as an opportunity proactively to build a relationship with the Incoming Licensee in the context of the new outcomes-focused approach to regulation, building confidence and assurance in the Incoming Licensee’s ability to deliver a successful National Lottery in readiness for the move into an outcomes-focused regulatory regime.

The Commission’s current intention is that there will be a scheme of delegation setting out National Lottery decision making responsibilities within the Commission, with the Board (or a sub-committee) considering only the most strategic matters relating to the running of the National Lottery.

Regulation of the Fourth Licence will operate under a model which reflects the intent of the Fourth Licence and the Regulatory Handbook, upon which Commission staff will be trained, and will principally be focused on:

- A Section 6 licensing process which aims to ensure that the Licensee is able to implement Games or vary existing Game licence(s) on a timely basis. The Commission intends to provide an environment in which the Licensee can engage and seek feedback from the Commission on proposed licence variations or proposed Games in an open and collaborative manner before seeking formal Section 6 Licence approval.
- The Fourth Licence and Regulatory Handbook set out a significantly streamlined number of approval requirements. Licensee reporting requirements are targeted to address areas where receiving regular reporting or periodic assurance statements is aligned to key risk areas and is necessary to monitor against our Statutory Duties. The Commission expects Applicants to outline in their Application how they will monitor performance against outcomes, including relevant operating metrics. The Commission will review and discuss proposed performance measures with the Incoming Licensee during the Implementation Period and agree reporting levels. The Commission will review the assurance statements provided by the Licensee under the terms of the Fourth Licence, ensuring that our approach will be both risk-based and proportionate.

The Commission expects to have a range of communication channels with the Licensee, as well as other stakeholders in the National Lottery family such as DCMS, the NLPU and the Distributors. These channels will include working level relationships as well as give the Licensee, and the Commission, the opportunity to escalate strategic and operational matters at the appropriate level(s) within both organisations and with wider stakeholder groups. Regular dialogues will include meetings with the Gambling Commission's Chair and CEO to discuss strategic matters, risks, opportunities, performance and sharing and contributing to industry wide best practices and developments.

3.3.1 Regulatory Handbook

The Commission's objective is to be a more outcomes-focused regulator. The Commission's Regulatory Handbook forms part of the Commission's broader efforts to support the Licensee and other stakeholders to better understand how the Commission will approach regulating the Fourth Licence, including how regulatory decisions and assessments will be made in a range of circumstances.

The Commission's Regulatory Handbook contains four volumes:

- **Volume one: Regulatory Approach** explains, in high-level terms, key features of the more outcomes-focused regulatory approach the Commission will adopt for the Fourth Licence. It provides the context for the changes in approach from the Third Licence and enhances the ability of stakeholders to understand how the Commission's regulatory decisions and assessments will be made in a range of circumstances.
- **Volume two: Monitoring Performance Framework** provides guidance for certain Fourth Licence conditions where it is considered such guidance will support the delivery of the Commission's Statutory Duties. This guidance includes aspects of compliance, alongside further detailed information around the Licensee Exit Plan and potential adjustments under the Incentive Mechanism.
- **Volume three: Assurance and Regulatory Reporting Requirements** provides guidance that the Commission expects the Licensee to demonstrate it has appropriate risk management processes in place to protect the delivery of the outcomes in the Fourth Licence. The reporting requirements set out where the Commission requires timely access to key data needed to effectively regulate the National Lottery. The Commission will use Licensee assurance and reporting information to monitor compliance risk.
- **Volume four: Enforcement Policy** sets out the Commission's approach to enforcement and explains how its enforcement powers will be applied in an appropriate and proportionate manner. It details the enforcement measures available and the factors the Commission are likely to consider when deciding on regulatory action. It also sets out some of the risk-based steps which may be taken ahead of initiating a formal investigation (to determine whether enforcement action is required).

The Regulatory Handbook should be read in conjunction with the Fourth Licence. The Regulatory Handbook will evolve in light of experience of the Fourth Licence and depending on Licensee performance. In accordance with Licence Condition 24.9 (Regulatory Oversight and Performance Management), the Commission will consult with the Licensee for a period of at least 20 Business Days before making any changes to the Regulatory Handbook.

3.4 Social Value

The fundamental purpose of the National Lottery is to deliver Social Value⁸ through Good Causes. One of the objectives of the Competition is to maximise the amounts paid to Good Causes which deliver that Social Value.

Additionally, in the context of Social Value, the Commission envisages that complying with Conditions 4.3-4.5 of the Licence (Best Practice) will include:

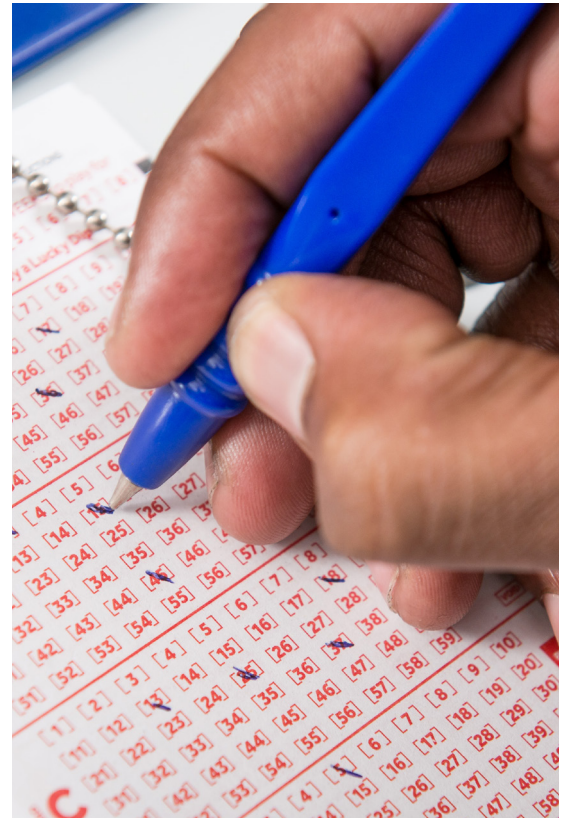
- Compliance with the Prompt Payment Code⁹;
- Compliance with the Waste Electric and Electronic Equipment (WEEE) Regulations 2013¹⁰;
- Monitoring ongoing adherence to the standards and legislation referenced in the Mandatory and Discretionary Exclusion Criteria in the Selection Questionnaire, or their equivalents as updated from time to time.

The Licensee will also be required to comply with Condition 22.17 (Ensuring Good Governance) of the Licence, which states that the Licensee must adopt and implement a Code of Corporate Social Responsibility and a Framework for Ethical Business Decision Making.

Applicants should note that the strength of the National Lottery Brand is key to its long-term success and ethics and social responsibility are integral to the strength of that brand. A Licensee that delivers social value will therefore contribute to the success of the National Lottery by maintaining and consolidating this brand. Ways in which the Commission envisages the Licensee might do this include measures that:

- Encourage wellbeing and mental health;
- Protect the environment and support the achievement of the UK Government's target to bring all greenhouse gas emissions to net zero by 2050¹¹;
- Improve skills and access to digital technology;
- Employ a diverse workforce in collaboration with the voluntary and community sector;
- Provide apprenticeships and training schemes;
- Create opportunities for Small and Medium sized Enterprises (SMEs).

The above is a non-exhaustive list, and the Commission would welcome any solutions that deliver social value as appropriate to the National Lottery and the Licensee's delivery model.



⁸ 'Social Value' is described in the Public Services (Social Value) Act 2012, <http://www.legislation.gov.uk/ukpga/2012/3/enacted>

⁹ The Prompt Payment Code, <https://www.smallbusinesscommissioner.gov.uk/ppc/>

¹⁰ The Waste Electric and Electronic Equipment (WEEE) Regulations 2013, <https://www.hse.gov.uk/waste/waste-electrical.htm>

¹¹ <https://www.gov.uk/government/news/uk-becomes-first-major-economy-to-pass-net-zero-emissions-law>

4 OVERVIEW OF THE NATIONAL LOTTERY

4.1 INTRODUCTION

The National Lottery has raised over £41 billion¹² for Good Causes, transforming lives through its contribution to the arts, sports, heritage and communities up and down the UK. These good causes also include voluntary projects across the UK as well as projects concerned with health, education and the environment.

The Current Operator was awarded a ten-year Licence on 1 February 2009. This Licence was further extended to 2023 in March 2012 and is currently being extended by a further six months, meaning that it will expire on 31 July 2023. Under the terms of the Third Licence the Current Operator is a single-purpose company, dedicated to the operation of the National Lottery.

The landscape for the National Lottery has changed since the Third Licence was awarded, for example, technology-based products and services have been widely introduced into the lottery and wider gambling market and continue to change rapidly. The Commission views the Competition as an opportunity to identify innovative new ideas that will sustain and grow the National Lottery, and ensure it remains relevant and attractive to all parts of society. Throughout the Competition, the Commission will be open to innovative solutions being proposed as part of Applications.

The Commission intends to run a fair, open and robust competition in line with its Statutory Duties and principles of public law.

4.2 CURRENT GAME PORTFOLIO

The current National Lottery operation consists of draw-based Games such as Lotto and EuroMillions, Scratchcards with prices ranging between £1 and £5, and online Interactive Instant Win Games, which can range from 25p to £5. The ability to maintain an appealing and innovative Game portfolio whilst remaining adaptable to changes in market demand and trends is likely to be a key driver of sales during the Fourth Licence Term. Historically, draw-based Games have been

the most popular among Participants and driven the largest proportion of gross ticket sales. Descriptions of some of the most played draw-based Games can be found below. The full portfolio of current Games, including descriptions, can be found online¹³.

LOTTO

LOTTO

The UK's biggest National Lottery game every Wednesday and Saturday – with prizes ranging from a free Lotto Lucky Dip for matching just two main numbers, to **£1 million** for matching five numbers plus the Bonus Ball, while six main numbers wins the **jackpot**. Tickets cost **£2** per play.

EUROMILLIONS®

EUROMILLIONS

Played on Tuesdays and Fridays, have the biggest jackpots, plus one guaranteed **£1 million** prize for UK Participants every draw with the UK Millionaire Maker. Tickets cost **£2.50** per play and include automatic entry into the UK Millionaire Maker draw.

¹² <http://www.camelotgroup.co.uk/news/camelot-uk-lotteries-19-20-financial-results>

¹³ www.national-lottery.co.uk

INSTANT WIN GAMES

NATIONAL LOTTERY INSTANTS

Scratchcards are the games with the best odds – on average **six Participants win every second**. The range of interactive games with instant cash prizes are available to play online or on mobile. Prizes of up to **£2 million** available. Prices range between **£1** and **£5**.

THUNDERBALL

THUNDERBALL

A draw-based game offering the best chance to win **£500,000** on a **£1** game – every Tuesday, Wednesday, Friday and Saturday.

LOTTO HOTPICKS

LOTTO HOTPICKS

Tickets are priced at **£1** for a chance to win up to **£350,000** by picking and matching Lotto HotPicks numbers against the Lotto draw every Wednesday and Saturday.

SET FOR LIFE[®]

SET FOR LIFE

The National Lottery introduced a new game in 2019. Instead of a one-off lump-sum payment, the jackpot prize is a set amount of money paid each month for 30 years. This type of game has proved popular in other international markets, particularly amongst younger Participants. Tickets are priced at **£1.50**.

EUROMILLIONS HOTPICKS

EUROMILLIONS HOTPICKS

A chance to win up to **£1 million** by picking and matching EuroMillions HotPicks numbers against the EuroMillions draw every Tuesday and Friday. Tickets are priced at **£1.50**.

4.3 SIZE AND SCALE OF THE NATIONAL LOTTERY

In FY 2019/20, total sales for the National Lottery reached £7.9 billion¹⁴, an increase of £698 million¹⁴ on the previous year.

Applicants should note that COVID-19 had an impact on National Lottery sales, whereby there was a temporary reduction in overall sales in March 2020, particularly in the last two weeks of the month following the UK lockdown, and to a lesser extent in April 2020. Weekly sales have since shown a strong recovery, trading ahead of prior year in 15 out of the 22 weeks ending since then. Sales in the final week of September 2020 were £163m which compare very favourably to the weekly average sales for 2019, which stood at £149m. Applicants are advised to refer to the Monthly Analysis of COVID-19 document that can be found in the VDR folder 3.2 for more detail.

Every week 12 million¹⁵ people take part in the National Lottery Lotto game and there are 8 million¹⁶ winners each week across all Games. Over the 26 years the National Lottery has been in operation, this has resulted in more than £75 billion awarded in prizes and the creation of >5,700¹⁴ millionaires.

All of this makes the National Lottery the fifth largest in the world by sales¹⁴; however, it is only the 59th in the world by per capita spend¹⁴ and the Commission believes that there is still significant untapped potential to increase the amount paid to the NLDF from the net proceeds of the National Lottery. To make the most of the opportunities presented in this market, the operator of the Fourth Licence will need to consider changes in Participant preferences and developments in technology and channels, whilst continuing to protect Participants' interests and operate the National Lottery with all due propriety.



¹⁴ <http://www.camelotgroup.co.uk/news/camelot-uk-lotteries-19-20-financial-results>

¹⁵ 'The future of the National Lottery', House of Commons Committee of Public Accounts, 26 March 2018

¹⁶ Camelot 2018/19 Annual Report & Accounts

Since 2010, there has been a steady growth in the use of online channels, from 25% to 31%. Ticket sales of draw-based Games have grown, and there has been an increase in the popularity of both Scratchcards and Interactive Instant Win Games, demonstrated by the evolution of Game type mix below.

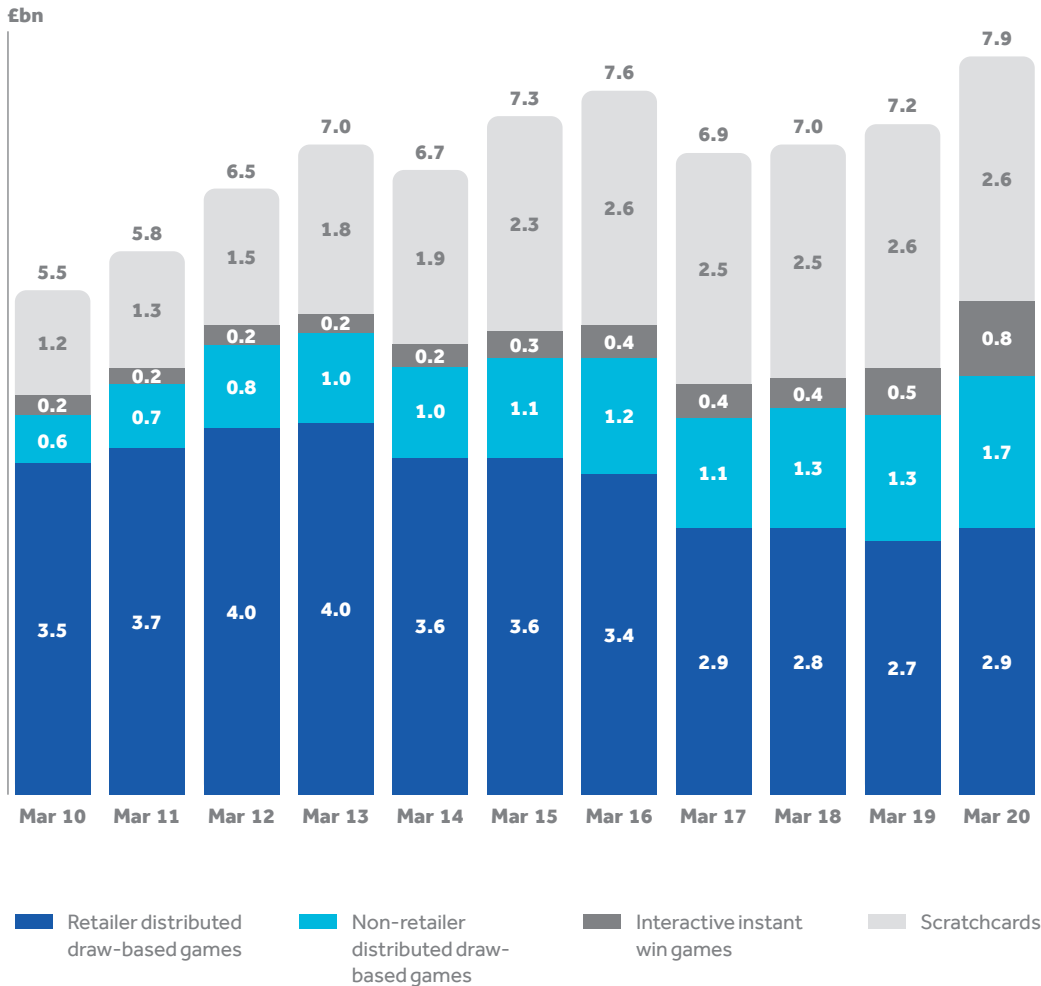


Figure 2: Evolution of game type mix ^{17&18}

¹⁷ <http://www.camelotgroup.co.uk/news/camelot-uk-lotteries-19-20-financial-results>

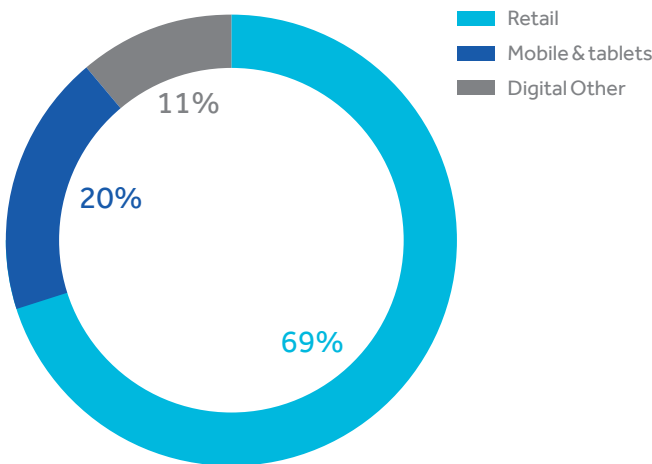
4.4 DISTRIBUTION CHANNELS

There are currently several ways to play the National Lottery:

- At one of the National Lottery retailers throughout the UK marked by the crossed fingers logo, of which there are approximately 44,000;¹⁸
- Online, using a mobile, tablet or desktop at www.national-lottery.co.uk, or via the National Lottery app on a smartphone;
- There is also the option to enter draws on a repeat basis, paying by recurring direct debit.

Applicants should note that COVID-19 had an impact on National Lottery channel distribution, whereby there has been a shift in Participants' preferred channels. In the year to March 2020, the average channel split for draw-based Games was 64% retail-based and 36% non-retailer based. The impact of COVID-19 has been that there has been an increase in non-retailer-based sales, with the channel split for draw-based Games in the final week of September 2020 standing at 51% retail-based and 49% non-retailer-based. Applicants should note that the Commission cannot forecast whether this is a temporary shift as an outcome of the COVID-19 impact, or whether this may be a permanent trend. Applicants are therefore advised to refer to the Monthly Analysis of COVID-19 document that can be found in the VDR for more detail on channel preference.

Figure 3: Sales mix by channel



Retail was the largest distribution channel for FY 2019/20 making up 69%¹⁸ of the sales mix. This has historically been driven by required product accessibility with 96%¹⁹ of the UK adult population living or working within two miles of a retail location at which tickets in a National Lottery game can be purchased.

Digital is a high growth and increasingly important channel with over 7.5 million active registered players. Approximately 31% of sales during FY 2019/20 came through digital channels, 65%¹⁸ of which came via mobile devices. In 2019/20 the National Lottery's digital infrastructure processed over £2.4 billion in digital sales.¹⁸



¹⁸ <http://www.camelotgroup.co.uk/news/camelot-uk-lotteries-19-20-financial-results>

¹⁹ Camelot 2018/19 Annual Report & Accounts

4.5 THE CURRENT NATIONAL LOTTERY OPERATION

The National Lottery is a complex operation and consists of several operational elements. These elements include, but are not limited to, the following:



Organisational and retailer management

Management of key functions, including back office, providing an effective organisation, capable of running the National Lottery. Another key function is retailer governance and support, to ensure that the retail network operates effectively whilst safeguarding the interests of players.



Logistics

Logistics are a key component of operations; this entails the delivery of products across the extensive retail network, providing availability of National Lottery games across the UK. Reverse logistics, for when redundant stock is withdrawn from market, and mitigation procedures for lost/stolen product are also important logistical considerations.



Financial management

Financial management is critical across the National Lottery operation as it safeguards funds for all stakeholders. Financial management entails fund distribution (to the NLDF, into trust where funds are held before payment to prize winners, and payment of Lottery Duty), holding of funds (roll-overs, player wallets) and cash transactions between the Current Operator, players and retailers.



Customer Management

Provision of a customer support function with appropriate capacity and capability to satisfy customer queries, manage claims and protect players' interests. This encompasses delivery of effective, transparent, accessible and fair customer complaints and dispute handling procedures.



Security

Security is multi-faceted and integral to the National Lottery operation. It entails keeping National Lottery assets (both physical and digital) secure, establishing the requisite capacity and capability to ensure player protection measures are delivered and protecting player data across all platforms.



Game Development and Game Delivery

Robust, end-to-end development process for new games/ changes to current games. Key elements include game design, build, testing, integration and go-live of games, as well as the Section 6 licensing process. Additionally, National Lottery games must be delivered accurately, in a timely manner and in a controlled environment.

VOLUME — C

PROCESS AND INSTRUCTIONS

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5 PROCESS

5.1 INTRODUCTION

This ITA forms the second stage of the competition process. Only Applicants that have successfully passed the Selection Questionnaire (SQ) Stage of the Competition have been invited to respond to this ITA.

The ITA Stage is made up of two phases, Phase One and Phase Two. The Commission has elected to follow a two-phase approach to the ITA Stage in order to provide all Applicants with an equal opportunity to refine their Application throughout the ITA Stage.

Applicants are required to provide a full form of response to the ITA at both phases, however submissions will only be scored at Phase Two. At Phase One, Applicants will be provided with feedback in relation to their Phase One Applications so that they may have the opportunity to address any weaknesses, omissions, ambiguities or risks in their proposals before submitting their Phase Two Applications. There will be no down select of Applicants prior to Phase Two Evaluation.

The ITA Stage can be summarised as follows:

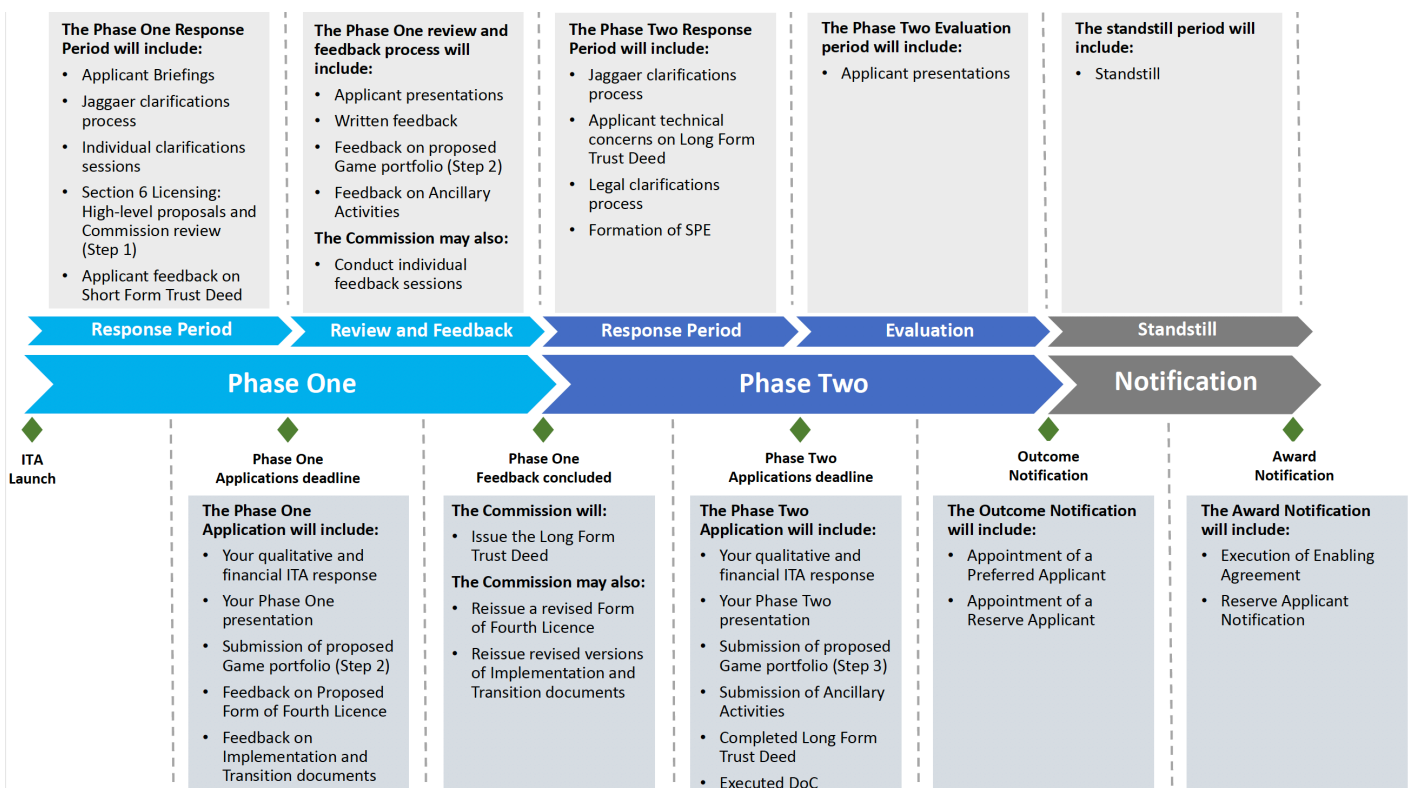


Figure 4: Summary of the ITA Stage

5.2 COMPETITION TIMELINE

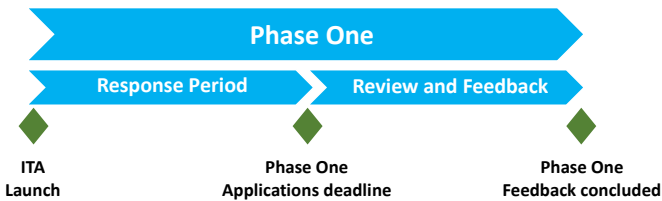
The Commission intends to run the Competition in line with the timeline shown below. It should be noted that these dates are provisional only, and the Commission reserves the right to vary the timeline and/or to terminate or alter the Competition stages and/or phases in any way at its sole discretion.

Description	Timing
ITA Stage: Phase One	
ITA launch	26 October 2020
Jaggaer clarifications process opens	26 October 2020
Applicant briefings available on Jaggaer	w/c 26 October 2020
Initial Game review and feedback (please refer to Step 1 of the Section 6 Licensing Guidance Note for specific dates)	November – January 2021
Window for Applicant clarification sessions	Mid-November 2020 – end February 2021
Deadline for Applicant and Proposed Trustee feedback on the Short Form Trust Deed	22 January 2021
Jaggaer clarifications process closes	5 March 2021
Deadline for submission of Phase One Applications	19 March 2021
Phase One Applications review by the Commission	March 2021 – May 2021
Phase One Applicant presentations	March 2021
Written feedback provided to Applicants	May 2021
Applicant feedback sessions	May 2021
ITA Stage: Phase Two	
Jaggaer clarifications process opens	May 2021
Deadline for submission of Applicant and Proposed Trustee technical concerns on the Long Form Trust Deed	TBC
Legal clarifications process opens	TBC
Legal clarifications process closes	TBC
Jaggaer clarifications process closes	July 2021
Phase Two Applications deadline	July 2021
Evaluation of Phase Two Applications by the Commission	July 2021 – September 2021
Phase Two Applicant presentations	July/August 2021
Outcome Notification (Preferred Applicant Announcement)	September 2021
Voluntary standstill period	September 2021
Award Notification	October 2021
Debrief sessions	October 2021
Implementation Period	
Signature of Enabling Agreement	October 2021
Implementation Period	October 2021 – July 2023
Fourth Licence Term	
Fourth Licence Start	August 2023
Fourth Licence Term	1 August 2023 – 31 July 2033

Table 1: Competition timeline

5.3 PHASE ONE APPLICATIONS

5.3.1 Overview



Phase One of the ITA stage involves inviting Applicants who were successful at the SQ stage of the Competition to respond to the ITA. The Commission has issued the ITA to the selected Applicants along with supporting data to enable Applicants to formulate their Applications. Phase One will involve a response period, at the end of which Applicants will submit their Phase One Applications, followed by a review of each Application by the Commission. After this review, the Commission shall provide feedback to each Applicant on their Phase One Application.

5.3.2 Phase One Response Period



Applicants are required to respond to this ITA in line with the requirements set out in Volume F – Your Application.

Briefing sessions

The Commission has recorded several briefing sessions for all Applicants which have been made available on Jaggaer. The purpose of these sessions is to provide further clarity on complex areas of the Competition process and Fourth Licence requirements.

The following topics have been covered:

- Competition process
- Section 6 licensing process
- Licence
- Evaluation
- Protecting Participant Funds (the 4NL Trust)
- Financial Template
- Financial Strength
- Transition

Additional topics may be added as required. Applicants will be able to raise any clarifications through Jaggaer. For further information, please see the ITA Cover Letter.

Jaggaer clarifications process

There will be a formal clarifications process during Phase One, which will provide an opportunity for Applicants to submit questions to the Commission for clarification. This process will open to Applicants at the ITA launch date and will close two weeks before the Phase One Applications deadline. For detailed instructions, please see Section 6.3 (Clarifications and communications) and the ITA Cover Letter.

Individual clarification sessions

The Commission will also make available one-to-one sessions with each Applicant in advance of the Phase One Applications deadline, so that Applicants may clarify any aspect of the ITA and its requirements with the Commission. Any negotiation or testing of proposals with the Commission will not be permitted.

Each Applicant will be allowed two clarification sessions in Phase One between mid-November and the end of February, which will last no more than two hours per meeting. Applicants will be asked to submit an agenda and any high priority clarification questions one week in advance of the first session and two weeks in advance of the second. Applicants should inform the Commission of their preferred timing for these sessions at least two weeks in advance of the proposed date.

Each Applicant will have an equal opportunity to engage with the Commission and all sessions will be monitored and documented. Any one-to-one sessions with Applicants will be scheduled at the Commission's discretion.

Where any material aspect emerges as a result of any one-to-one session, which may affect other Applicants' interpretation of any element of this ITA or competition process, this will be made clear to the other remaining Applicants as a clarification in order to maintain the equality and fairness of the Competition.

High-level Game proposals and Commission review (Step 1)

Applicants should ensure they have read and understood the Section 6 Licensing Guidance Note prior to reading this section.

Part of the evaluation of each Applicant’s Business Plan during the Competition will relate to the Applicant’s proposed portfolio of Games and the contribution which those Games can be expected to make to total Good Causes Contribution. A stronger portfolio of Games will contribute positively to the evaluation of an Application.

As part of the Competition, the Commission aims to mitigate the risk that the Preferred Applicant proposes and bases their Application around a portfolio of Games that cannot all be licensed under section 6 of the Act. Each Game will require a Section 6 Licence before it can be launched by the Licensee. The Commission will consider Section 6 Licence applications during the Implementation Period for Start Date and First Year Committed Games. Applicants may not apply for Section 6 Licences during the Competition.

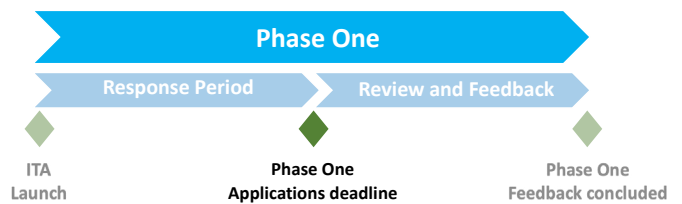
To achieve this, there will be a process in Phase One of the Competition whereby Applicants can submit features of their proposed Game portfolios, propose variations to key parameters in existing Games, and the Commission will provide feedback on these. If the Applicant takes this feedback into account when submitting its Phase One and Phase Two Applications, the aim is that this will ultimately facilitate the process for the Commission to approve Games and grant the necessary Section 6 Licences for Start Date and First Year Committed Games during the Implementation Period. Applicants can also use this process to submit proposals for new distribution channels to obtain feedback on these in relation to consistency with the Commission’s statutory duties and compliance with the Regulations.

Short Form Trust Deed

A critical element of protecting Participants’ interests under the Fourth Licence will be the 4NL Trust Arrangements in which Participants’ funds will be protected. A Short Form Trust Deed is issued alongside the ITA. The Commission is inviting feedback related to the position described in the Short Form Trust Deed, this ITA, Proposed Form of Fourth Licence and the Commission’s Regulatory Handbook from Applicants and Trustees during the Phase One Response Period. If Applicants consider that any provisions of the Short Form Trust Deed released with this ITA require amendment in order to ensure the success of the Competition and of 4NL Trust operation, they are invited to provide details of the relevant provisions and proposed changes, with an explanation of the need for the change. Any proposed changes should relate to the overall success of the Competition and of 4NL Trust operation and not to the position of the individual Applicant. The deadline for this feedback is 22 January 2021. A feedback template has been provided by the Commission in Jaggaer (“The 4NL Trust Feedback Form”).

During the period from 22 January 2021 to the Phase One Response deadline, the Commission will develop a “Long Form Trust Deed” and as part of doing so, will review feedback received from all Applicants and their Proposed Trustees regarding the Short Form Trust Deed and the operation of the 4NL Trust. The Long Form Trust Deed, describing the Commission’s final requirements regarding the 4NL Trust and any associated amendments will be issued to Applicants at the start of Phase Two (the “Phase Two 4NL Trust Addendum”).

5.3.3 Submission of Phase One Applications



At the end of the Phase One Response Period, Applicants will be required to submit their Phase One Applications. The deadline for Phase One Applications is 19 March 2021.

Submission of proposed Game portfolio (Step 2)

Applicants will be required to submit details of their proposed Game portfolio as part of their Phase One Application (through the submission of their Distribution and Portfolio Strategy), with the benefit of any feedback received from the Commission during the Phase One Response Period.

Proposed Form of Fourth Licence

As part of Phase One Applications, in addition to seeking proposals for Application Specific Conditions, the Commission will permit proposals from all Applicants on Unamendable Conditions of the Proposed Form of Fourth Licence issued alongside this ITA. At this time, Applicants may propose:

- 1 Amendments to the proposed “Unamendable Conditions” which they consider to be necessary if the Fourth Licence is to be appropriate for the operation of the National Lottery (noting that these amendments should not be associated with the individual Applicant’s proposal); and
- 2 To change the designation of any proposed “Unamendable Conditions” (or any elements of such Conditions) to “Application Specific Conditions”, in order to allow each Applicant to tailor the Fourth Licence appropriately to their individual proposal.

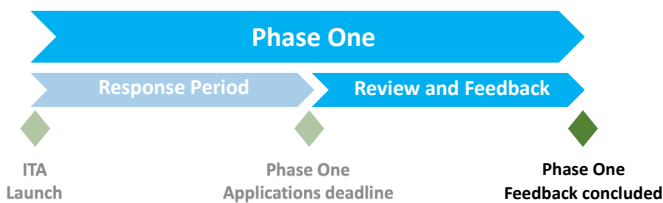
For further detail, see Section 22.12 (Additional Information).

The Commission will consider any such proposals from all Applicants together in the context of generating the most successful Competition and a not by reference to the interests of any individual Applicant. Any changes made to the Unamendable Conditions at this stage will apply to all Applicants.

Implementation and Transition documents

If Applicants consider that any provisions of the drafts of the Form of Deed of Commitment, Enabling Agreement and Cooperation Agreement released with this ITA require amendment in order to ensure the success of the Competition and of Implementation and Transition, they are invited to include within their Phase One Application details of the relevant provisions and proposed changes, with an explanation of the need for the change. Any proposed changes should relate to the overall success of the Competition and of Implementation and Transition and not to the position of the individual Applicant.

5.3.4 Phase One Review and Feedback



Following submission of Phase One Applications, the Commission will review proposals and undertake a feedback process.

Applicant presentations

Each Applicant will be invited to present their Application at a one-to-one session with the Commission, following the Phase One Applications deadline. Should an Applicant wish to present their Application, a copy of the supporting materials for the presentation should be included with their Phase One Application. The objective of the session will be to facilitate the Commission’s understanding of an Application. Applicants may not introduce any new information at these sessions. In any case, the content of the written Application will take precedence over the content of the presentation. Where the Commission identifies a conflict between the contents of an Application and the Applicant’s presentation, the Commission will write to the Applicant to confirm which should be included in the review.

Written feedback

Each Applicant will be provided with feedback in the form of a single written document. Applicants will not be provided scores as part of this feedback and there will be no down

select of Applicants. The Commission will provide feedback to Applicants on the Business Plan and Pass/Fail elements of their Application. The Commission may identify any weaknesses, omissions, ambiguities or risks relating to specific applications and will highlight where an aspect of any Applicant’s response might result in a ‘Fail’ at Phase Two. In all cases, feedback will be tied back to the formal evaluation criteria and will not provide any relative comparison to any other Application received by the Commission.

Individual feedback sessions

Following the provision of written feedback to each Applicant, the Commission may conduct individual feedback sessions. These will be scheduled on a one-to-one basis, with agendas set in accordance with the outcomes of the Phase One Review. The focus of these sessions will be for Applicants to clarify any aspects of feedback on Phase One Applications and for the Commission to further clarify any aspect of an Application.

Each Applicant will have an equal opportunity to engage with the Commission and all feedback sessions will be monitored and documented, in order to ensure that the same process is followed for each Applicant.

Where any material aspect emerges as a result of the feedback sessions, which may affect other Applicants’ interpretation of any element of this ITA or competition process, this will be made clear to the other remaining Applicants as a clarification in order to maintain the equality and fairness of the Competition.

Feedback on proposed Game portfolio (Step 2)

As part of reviewing Applicants’ Phase One Applications, the Commission will make an initial assessment of (and provide feedback on) each Applicant’s proposed Game portfolio in terms of the Applicant’s Business Plan and Proposed Good Causes Contribution. This will include considering how each Game proposal interacts with the Applicant’s proposed Game portfolio and its wider Business Plan, including its approach in areas such as protecting Participants’ interests, and the commercial viability of the Applicant’s proposed Game portfolio to deliver Proposed Good Causes Contribution against Credibility and Deliverability Business Plan Criteria.

The Commission will separately undertake a review of each Applicant’s proposed Game portfolio against its Statutory Duties and the legislative framework, in particular whether a reason is identifiable which clearly indicates that a proposed Game would be unlikely to be awarded a Section 6 Licence.

Feedback on Ancillary Activities

If Applicants propose Ancillary Activities as part of their Phase One Applications, the Commission will provide feedback.

If the proposed Ancillary Activity or Activities are consistent with the terms of the Fourth Licence, the Commission will review and provide feedback on the Applicant’s Business Plan as described in Section 8 (Evaluation Methodology), inclusive of the proposed Ancillary Activities. The Commission will also consider the impact that the proposed Ancillary Activities may have on other aspects of the application including the Business Plan and Solution Risk Factor.

Where Ancillary Activities are proposed that are not material in the context of an Application and/or do not meet the Commission’s requirements (including the terms of the Fourth Licence), the Commission will provide feedback as to how these would be treated in evaluation.

Long Form Trust Deed

The Commission will develop the Long Form Trust Deed following feedback from Applicants submitted by 22 January 2021 and release this to Applicants for Phase Two of the Competition.

Proposed Form of Fourth Licence

The Commission will assess all comments raised by Applicants in their Phase One Applications regarding the content and/or status of Unamendable Conditions of the Form of the Fourth Licence and make a decision as to whether to make any changes to those Conditions or to re-designate any of those Conditions as Application Specific Conditions. The Commission will not provide individual feedback to Applicants on their comments. However, if the Commission considers that it is appropriate to make any changes or re-designations, the Commission will reissue to all Applicants a revised Form of the Fourth Licence for Phase Two of the Competition.

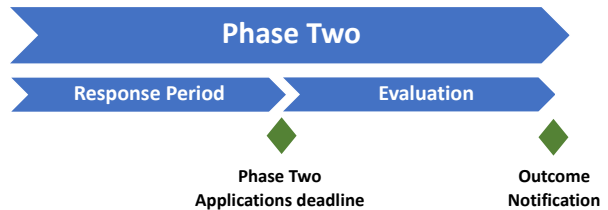
Implementation and Transition documents

The Commission will continue to assess the form of each of the Implementation and Transition Documents, including considering any comments made on the forms of those documents by Applicants and, in the case of the form of Cooperation Agreement, by the Current Operator. The Commission may issue revised versions of these documents for Phase Two of the Competition. At this point, the documents will be considered in final form, subject to completion of those sections which will need to reflect proposals submitted by an Applicant in its Application.

As described above, the Commission is issuing with this ITA proposed forms of the Fourth Licence, the Enabling Agreement and the Cooperation Agreement. During the period from the issue of this ITA to the start of Phase Two, the Commission will continue to review and consider the form of these documents, including in light of any feedback from Applicants or feedback on the Cooperation Agreement from the Current Operator. If it considers it appropriate, the Commission may amend the forms of those documents before issuing final forms at the start of Phase Two.

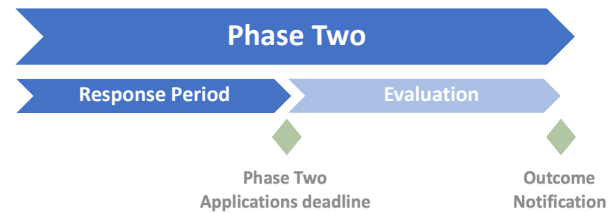
5.4 PHASE TWO APPLICATIONS

5.4.1 Overview



The second phase of the ITA stage involves a response period, followed by Evaluation of Phase Two Applications by the Commission.

5.4.2 Phase Two Response Period



Following feedback on their Phase One Applications, Applicants will have the opportunity to refine their proposals based on feedback received from the Commission and any updates made by the Commission to the Fourth Licence and the Implementation and Transition Documents.

Jaggaer clarifications process

There will be a formal clarifications process during Phase Two, which will provide further opportunity for Applicants to submit questions to the Commission for clarification. This process will reopen to Applicants following conclusion of all Phase One feedback sessions and will close two weeks before the Phase Two Application submission deadline.

Long Form Trust Deed

A Long Form Trust Deed will be issued as part of the Phase Two 4NL Trust Addendum. General feedback from Applicants or Proposed Trustees will not be invited on the Long Form Trust Deed, which will reflect the Commission’s policy position. However, should Applicants or their Proposed Trustees have any fundamental concerns regarding any technical aspects of the Long Form Trust Deed, they will have an opportunity to make the Commission aware of those, in writing, by the deadline specified in the Phase Two 4NL Trust Addendum. A template for the communication of those concerns will be provided by the Commission in Jaggaer at Phase Two. The Commission will consider any fundamental concerns which are raised but will not be obliged to make any changes to the Long Form Trust Deed. The Commission reserves the right to discuss any concerns with Applicants in order to ensure it has understood the technical points made and may, if it considers it appropriate, issue a revised Long Form Trust Deed during the Phase Two Response Period.

Legal clarifications process

Applicants will have the opportunity to submit, for review by the Commission, their proposed drafting with respect to Application Specific Provisions specified by the Commission in each of the Licence, Enabling Agreement and Long Form Trust Deed. The Commission will provide Applicants with a non-binding view as to whether it considers that, on technical legal grounds, the drafting proposed by the Applicant would fail to operate in a manner which is capable of constituting a valid response to the relevant requirement. This process will not involve any form of Evaluation (whether on a Pass/Fail or a scored basis) nor assessment of, or comments on, the merits of those Application Specific Provisions, and the view provided cannot be taken as giving any indication of the likely outcome of any Evaluation. Applicants will not be entitled to place any legal reliance whatsoever on such view and should take their own legal advice on the terms and compliance of their Application. The deadline for submission of this drafting will be specified at Phase Two.

Formation of SPE

Any Applicant which is not itself the Proposed Licensee, must have formed the SPE which is to be its Proposed Licensee by the end of the Phase Two Response Period, in order to ensure that the Commission is able to award the Fourth Licence to the Proposed Licensee named in the successful Application (the Preferred Applicant’s Proposed Licensee).

5.4.3 Submission of Phase Two Applications



At the end of Phase Two of the ITA stage, Applicants will submit their final applications for evaluation. The deadline for Phase Two Applications is July 2021 (date TBC).

Submission of proposed Game portfolio (Step 3)

Each Applicant must submit their proposed Game portfolio as part of its Phase Two Application (through the submission of their Distribution and Portfolio Strategy), taking account of feedback received from the Commission where appropriate. In Phase Two evaluation, Game proposals (including the forecasted revenues of these Games) that do not comply with the Commission’s Statutory Duties, Directions or Regulations will not be included in Evaluation by the Commission, but the costs associated with these Games will not be removed from the Applicant’s Business Plan.

Submission of Ancillary Activities

Any Ancillary Activities submitted as part of the Phase Two Application should take into account feedback received from the Commission at Phase One where appropriate. If the proposed Ancillary Activity or Activities meet the Commission’s requirements, the Commission will evaluate the Applicant’s Business Plan as described in Section 8 (Evaluation Methodology).

If any proposed Ancillary Activities do not meet the Commission’s requirements, the Commission will remove the revenues associated with those Activities from the Financial Template prior to Evaluation. The Commission will also remove Ancillary Activities Direct Costs from the Financial Template prior to Evaluation. Refer to Section 8 (Evaluation Methodology) for further information.

Long Form Trust Deed

Phase Two Applications will be required to be submitted on the basis of the Long Form Trust Deed (including completion of Application Specific Provisions) issued by the Commission during the Phase Two Response Period. Applicants should not make any changes to the fixed provisions of the Long Form Trust Deed provided by the Commission in the Long Form Trust Deed at Phase Two.

Proposed Form of Fourth Licence

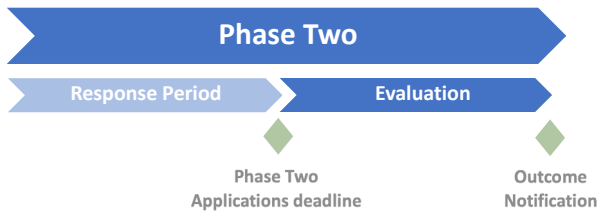
Phase Two Applications will be required to be submitted on the basis of the Proposed Form of Fourth Licence issued by the Commission at the start of Phase Two. Applicants will not be permitted to propose any changes to the Unamendable Conditions in that Proposed Form of Fourth Licence but will be invited to make proposals regarding the Application Specific Conditions as part of their Phase Two Applications.

Implementation and Transition Documents

Phase Two Applications will be required to be submitted on the basis of the form of Enabling Agreement (including completion of Application Specific Provisions) and form of Cooperation Agreement issued by the Commission at the start of Phase Two.

Applicants are required to provide an executed Deed of Commitment with their Phase Two Application that would commit their Proposed Licensee to execute the Enabling Agreement and the Deed of Adherence to the Cooperation Agreement if they are appointed as Preferred Applicant.

5.4.4 Phase Two Evaluation



Phase Two Applications will be evaluated, following the approach set out in Section 7 (Evaluation Approach). Throughout Evaluation, the Commission may request clarification from Applicants on any aspect of their Application. Applicants will be ranked according to the outcome of Evaluation. A process is also defined to enable the Commission to complete this ranking in the case where two Applicant scores are tied.

Applicant presentations

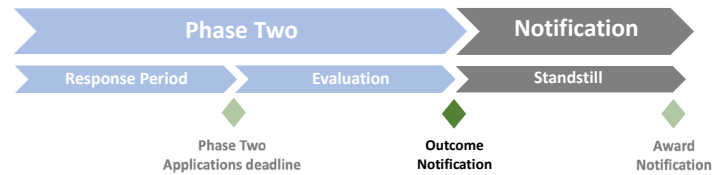
Each Applicant will be invited to present their Application at a one-to-one session with the Commission, following the Phase Two Applications deadline. Should an Applicant wish to present their Application, a copy of the supporting materials for the presentation should be included with their Phase Two Application. The objective of the session will be to facilitate the Commission’s understanding of an Application. Applicants may not introduce any new information at these sessions. In any case, the content of the written Application will take precedence over the content of the presentation. Where the Commission identifies a conflict between the contents of an Application and the Applicant’s presentation, the Commission will write to the Applicant to confirm which should be included in the evaluation. Applicants should note that the presentation will not be scored or credited in Evaluation in any way.

Fit and Proper Checks

Fit and Proper Checks will be conducted by the Commission in parallel to the ITA stage. In the event of adverse findings in these checks, Applicants may be removed from the Competition at the Commission’s discretion. For more information, please refer to the Information for Applicants on Fit and Proper Checks.

5.5 OUTCOME NOTIFICATION

Following completion of Evaluation as described above, the Commission will notify all Applicants of the outcome of the Evaluation, the identity of the Preferred Applicant and identity of the Reserve Applicant.



5.5.1 Appointment of a Preferred Applicant

The Applicant ranked first following Evaluation will be appointed Preferred Applicant by the Commission.

5.5.2 Appointment of a Reserve Applicant

The Commission intends to appoint a Reserve Applicant. The Reserve Applicant will be the next highest placed Applicant following Evaluation. If the Commission terminates the Enabling Agreement in accordance with its terms within the period of 90 Business Days from the date on which the Enabling Agreement is entered, the Reserve Applicant may be appointed as the Preferred Applicant. The Commission may (but is under no obligation to) subsequently award the Fourth Licence to the Reserve Applicant.

5.5.3 Outcome Notification

The Commission will provide written confirmation to all Applicants of the outcome of Evaluation, with a description of the rationale for the decision made by the Commission. The Outcome Notification letters will also inform Applicants of a standstill period.

5.5.4 Standstill

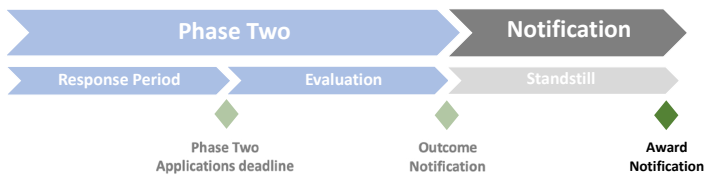
Following communication of the Outcome Notification to Applicants, the Commission will observe a voluntary standstill period. When the standstill period is complete, the Award Notification decision will be confirmed as described below.

5.5.5 Debrief

Each Applicant may request a debrief session with the Commission. The debrief sessions will take place at the end of the Competition.

5.6 AWARD NOTIFICATION

As further described in the Deed of Commitment, following the voluntary standstill period, the Commission will issue an Award Notification to the Preferred Applicant and may issue a Reserve Applicant Notice to the Reserve Applicant. This is currently expected to take place in Q4 2021.



5.6.1 Execution of the Enabling Agreement

Within 5 Business Days from the date of the Award Notification, in accordance with the Deed of Commitment, the Applicant who has received the Award Notification will procure that the Proposed Licensee named in its Application provides a Resource Availability Assurance Statement, as described in Section 8.3 of the Transition Guidance Note.

Once that Proposed Licensee has provided a Resource Availability Assurance Statement, the Enabling Agreement will be signed by the Commission and that Proposed Licensee (which will, at that point, become the Incoming Licensee). The Incoming Licensee must also execute a Deed of Adherence to the Cooperation Agreement which will, at that time, already have been executed by the Commission and the Current Operator. At this time, the Implementation Period commences.

5.6.2 Reserve Applicant

The Reserve Applicant will be notified when the Incoming Licensee has executed the Enabling Agreement. The Reserve Applicant will be in position for 90 Business Days.

If, within 90 Business Days from the date of the Enabling Agreement which the Commission enters into with the Incoming Licensee, the Commission terminates that Enabling Agreement in accordance with its terms, the Commission may (but is under no obligation to) subsequently award the Fourth Licence to the Proposed Licensee identified in the Application submitted by the Reserve Applicant. That Proposed Licensee will then enter into an Enabling Agreement for delivery of the Fourth Licence reflecting its Application and will then become the Incoming Licensee.

Applicants should note that the Commission will not compensate the Reserve Applicant for any costs it incurs.



6 INSTRUCTIONS TO APPLICANTS

6.1 INTRODUCTION

This ITA forms the second stage of the Competition. The Phase One and Phase Two Applications shall each be deemed subject to the provisions set out in this section, the terms and conditions of applying for the Fourth Licence, unless the Commission expressly agrees in writing to the contrary. Any alternative terms and conditions offered by or on behalf of an Applicant shall be deemed to have been rejected by the Commission unless expressly accepted by the Commission in writing.

Phase One Applications must either be submitted by the Proposed Licensee or, if the Proposed Licensee has not yet been established as an SPE, another person who intends to take principal responsibility for the submission of that Application. The Proposed Licensee identified in an Application may therefore be a different legal entity from the Applicant who has submitted that Application.

Any Applicant which is not itself the Proposed Licensee, must have formed the SPE which is its Proposed Licensee by the end of the Phase Two Response Period in order to ensure that the Commission is able to award the Fourth Licence to the Proposed Licensee named in the successful Application.

The Commission will use the Jaggaer e-procurement portal for the Competition. All submissions in respect of this ITA (both Phase One and Phase Two Applications and any clarifications or requests for feedback from the Commission) must be made through the Jaggaer e-procurement portal.

6.2 VIRTUAL DATA ROOM (VDR)

To provide information to Applicants in relation to the National Lottery, the Commission has structured a repository of information in a secure Virtual Data Room (VDR) hosted by Intralinks.

In the VDR there are two documents to aid Applicants' navigation of the platform;

- Intralinks Quick Reference for Reviewers;
- Intralinks Q&A Guide for Buyers.

Throughout the Competition, different levels of commercially sensitive operational and contractual data will be made available to Applicants. In order to achieve this, multiple folders will be set up within the VDR with access to each folder provided at different stages of the Competition. Access controls for each stage will be proportionate to the sensitivity of the data being published in the relevant folder.

To the fullest extent permitted by law, the Commission makes no representations or warranties as to the veracity or completeness of any data or other information or documentation provided in the VDR and Applicants should satisfy themselves as to the nature of the opportunity presented by the Competition.

The data in the VDR has been structured as 4NL Competition Data and 3NL Operator Data as outlined below:

Reference	File name and description	VDR Folder
Competition documents	ITA Cover Letter	4.1
	Invitation to Apply (ITA)	4.1
	Financial Template: Locked	4.1
	Financial Template: Unlocked	4.1
	Key Subcontractor Financial Strength Template	4.1
	Proposed Form of Fourth Licence Feedback Form	4.3
	Section 6 Licensing Guidance Note	4.2
	Applicant Game Feedback Request Form	4.2
	Short Form Trust Deed	4.2
	4NL Trust Explanatory Note	4.2
	4NL Trust Feedback Form (Applicants)	4.2
	4NL Trust Feedback Form (Proposed Trustee)	4.2
	Transition Guidance Note	4.2
	Implementation and Transition Documents Feedback Form	4.2
	Form of Deed of Commitment	4.2
	Information for Applicants on Fit and Proper Checks	1.14.5
	Media and Communications Protocol	1.12.11
	Applicant Clarification Request Form	ITT_28 (Jaggaer)
	Applicant Briefing 1 – Competition Process	ITT_27 (Jaggaer)
	Applicant Briefing 2 – Fourth Licence	ITT_27 (Jaggaer)
	Applicant Briefing 3 – Section 6 Licensing Process	ITT_27 (Jaggaer)
	Applicant Briefing 4 – 4NL Trust	ITT_27 (Jaggaer)
	Applicant Briefing 5 – Transition	ITT_27 (Jaggaer)
	Applicant Briefing 6 – Financial Template	ITT_27 (Jaggaer)
	Applicant Briefing 7 – Financial Strength	ITT_27 (Jaggaer)
	Applicant Briefing 8 – Evaluation	ITT_27 (Jaggaer)
	Proposed Form of the Fourth National Lottery Licence	Proposed Form of the Fourth National Lottery Licence
Supporting documents	Regulatory Handbook	4.2
	Form of Enabling Agreement	4.2
	Form of Cooperation Agreement	4.2
Supporting Data	4NL Trust Supplier Directory	1.13.9
	Commercial Vendor Due Diligence Report	2.1
	Draft Cost Reporting Guidelines for The Fourth National Lottery Licence – An Initial View	2.2
	Responses to Clarification Questions	1.7
	VDR Contents List	1.6
	Market Briefing Pack	1.5
	Monthly analysis of COVID-19	3.2
	Key links document	1.5
3NL Operator Data (for further information see VDR Cover Note)	Data related to the 3rd National Lottery operation	5.0
	A – Organisation	5.1
	B – Financial Management (including Trust data)	5.2
	C – Contracts and Legal	5.3
	D – Operations	5.4
	E – Technology	5.5
	F – Marketing and Brand Management	5.6
	G – Game Portfolio & Sales Analysis	5.7
	Monthly updates	5.8
VDR instructions	VDR Cover Note	5.0
	Intralinks (VDR platform) user guide	1.6
	Intralinks (VDR) Q&A user guide	1.6

Table 2: VDR contents

6.3 CLARIFICATIONS AND COMMUNICATIONS

Any questions or requests for clarification relating to the ITA should be addressed to the Commission through the Jaggaer e-procurement portal. Each Applicant's nominated point of contact for the portal (as identified at SQ stage) should consolidate and submit clarification requests using the functionality of the portal.

Where Applicants consider their clarification questions to be commercially sensitive, they should mark such questions 'Commercial in Confidence'. The Commission will consider whether it is able to treat the question confidentially in line with its obligations, including the obligation to treat all Applicants fairly. Where the Commission judges that it would have to disclose its response to all Applicants so as not to provide a party with an unfair advantage, it will notify the Applicant who posed the question. Having received such notification, the Applicant may choose to withdraw its question.

The Commission will consider each clarification question raised and respond in the manner which it determines (in its sole discretion) to be the most appropriate. This may include collating questions to provide a collective response or not providing a response if it is not deemed appropriate. The Commission will endeavour to respond to clarifications in a timely manner and will share responses to clarifications with all Applicants (unless qualifying as 'Commercial in Confidence', as outlined above), whilst retaining the anonymity of the Applicant who raised the clarification.

Although the Commission does not propose to limit the number of clarifications any Applicant may submit, Applicants are asked to prioritise clarification requests in terms of materiality and submit any requests in a timely manner.

Should the Commission have any clarification requests in relation to a particular aspect of an Application, it will raise these with the relevant Applicant through the relevant portal in the same manner.

The clarifications process will open at ITA launch and will continue during the Phase One Response Period and the Phase Two Response Period, as set out in Section 5 (Process).

6.4 CONFIDENTIALITY

Prior to the issue of this ITA, each Applicant entered into an Application Process Agreement (APA) with the Commission.

Any Applicant who, in the Commission's opinion, breaches the APA, or any of the requirements of this ITA may, at the Commission's sole discretion, be disqualified from the Competition (without prejudice to any other civil remedies available to the Commission pursuant to the APA or otherwise and without prejudice to any criminal liability which such conduct by an Applicant may attract).

The Commission does not intend to reveal publicly, or to any other party in the Competition, the content or nature of each Applicant's individual feedback sessions, nor any aspect of the Applications each Applicant puts forward. However, where any material aspect emerges as a result of the feedback session, which may affect other Applicants' interpretation of any element of this ITA or competition process, this will be made clear to the other remaining Applicants as a clarification in order to maintain the equality and fairness of the Competition.

The Commission acknowledges that it has a duty of confidentiality to Applicants in respect of their confidential information, including the substance of any Applications submitted as part of the Competition.

The Commission has general obligations of transparency under the Freedom of Information Act 2000 (FOIA) and is bound by this, subject to specific exceptions. See Section 6.15 (Freedom of Information Act 2000 (FOIA)) below for further information.

6.5 SUBMISSION OF A COMPLIANT APPLICATION

The Commission will accept only one Application at each Phase of the ITA stage from each Applicant which should be free from errors and ambiguities and must conform with the requirements of, and instructions set out in, this ITA, including as may be amended by the commission in writing. Applications must be submitted on or before the deadlines set out in Section 5 (Process). The Commission also reserves the right to clarify any elements of any Application submitted at any stage in the Competition. All submissions in respect of this ITA (both Phase One and Phase Two Applications) must be made through the Jaggaer e-procurement portal.

Each Application must be complete and contain all required submission elements as described in the Submission Checklist set out in Section 24.1 (Submission Checklist). The Commission reserves the right to disqualify Applications which do not meet these requirements or comply with these instructions.

The Commission reserves the right to ask an Applicant to clarify any elements of its submitted Application at any stage of the Competition process and reserves the right to conduct due diligence on any aspect of any Application. This may include fact checking of any statements made as part of a response to this ITA or information provided at a later stage of the Competition. The Commission may also require Applicants to provide details of a point of contact who can verify any assertions or representations made in response to this ITA or its Application.

6.6 **MATERIAL CHANGES**

If at any time during the Competition there are any material changes to the information provided by an Applicant in its response to the SQ, or in relation to any Person Relevant to the Application, or in relation to any information provided to the Commission in connection with a Fit and Proper Check, the Applicant must advise the Commission as soon as it becomes aware of the change. Such changes may include, but are not limited to:

- Information concerning the intended legal or capital structure of the Proposed Licensee, including any changes to the identity of any Qualifying Direct Shareholder;
- Changes to the proposed relationship between any Person Relevant to the Application and the Proposed Licensee;
- Information relating to the mandatory or discretionary exclusion grounds set out in the SQ.

The Commission will require any new Person Relevant to the Application to respond to the questions set out in the SQ, and if, having assessed that response, the Commission determines that the Applicant would not have been successful at SQ stage had the relevant response been provided at that time, the Commission will exclude that Applicant from further participation in the Competition.

In the event that an Applicant who successfully passed the SQ stage and subsequently decided to withdraw and join with another Applicant in the capacity of a new Person Relevant to the Application, the Commission would be open to accommodating such a change subject to the second Applicant following the process described above.

The Commission reserves the right, at its sole discretion, to disqualify any Applicant who makes or is subject to any material change to the information provided in response to the SQ or in relation to any information provided to the Commission in connection with a Fit and Proper Check after such response has been submitted to the Commission, or who fails to notify the Commission of such a material change.

6.7 **VALIDITY PERIOD OF APPLICATION**

The Deed of Commitment submitted with each Application specifies that such Application and the information contained therein is irrevocable and must remain valid for a minimum of 12 months from the date it is submitted at the end of Phase Two of the Competition, but will terminate earlier where another application is successful. For further information, see Transition Guidance Note.

6.8 **UNDERTAKINGS IN RESPECT OF RESTRICTIVE AGREEMENTS**

In order to qualify for participation in the Competition, Applicants, Persons Relevant to the Application, or Key Subcontractors may not tie any other party exclusively into their Application. This means that they may not enter into any agreement:

- a) with any supplier of equipment, gaming related software and/or Scratchcards if the agreement would, in the opinion of the Commission, have the effect of restricting that supplier's ability to supply any relevant equipment, gaming related software and/or Scratchcards to any other Applicant;
- b) with any supplier of equipment, gaming related software and/or Scratchcards if the agreement would, in the opinion of the Commission, have the effect of restricting that supplier's freedom to set prices, or of restricting its freedom to determine any other terms or conditions that it might wish to agree with any other Applicant;
- c) with any Retailer if the agreement would, in the opinion of the Commission, have the effect of restricting the Retailer's freedom to offer distribution channels to other Applicants;
- d) with any Retailer if the agreement would, in the opinion of the Commission, have the effect of restricting the Retailer's freedom to determine the terms and conditions on which the Retailer might offer distribution channels to any other Applicant;

- e) that contains any restriction similar or analogous in nature to those described in (a)-(d) above and which, in the opinion of the Commission, would have the effect of materially restricting the freedom of any supplier of equipment or any Retailer to reaching agreement with any other Applicant in connection with the competition for the Fourth Licence;
- f) which would prevent disclosure of any agreement of the kinds referred to in (a)-(e) above.

If an Applicant or any Person Relevant to the Application has entered into any agreement of a kind referred to at (a)-(f) above:

- i. at a time before the publication of this document; or
- ii. where circumstances subsequently changed in such a way as to render an agreement entered into prior to publication of this document an agreement of a kind referred to in (a)-(f) above;

that Applicant must disclose the existence of the agreement (whether entered into by the Applicant, a Person Relevant to the Application or a Key Subcontractor) to the Commission and provide details of the relevant restriction contained in the agreement.

6.9 **CONSEQUENCES OF MISREPRESENTATION**

If any Applicant materially misrepresents any aspect of its Application, the Commission reserves the right to disqualify such Application. The Applicant may also be excluded from participating in future related competitions. An Applicant who has made a material misrepresentation in its Application may be sued for damages and any award of the Fourth Licence to that Applicant's Proposed Licensee may be rescinded. If fraud, or fraudulent intent, can be proved, the Applicant or its responsible officers may be prosecuted for the offence of fraud by false representation.

6.10 **LANGUAGE AND CURRENCY**

All aspects of the Application and accompanying evidence must be prepared in English (or accompanied by a certified English translation). Monetary values must be stated in UK sterling (GBP). All responses should be exclusive of VAT unless where directly stated otherwise.

6.11 **CANVASSING AND COLLUSION**

Each Applicant signed an Anti-Collusion and Canvassing Certificate with its Selection Questionnaire response.

Should an Applicant or any of its Representatives or Associated Persons (each as defined in the Application Process Agreement) be found to have committed a breach of clause 14 of the APA, the Applicant may be disqualified at the Commission's absolute discretion. Such disqualification will be without prejudice to any other civil remedies available to the Commission and without prejudice to any criminal liability which such conduct may attract.

Should an Applicant or any of its Representatives or Associated Persons (each as defined in the Application Process Agreement) be found to have colluded in breach of clause 13 of the APA, they may be disqualified. Such disqualification will be without prejudice to any other civil remedies available to the Commission and without prejudice to any criminal liability that such conduct may attract.

6.12 **COPYRIGHT**

All intellectual property rights in this document, and the information or documents contained or referred to in it, shall remain the property of the Commission and no Applicant shall obtain any right, title or interest in that intellectual property. Neither this ITA nor the information or documents contained or referred to in it, may be reproduced, copied or stored in any medium, in whole or in part, without the prior written consent of the Commission, other than as strictly required for the preparation of an Application.

6.13 **PUBLICITY**

For guidance on any publicity and/or promotional activities related to the Competition, Applicants should refer to the Media and Communications Protocol issued by the Commission.

6.14 **COMMISSION'S RIGHT** **TO DISQUALIFY**

The issue of this ITA in no way commits the Commission to grant any Licence in connection with the Competition. The Commission is not bound to accept an Application, even if it scores the highest according to the Commission's Evaluation criteria, as described in Section 7 (Evaluation Approach). Nothing in this ITA shall oblige the Commission to grant a Licence and the Commission may, in its sole discretion, alter or terminate the Competition at any stage for any reason.

The Commission reserves the right at any time, in its absolute discretion, to disqualify any Applicant that does not, in the Commission's opinion, comply with the requirements of this ITA or any other requirement of the Commission in connection with the Competition that may from time to time be notified to the Applicant.

6.15 **FREEDOM OF INFORMATION** **ACT 2000 (FOIA)**

All information relating to any Applicant or any Application made to the Commission may be accessible under the Freedom of Information Act 2000 (FOIA) and Environmental Information Regulations (EIR). The Commission is under a legal obligation to disclose such information if requested, unless an exemption applies. The Commission may also be required to disclose information as required by other legislation or applicable codes of practice or otherwise as required by law, including by order of a court of competent jurisdiction.

Any Applicant must identify to the Commission, within its Application, any information which it regards as being potentially exempt from disclosure by the Commission under the FOIA. Such identification may be either specific or by class. The Applicant must state the grounds that it believes exist for potentially exempting the information from disclosure, together with detailed reasoning for each. The Applicant should also indicate whether it considers that the potential exemption from disclosure applies only for the period of the Competition or whether the potential exemption would continue after the conclusion of the Competition and award of the Fourth Licence.

Please note that, consistent with the spirit of its obligations under the FOIA, as a general principle the Commission will seek to prevent or restrict the scope of confidentiality obligations sought to be imposed upon it other than in accordance with law. As such the Commission reserves the right not to accept, in whole or in part, receipt of any information marked as confidential or sensitive or to require further explanation of the reasons why the Applicant considers confidentiality obligations to be appropriate in a particular case.

It should be noted that even where an Applicant has indicated that information should be exempted, the Commission may disclose this information following its own consideration of the situation. The Commission may, in its absolute discretion, consult with the Applicant before deciding on a request for information. The interpretation of the Commission in relation to any exemption shall be final.

6.16 **CONFLICTS OF INTEREST**

Any conflict of interest or potential or perceived conflict of interest that may arise in connection with the Competition (whether in relation to an Applicant, the Commission or otherwise) and including, without limitation, any issue that may result in a distortion of competition or the unequal treatment of participants in the Competition, that arises or becomes apparent at any time must be fully disclosed to the Commission through the portal as soon as such conflict or potential conflict arises or becomes apparent, accompanied by the Applicant's proposed mitigating steps.

6.17 **COSTS OF APPLICATION**

The Commission and each Applicant will each bear their own costs arising out of or in connection with each Applicant's participation in this Competition.

The Commission reserves its discretion as to whether it will grant a Licence as a result of the Competition and the Applicants' and any Person Relevant to the Application's participation in the process will be entirely at their own risk.

To the extent permitted by law, the Commission shall bear no liability whatsoever for the conduct or outcome of the Competition, whether withdrawn or altered or recommenced, including but not limited to any loss of costs as part of any Application, profit or economic loss incurred by Applicants or any other person arising out of or in connection with the Competition.

VOLUME — D

EVALUATION

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7 EVALUATION APPROACH

The Evaluation approach has been designed to identify the Applicant that delivers the highest credible and deliverable Good Causes Contribution for the Fourth Licence whilst first ensuring support for the Commission's Statutory Duties of propriety and protecting Participants' interests.

In summary, the Evaluation approach is designed to assess:

- proposals against the Commission's Statutory Duties of propriety and protecting Participants' interests as well as Applicants' demonstrated financial strength;
- proposed Licensee's Proportion of Surplus; and
- the credibility, deliverability and risks inherent in the Applicant's Business Plan and Proposed Good Causes Contribution, in line with the Commission's Statutory Duties.

The approach is based on four areas:

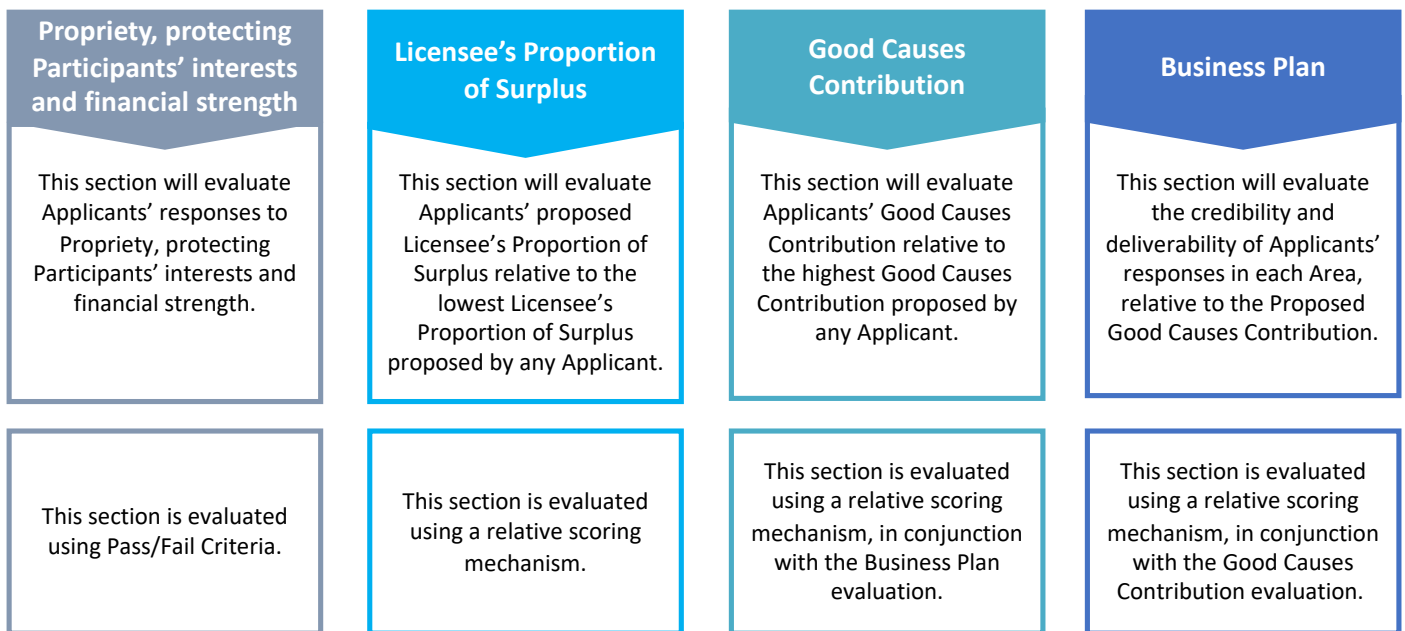


Figure 5: Four areas of the Evaluation approach

Propriety, protecting Participants' interests and financial strength (Pass/Fail)

Evaluation of propriety, protecting Participants' interests and financial strength will assess the following on a Pass/Fail basis:

- An Applicant's ability to satisfactorily demonstrate that the National Lottery will be run with all due propriety;
- An Applicant's ability to satisfactorily demonstrate that in running the National Lottery its Proposed Licensee will protect the interests of all Participants, including protecting Participant funds; and
- The financial strength of the Proposed Licensee, demonstrating that it will have sufficient resources to meet the requirements of Implementation and the requirements of the Fourth Licence throughout the Fourth Licence Term.

Applicants must meet the Pass criteria for propriety, protecting Participants' interests and financial strength. The Commission will consider the entire Application in determining a Pass/Fail result. Applications must fulfil all Pass criteria in order to be included in the final ranking of Applications following Evaluation.

Licensee's Proportion of Surplus (scored)

Applicants will be expected to propose a Licensee's Proportion of Surplus. Applicants will be evaluated using a relative scoring mechanism. The Applicant that proposes the lowest Licensee's Proportion of Surplus will be awarded 100% in this area of evaluation (prior to application of the area weighting), with all other Applicants scored relative to this. This area of evaluation has a 15% weighting. Applicants should note that the Licensee's Proportion of Surplus will need to account for the value of the Fixed Contribution as well as its own costs that are not shared through the Incentive Mechanism, therefore the Commission would not expect any proposals for a Licensee's Proportion of Surplus to be 0%.

Good Causes Contribution (scored)

The Good Causes Contribution included in each Application will be evaluated using a relative scoring mechanism (following application of a Discount Rate). The Applicant that proposes the highest Good Causes Contribution will be awarded 100% in this area of evaluation, with all other Applicants scored relative to this. This score is multiplied by the Business Plan Score to calculate the combined Business Plan and Good Causes Contribution Score, prior to application of the combined area weighting. The combined areas have a weighting of 85%.

Business Plan (scored)

The Business Plan will be evaluated based on written responses to the five areas below, using marking criteria between 0-15. Each Business Plan Area carries an equal weighting.

- Transition
- Branding
- Portfolio
- Channels
- Operations

Applicants will be evaluated using a relative scoring mechanism whereby their Business Plan Mark (following application of a Solution Risk Factor) will be relatively scored against the highest of all Applicants' Business Plan Marks. The Applicant that receives the highest Business Plan Mark, following application of the Solution Risk Factor, will be awarded 100% in this area of Evaluation, with all other Applicants scored relative to this. This score is then multiplied by the Good Causes Contribution Score to calculate the combined Business Plan and Good Causes Contribution Score, prior to application of the combined area weighting. The combined areas have a weighting of 85%.

A summary of this approach is set out below:

Statutory Duties							
Propriety	Protecting Participants' interests (including 4NL Trust)	Financial Strength	Licensee's Proportion of Surplus	Business Plan & Good Causes Contribution 85% of Total Score			
			15% of Total Score	Good Causes Contribution	Business Plan		
				Combined with Business Plan Score	Combined with Good Causes Contribution Score		
					Transition	Branding	Portfolio
Pass/Fail			Relatively scored	Relatively scored	Each Business Plan Area will be given a mark out of 15 against qualitative evaluation criteria, giving a total of 75 marks available (before SRF is applied). Total Business Plan Mark (following application of SRF) is then relatively scored		
Phase One	Feedback provided		No scores. Feedback will be provided	No scores. Feedback will be provided	Mark thresholds do not apply, however feedback will be provided		
Phase Two	Pass/Fail		Scores and feedback will be provided	Scores and feedback will be provided	Mark thresholds will apply for Business Plan Areas and feedback will be provided		

Figure 6: Evaluation approach

8 EVALUATION METHODOLOGY

This section sets out the Evaluation methodology for each area of Evaluation as set out in Section 7 (Evaluation approach).

8.1 PROPRIETY

Applicants will be required to demonstrate how their Proposed Licensee will run the National Lottery with all due propriety in line with the Statutory Duties through a written response to questions set out by the Commission. Applicants must also ensure that all ITA responses are in line with the Pass criteria for Propriety and protecting Participants’ interests, else they may risk failing and being removed from the Competition. Further information as to what this includes can be found in Section 10 (Propriety).

Applicants will receive either a ‘Pass’ or a ‘Fail’ against the propriety evaluation criteria as set out below. There will be a minimum threshold that must be met to Pass.

Definition	Description
Pass	<p>The Applicant must demonstrate all of the below criteria in order to be awarded a ‘Pass’ for propriety:</p> <ul style="list-style-type: none"> • The Applicant has satisfied the Commission that the Licensee will operate the National Lottery with all due propriety. • The Applicant’s responses demonstrate that the Licensee will comply with applicable laws and Regulations and Directions.²⁰ • The Applicant’s responses are relevant to the questions asked and deal comprehensively with each of the issues and/or subheadings under that topic. • The Applicant’s responses are aligned to relevant best practice and/or Commission guidance, or propose equivalent measures to the satisfaction of the Commission. • The Applicant’s responses are credible when assessed alongside the rest of their Application. • Where relevant, the Applicant’s Business Plan and overall Application is aligned with their responses under Section 22.2 (Propriety) of the ITA. There is nothing in the Applicant’s Business Plan or any other part of their ITA submission that is non-compliant with the Commission’s Statutory Duty to ensure that the National Lottery, and every lottery that forms a part of it, is run with all due propriety. • The Applicant has formed the SPE that will become the Licensee, should they be successful in their Application. The Applicant has provided satisfactory evidence that the SPE is established in the UK.
Fail	<ul style="list-style-type: none"> • The Applicant has failed to adequately demonstrate to the Commission their ability to deliver against one or more of the above criteria required to Pass.

Table 3: Propriety Pass/Fail Criteria

²⁰ <https://www.gamblingcommission.gov.uk/for-the-public/National-Lottery/How-we-regulate-the-National-Lottery.aspx>

8.2 PROTECTING PARTICIPANTS' INTERESTS

Applicants will be required to demonstrate how their Proposed Licensee will run the National Lottery whilst protecting Participant's interests in line with the Statutory Duties through a Participant Protection Strategy, which will be a written response provided as part of its Application, along with supporting evidence. Further information as to what this should include can be found in Section 11 (Protecting Participants' Interests).

There will be a minimum threshold that must be met in order to Pass. The Pass/Fail criteria set out below relates to both Participant protection across Applications as a whole and the specific protecting Participants' interests questions set out in Section 22.3 (Protecting Participants' interests). Technical criteria specifically related to protecting Participant funds is set out in Section 8.2.1 (Protecting Participant Funds).

Definition	Description
Pass	<p>The Applicant must demonstrate all of the below criteria in order to be awarded a 'Pass' for protecting Participants' interests:</p> <ul style="list-style-type: none"> The Applicant has satisfied the Commission that the Proposed Licensee will do everything it can to ensure that the interests of every Participant in the National Lottery are protected. The Applicant's responses demonstrate that the Licensee will comply with applicable laws and Regulations and Directions.²¹ The Applicant's responses are relevant to the questions asked and deal comprehensively with each of the issues and/or subheadings under that topic. The Applicant's responses are aligned to relevant best practice and/or Commission guidance, or propose equivalent measures to the satisfaction of the Commission. The Applicant's responses are credible when assessed alongside the rest of their submission. Where relevant, the Applicant's Business Plan and overall ITA submission is aligned with their responses under this section of the ITA. There is nothing in the Applicant's Business Plan or any other part of their ITA submission that is non-compliant with the Commission's Statutory Duty to ensure that the interests of every Participant in the Lottery are protected.
Fail	<ul style="list-style-type: none"> The Applicant has failed to adequately demonstrate to the Commission their ability to deliver against one or more of the above criteria required to Pass.

Table 4: Protecting Participants' interests Pass/Fail criteria

²¹ <https://www.gamblingcommission.gov.uk/for-the-public/National-Lottery/How-we-regulate-the-National-Lottery.aspx>

8.2.1 Protecting Participant Funds

Pass/Fail

As part of protecting Participants’ interests, Participants’ funds must be effectively managed and protected to adequately address the risk that Participants will not be paid amounts to which they are entitled.

One way in which this will be achieved is through the implementation of the 4NL Trust including through the operation by the Licensee of Funds Protection Policies and the maintenance of a Final Reserve Balance which would be available to the Trustee to discharge obligations to Participants in circumstances where the Licensee was unable to do so.

Evaluation of protecting Participant funds forms part of the evaluation of protecting Participants’ interests and will therefore be evaluated on a Pass/Fail basis. The evaluation will examine whether risks of Participants not being paid will be adequately addressed. As part of this, Applicants will be required to demonstrate that they can meet the requirements and obligations set out at the start of Phase Two in the Phase Two Trust Addendum. Applicants’ Required Responses and Application Specific Provisions will be evaluated against the Evaluation Criteria set out below.

Definition	Description
Pass	<p>The Applicant must demonstrate all of the below criteria in order to be awarded a ‘Pass’ for 4NL Trust, and ultimately protecting Participants’ interests:</p> <ul style="list-style-type: none"> • The Applicant has satisfied the Commission that the Proposed Licensee will do everything it can to ensure the Funds Protection Outcome (as defined in Condition 16.1 of the Proposed Form of Fourth Licence) is fulfilled. • Each of the Applicant’s Proposed Trustee and Proposed Account Bank fulfils the Trustee Requirements and the Account Bank Requirements (as applicable). • The Applicant’s 4NL Trust responses demonstrate that the Applicant’s proposed approach to the protection of Participant funds, including through the operation of the 4NL Trust will comply with applicable laws and Regulations and Directions.²² • The Applicant’s 4NL Trust responses demonstrate that the Licensee, Proposed Trustee and Account Bank will comply with the applicable requirements set out in in the Long Form Trust Deed and the Proposed Form of Fourth Licence. • The Applicant’s 4NL Trust responses demonstrate, having regard to the Commission’s guidance accompanying the Long Form Trust Deed, that the arrangements for the protection of Participant funds will be subject to appropriate governance, treasury management (including investment, credit and liquidity framework) and risk management to ensure it can meet its obligations to fulfil the Funds Protection Outcome. • The Applicant’s 4NL Trust responses demonstrate that the arrangements for protection of Participant funds will fulfil the Funds Protection Outcome in all reasonable worst-case scenarios, including as a result of risks created by its portfolio of Games. • The Applicant’s 4NL Trust responses demonstrate that the Proposed Licensee and Proposed Trustee will be able to successfully operate the 4NL Trust from the Start Date of the Fourth Licence. • The Applicant’s 4NL Trust responses to the “Required Responses” set out in Appendix G of the 4NL Trust Explanatory Note and in Section 22.4 (Protecting Participant Funds) deal comprehensively with each of the issues and/or subheadings under that topic, providing appropriate evidence that they are credible and deliverable when assessed alongside the rest of their submission.
Fail	<ul style="list-style-type: none"> • The Applicant has failed to adequately demonstrate to the Commission their ability to deliver against one or more of the above criteria required to pass.

Table 5: Protecting Participant funds Pass/Fail criteria

²² <https://www.gamblingcommission.gov.uk/for-the-public/National-Lottery/How-we-regulate-the-National-Lottery.aspx>

Applicants must meet the Pass criteria for protecting Participants' interests and funds. In determining a Pass/Fail result, the Commission will consider the entire Application, including the Business Plan.

Applicants should note that the following elements of their proposals with respect to the 4NL Trust (including as to Funds Protection Policies) will be evaluated as part of the Business Plan:

- **Evaluation of proposals regarding Portfolio Volatility and Funds Protection Policies as part of the Portfolio Business Plan Area:** Proposals regarding Portfolio Volatility and Funds Protection Policies (including the inherent volatility associated with the portfolio and reserving and other policies proposed to manage that volatility) will be evaluated by reference to their implications for the performance of the National Lottery and the risks to Good Causes Contributions (noting that payments to Participants take precedence over Good Causes Contributions so competing proposals, each of which adequately protect Participants' interests, may have differing implications for Good Causes Contributions).

These proposals will be evaluated as part of the Portfolio Business Plan Evaluation using the Business Plan Criteria set out in Section 8.6.3.

- **Transition from 3NL – 4NL Trust as part of the Transition Business Plan Area:** Applicants must provide within their Incoming Transition Plan, details of how they will successfully implement 4NL Trust arrangements and transition from 3NL Trust arrangements to 4NL Trust arrangements. Applicants must also provide a proposed form of Trust Implementation Agreement with their Phase Two Applications. These will then be evaluated as part of the Transition Business Plan Evaluation using the Business Plan Criteria set out in Section 8.6.3. As above, all other areas of protecting Participant funds will be evaluated on a Pass/Fail basis.

8.3 FINANCIAL STRENGTH

Financial strength is highly relevant to each of the Commission's Statutory Duties, and as such is evaluated on a Pass/Fail basis. Financial strength evaluation will consider the SPE described by each Applicant in its Application as the Proposed Licensee, and will examine both how that SPE will be funded and how its proposed supply chain will be funded. This assessment will determine whether the Applicant has provided sufficient evidence to the Commission to demonstrate that the Proposed Licensee is capable of establishing and maintaining their financial strength throughout the Fourth Licence Term.

The financial strength of the Proposed Licensee will be tested against a range of scenarios specified by the Commission that might reasonably occur and that could raise concerns regarding the financial strength of the Proposed Licensee. These scenarios are set out in Section 23.7 (Financial Response).

Applicants' responses will be evaluated holistically, based on their narrative responses to qualitative questions, the financial information Applicants provide about the Proposed Licensee and its proposed Key Subcontractors (including Proposed Trustees), and supporting evidence detailing equity and debt funding to be provided to the Proposed Licensee. This may include evidence of equity and debt commitments, liquidity available and contingency commitments, together with typical performance, leverage and interest metrics. Please note that at Phase Two, Applicants will be required to submit copies of legally binding financing agreements which should evidence the availability of committed funding.

Further information on financial strength can be found in Section 13 (Financial Strength).

Applicants' responses under this section will receive either a 'Pass' or a 'Fail', based on the Evaluation criteria outlined below and the outcome of the Financial Strength Scenarios. Please note that, as described in Section 8.7 (Financial Response), the Commission will carry out a separate assessment of each Applicant's Financial Response to support an assessment of the credibility and deliverability of the Applicant's proposals in the Business Plan and the Applicant's Proposed Good Causes Contribution.

Definition	Description
<p>Pass</p>	<p>The Applicant must demonstrate all of the below criteria in order to be awarded a 'Pass' for financial strength:</p> <ul style="list-style-type: none"> • Sufficiency of Implementation and Transition funding. The Applicant has demonstrated that the Proposed Licensee will have sufficient financial resources to meet the costs it will incur in connection with Implementation and Transition under all specified scenarios. • Ability to maintain solvency throughout the Fourth Licence Term. The Applicant has demonstrated that there is no material risk that the Licensee would become insolvent during the Fourth Licence Term under any of the specified scenarios. • Conditionality of funding. The Applicant has provided clear evidence that funding to meet the costs of operating the National Lottery and any financial commitments would be available to, and accessible by, the Proposed Licensee as required and there are no material conditions associated with funding that may result in funding delays, or that funding not being available, should the Applicant be successful. • Deliverability of funding. The Applicant has provided clear evidence that proposed funding can be obtained and implemented and that funding providers have the financial capacity and capability to support their commitments under all specified scenarios. • Funding covenants. The Applicant has demonstrated that there is no material risk to the Proposed Licensee's financial strength under any of the specified scenarios due to funding covenants not being met as per contractual obligations set out in funding agreement terms and conditions. • Supply chain financial strength. The Proposed Licensee's supply chain is of sufficient financial standing that it does not cause material threat to the Proposed Licensee's ability to deliver their contractual obligations under the Fourth Licence. The Proposed Licensee and its Key Subcontractors have adequate processes, procedures and controls in place to ensure supply chain continuity and minimise any adverse impact on National Lottery operations due to any potential supply chain disruptions. • Where relevant, the Applicant's Business Plan and overall ITA submission demonstrates alignment with the financial strength requirements. There is nothing in the Applicant's Business Plan or any other part of their ITA submission that would result in the Applicant's failure to meet the criteria outlined above. In particular, the Applicant should demonstrate due regard to the potential impact of the 4NL Trust and any potential Portfolio Volatility on the Proposed Licensee's financial strength.
<p>Fail</p>	<ul style="list-style-type: none"> • The Applicant has failed to adequately demonstrate to the Commission their ability to deliver against one or more of the above criteria required to pass.

Table 6: Financial strength Pass/Fail criteria

8.4 LICENSEE'S PROPORTION OF SURPLUS

Applicants will be evaluated using a relative scoring methodology. The Applicant that proposes the lowest percentage Licensee's Proportion of Surplus will receive 100% for this area, prior to application of the area weighting (15% of the Total Score). All other proposals will be scored relative to this.

An example of how this will be evaluated is set out below. Applicants should note that this is for illustrative purposes only.

	Licensee's Proportion of Surplus (%)	Relative scoring calculation	Licensee's Proportion of Surplus Weighted Score (/15% of Total Score)*
Applicant 1	4.00	$4.00/4.00 = 1.00$	$1.00 \times 15 = 15.00$
Applicant 2	5.00	$4.00/5.00 = 0.80$	$0.80 \times 15 = 12.00$

Table 7: Example of Licensee's Proportion of Surplus relative scoring

*N.B: Only final calculations will be rounded to 2dp. All decimal places from prior calculations will be carried through. Numbers used within this example are for illustrative purposes only.

8.5 GOOD CAUSES CONTRIBUTION

Applicants will propose a Good Causes Contribution forecast for each Licence Year of the Fourth Licence Term, the 'Proposed Good Causes Contribution'. The Proposed Good Causes Contribution will be underpinned by Applicants' Financial Templates and supported by their respective Business Plans. The Proposed Good Causes Contribution will consist of a Fixed Contribution (determined by the Commission to be £75m p.a.) and a proportion of the Surplus. For further information on the calculation of the Proposed Good Causes Contribution, please see Section 12 (Good Causes).

Applicants should note that the Commission will review the Applicant's projected Surplus figures and apply a Discount Rate, that will be set by the Commission in accordance with HM Treasury Green Book guidance (further details can be found in Section 8.5.1 (Discount Rate)). The discounted Surplus figure will then be used to calculate the Applicant's Good Causes Contribution based upon their proposed Proportion of Surplus to Good Causes (%).

Applicants will be evaluated using a relative scoring methodology. The Applicant that proposes the highest Good Causes Contribution across the life of the Fourth Licence Term will receive 100% for this area. All other proposals will be scored relative to this. Applicants should note that this score is multiplied by the Business Plan Score prior to being awarded a percentage in the overall Evaluation as set out in Section 8.9 (Evaluation mechanics).

Applicants should note that their Business Plan will need to support the Proposed Good Causes Contribution and Applicants will need to provide written notes ("Supporting Narrative") alongside their Financial Template response that will demonstrate how the forecast has been calculated in line with their ITA responses.

Applicants that propose to return profits to the NLDF should factor this into their Proposed Good Causes Contribution. Proposals for contributions to anywhere other than NLDF will not be credited further in Evaluation.

An example of how this will be evaluated is set out below. Applicants should note that this is for illustrative purposes only.

	Good Causes Contribution (£m)	Relative scoring calculation	Good Causes Contribution Score (/100%)*
Applicant 1	17,000	$17,000/19,000 = 0.89$	$0.89 \times 100 = 89.47$
Applicant 2	19,000	$19,000/19,000 = 1.00$	$1.00 \times 100 = 100.00$

Table 8: Example of Good Causes Contribution relative scoring

*N.B: Only final calculations will be rounded to 2dp. All decimal places from prior calculations will be carried through. Numbers used within this example are for illustrative purposes only.

8.5.1 Discount Rate

As described above, the Commission will apply a discount rate to Applicant’s proposed Surplus figures. This Discount Rate will be determined prior to the Phase Two Applications deadline in accordance with HM Treasury’s Green Book guidance, the discount rate will not be disclosed during competition.

The Discount Rate is commonly known as the rate at which society values the present compared to the future. The Commission will include the following elements, in its consideration of the final Discount Rate to be used in evaluation, in accordance with the HM Treasury Green Book guidance;

- **Social time preference rate** - HM Treasury Green Book guidance recommends discounting future cash flows by a social time preference rate that reflects the value to society of cash today rather than in the future
- **Expected inflation** - The social time preference rate is a real rate. Inflation is added to the social time preference to derive a nominal social time preference rate
- **Asset-specific risk premium** - The HM Treasury Green Book guidance recommends adding an asset-specific risk premium to the nominal social time preference rate to reflect that cash flows are uncertain.

8.5.2 Costs incurred in connection with Implementation and Transition

In their Financial Template, Applicants are required to provide details of their Estimated Implementation Costs, including details of each of the Implementation Cost Categories to which those Estimated Implementation Costs relate.

This must identify those costs which are Transition Costs and those which are Transformation Costs.

For the purposes of evaluation only, to ensure that all Applicants are treated fairly, Transition Costs proposed by each Applicant will be removed from the calculation of Good Causes Contribution.

Applicants should note that the Commission reserves the right to not remove any costs from this calculation which it considers to not fit under the definition of Transition Costs. Please refer to the Enabling Agreement and Schedule 5 Part B of the Fourth Licence (Good Causes Contribution) for more details.

8.5.3 Costs for non-compliant Games

As explained in the Section 6 Licensing Guidance Note, during Phase One, the Commission will make an initial assessment of (and provide feedback on) each Applicant’s proposed Game portfolio. This will include feedback on whether a proposed Game would be likely to be awarded a Section 6 Licence. Applicants will then submit final proposed Game portfolios with the benefit of this feedback. If any proposed Games do not meet the Commission’s requirements (i.e. are non-compliant), the Commission will remove the revenues associated with those Games from the Financial Template prior to Evaluation. The Commission will not however remove any costs associated with such non-compliant Games and they will remain in the Applicants’ proposal.

8.6 BUSINESS PLAN

Applicants are required to develop several artefacts as part of their response to the ITA (as set out in Section 22 (Qualitative Response)). As set out in Section 21.3 (Summary of Response), some of these artefacts will be evaluated as part of the Business Plan. The Business Plan will be split into five Business Plan Areas: Transition, Branding, Portfolio, Channels and Operations (People, Process, Technology).

At Phase Two, Applicants will be provided with a mark per Area of the Business Plan, and a threshold will apply for each Business Plan Area.

Applicants will gain a mark between 0-15 for each Business Plan Area, with the total available mark for the Business Plan being 75 (Business Plan Mark). A Solution Risk Factor of 0-15% will then be applied to the total Business Plan Mark. Applicants must:

- Achieve a minimum mark of at least 6 out of 15 across all 5 Business Plan Areas; and
- Achieve a minimum mark of 9 out of 15 in at least half (3 or more) of the Business Plan Areas.

Applicants should note that their Good Causes Contribution proposal will only be counted if their Business Plan passes the set threshold marks.

Any Applicant who fails to achieve the minimum mark will automatically fail the Evaluation.

Across each Business Plan Area, Applicants will continue to be assessed for due propriety, financial strength and protecting Participants' interests. If, in a particular Business Plan Area, an Applicant's response is inconsistent with, or invalidates, the responses for the Business Plan Areas or otherwise fails to comply with the objectives of due propriety, protecting Participants' interests and financial strength, the Application may fail on the Pass/Fail criteria described in Sections 8.1 to 8.3 above.

Applicants should note that as part of the Business Plan Evaluation, Applications will be reviewed referencing available market information where possible in order to test the credibility of their proposals.

The Business Plan Evaluation will consider the Proposed Good Causes Contribution in parallel. The Business Plan Mark will reflect the credibility and deliverability of the Proposed Good Causes Contribution in each Area. Business Plan Area criteria is outlined in Section 8.6.3 (Evaluation criteria for Business Plan Areas).

The Applicant that receives the highest Business Plan Mark (including Solution Risk Factor, as set out below) will receive 100% for this area of evaluation. Each Applicant's Business Plan Mark (following Solution Risk Factor adjustment) will be relatively scored against the highest of all Applicants' Business Plan Marks.

Applicants should note that the Business Plan Mark (following SRF adjustment) is multiplied by the Good Causes Contribution Score prior to being awarded a percentage in the overall Evaluation as set out in Section 8.9 (Evaluation mechanics).

8.6.1 Approach to evaluation of risk

In order to evaluate proposals fully, the Commission requires a view of risk across an entire Application. Therefore, as part of their Application, Applicants will be required to provide a consolidated Risk Register, which should contain a complete and accurate explanation of each risk identified by the Applicant and how it will be mitigated. Applicants should note that the Commission will also undertake an assessment of risk and may identify additional items that it may consider as part of Evaluation. In the event that the Commission identifies additional risks during the Phase One Review, it will inform the Applicant as part of their Phase One Feedback.

The way in which these risks are evaluated will depend on their impact on the proposal. Where a risk is specific to an area of Evaluation or an individual Business Plan Area, it will be considered as part of that area of Evaluation. For example, risks associated with Business Plan Areas will be evaluated as part of the Commission's assessment of credibility and deliverability of each Business Plan Area. Where a risk is considered to be 'solution-level', as described below, it will be considered as part of Solution Risk Factor (SRF). Further detail relating to SRF can be found in Section 8.6.2 (Solution Risk Factor).

8.6.2 Solution Risk Factor

A Solution Risk Factor (SRF) will be used to address the impact of cross-cutting aspects of the Applicant's Business Plan. The SRF will enable the Commission to give consideration to interactions between different aspects of the Business Plan and to any issue which arises from one or more of the five separate areas of the Business Plan assessment (Transition, Branding, Portfolio, Channels, Operations) where, irrespective of the level of risk that issue presents in any single area, that issue gives rise to risk when considered in the context of two or more individual areas (a 'solution-level' risk). The SRF will be a whole number percentage between 0-15%. The resulting SRF will be applied to the Applicant's total Business Plan Mark. The higher the SRF, the greater the reduction in Business Plan Mark. The highest factor that could be applied will be 15% (i.e. a total Business Plan Mark (/75) could be reduced by up to 15% of that mark based on solution level risks identified in Evaluation).

Applicants will be asked to provide their view of risks and mitigations in a Risk Register, of which 'solution level' risks will be considered in this assessment, all other risks will be based on the Commission's judgement across the overall Business Plan.

Applicants should note that the Commission will have the discretion to determine that an Applicant whose SRF is 15% will Fail the Evaluation.

The Commission will retain the right to request additional scenarios from Applicants which will be considered as part of the SRF assessment.

Four solution risk areas that will be considered for the SRF are:

- **Delivery Risk** - any issue which arises from one or more of the five separate areas of the Business Plan assessment (Transition, Branding, Portfolio, Channels, Operations) where, irrespective of the level of risk that issue presents in any single area, that issue gives rise to a risk in establishing future operations, when considered in the context of two or more individual areas;
- **Operational Risk** - any issue which arises from one or more of the five separate areas of the Business Plan assessment (Transition, Branding, Portfolio, Channels, Operations) where, irrespective of the level of risk that issue presents in any single area, that issue gives rise to a risk in running future operations, when considered in the context of two or more individual areas;
- **Cost Risk** – Any risk related to overall costs to deploy or operate the National Lottery. Solution level cost risk is evaluated at this level to factor in the uncertainty of Applicant's costs, costs which are not directly attributable to a single Business Plan Area, and/or future variability of costs putting Proposed Good Causes Contribution projections at risk;
- **Resilience Risk** – Any risk that the Licensee and/or its Business Plan may not be able to withstand the stress or pressure induced by events outside of the normal course of business. Applicants should note that 'Resilience Risk' as part of SRF, will be considered separately from the financial strength part of Evaluation. Within SRF, the Commission will be looking at the operational resilience of an Applicant's Business Plan at a solution level only.
 - The Upside and Breakeven Cases will be used to support the assessment of Resilience Risk. Within the 'Upside' scenario, the Commission will specifically look at how Applicants will provide assurance that their proposal is resilient in an Upside scenario where the National Lottery grows above the proposed Base Case scenario. The 'Breakeven' scenario will be assessed in the same way, but in a scenario where the National Lottery does not meet forecasts in the Base Case scenario.

An example of how this will be evaluated is set out below. Applicants should note that this is for illustrative purposes only

	Business Plan Mark (/75)	Solution Risk Factor (0-15%)	Total Business Plan Mark (/75)	Business Plan Score (/100%)
Applicant 1	75	0	$75 \times 1.00 = 75.00$	$(75.00/75.00) \times 100 = 100.00$
Applicant 2	70	3	$70 \times 0.97 = 67.90$	$(67.90/75.00) \times 100 = 90.53$

Table 9: Example showing the application of SRF to the Business Plan Mark and the relative scoring approach.

*N.B: Only final calculations will be rounded to 2dp. All decimal places from prior calculations will be carried through. Numbers used within this example are for illustrative purposes only.

8.6.3 Evaluation criteria for Business Plan Areas

The individual Business Plan Area proposals (i.e. an Applicant’s response to each Business Plan Area) will be evaluated and provided with a mark out of 15. Applicants’ Business Plans will need to align to the Proposed Good Causes Contribution and demonstrate how the Proposed Good Causes Contribution will be met. Each Business Plan Area will be evaluated based on how ‘credible’ and ‘deliverable’ the response is in the relevant Business Plan Area. Applicants should note that ‘credibility’ of a Business Plan Area will be evaluated based on how likely the proposal for that Business Plan Area will meet the Proposed Good Causes Contribution. ‘Deliverability’ will be evaluated based on how likely the proposal for that Business Plan Area will be achieved and successfully delivered. Within this assessment, the Applicant’s Risk Register, including risks and mitigations, will also be considered.

The criteria for the evaluation of each Business Plan Area is as follows:

Mark	Definition	Description
15	Highly credible and clearly deliverable	This Business Plan Area proposal is highly credible with a high confidence of deliverability. The Business Plan Area proposal is supported by high quality evidence demonstrating how it will deliver the Proposed Good Causes Contribution in this Business Plan Area. The Business Plan Area proposal demonstrates a strong understanding of the relevant questions for this Business Plan Area and has clearly considered all of the suggested points outlined in the questions. The Business Plan Area proposal clearly demonstrates that it will meet all relevant requirements as set out in the ITA.
13	Highly credible and deliverable	This Business Plan Area proposal is highly credible with confidence of deliverability. The Business Plan Area proposal is supported by good quality evidence demonstrating how it will deliver the Proposed Good Causes Contribution in this Business Plan Area. The Business Plan Area proposal demonstrates a good understanding of the relevant questions for this Business Plan Area and has considered all of the suggested points outlined in the questions. The Business Plan Area proposal clearly demonstrates that it will meet all relevant requirements as set out in the ITA.

11	Credible and deliverable	This Business Plan Area proposal is credible and provides confidence of deliverability. The Business Plan Area proposal is supported by reasonable evidence demonstrating how it will deliver the Proposed Good Causes Contribution in this Business Plan Area. The Business Plan Area proposal demonstrates a good understanding of the relevant questions for this Business Plan Area and has considered most of the suggested points outlined in the questions. The Business Plan Area proposal for this Business Plan Area demonstrates that it will meet all relevant requirements as set out in the ITA.
9	Credible but low confidence in delivery	This Business Plan Area proposal is credible overall, however, presents low confidence of deliverability. The Business Plan Area proposal is supported by reasonable evidence to demonstrate how it will deliver the Proposed Good Causes Contribution in this Business Plan Area. The Business Plan Area proposal demonstrates a reasonable understanding of the relevant questions for this Business Plan Area and has considered most of the suggested points outlined in the questions. The Business Plan Area proposal demonstrates that it will meet most of the relevant requirements as set out in the ITA.
6	Credible but very low confidence in delivery	This Business Plan Area proposal is credible overall, however, presents very low confidence of deliverability. The Business Plan Area proposal is supported by low quality evidence to demonstrate how it will deliver the Proposed Good Causes Contribution in this Business Plan Area. The Business Plan Area proposal demonstrates a reasonable understanding of the relevant questions for this Business Plan Area but has not considered all of the suggested points outlined in the questions. The Business Plan Area proposal demonstrates that it will only meet some of the relevant requirements as set out in the ITA.
3	Low credibility and low confidence in delivery	This Business Plan Area proposal lacks credibility overall and presents low confidence of deliverability. The Business Plan Area proposal lacks sufficient/ provides low quality evidence to demonstrate how it will deliver the Proposed Good Causes Contribution in this Business Plan Area. The Business Plan Area proposal demonstrates a poor understanding of the relevant questions in this Business Plan Area and has only considered some of the suggested points outlined in the questions. The Business Plan Area proposal demonstrates that it will only meet some of the relevant requirements as set out in the ITA.
0	Not credible and undeliverable	This Business Plan Area proposal is not credible and presents very low confidence of deliverability. The Business Plan Area proposal fails to provide/ provides very low-quality evidence to demonstrate how it will deliver this Business Plan Area. The Business Plan Area proposal demonstrates a very poor understanding of the relevant questions in this Business Plan Area and has not considered the suggested points outlined in the questions. The Business Plan Area proposal does not demonstrate that it will meet the relevant requirements as set out in the ITA.

Table 10: Evaluation criteria for Business Plan Areas

8.6.4 Evaluation criteria for Solution Risk Factor

Evaluation of total solution risk will be completed through the application of a Solution Risk Factor, using the four areas outlined in Section 8.6.2 (Solution Risk Factor). This Solution Risk Factor (%) will then be applied to total combined mark of the individual Business Plan Areas.

The criteria for the Solution Risk Factor are as follows:

Solution Risk Factor (%)	Definition	Description
0	Minimal risk	When considering the entire Business Plan, the overall proposal presents minimal incremental risk to one or more of Delivery, Operations, Cost and Resilience.
3	Very low risk	When considering the entire Business Plan, the overall proposal presents a very low risk to one or more of Delivery, Operations, Cost and Resilience and any risk is likely to be manageable with mitigations proposed by the Applicant.
6	Low risk	When considering the entire Business Plan, the overall proposal presents a low risk to one or more of Delivery, Operations, Cost and Resilience and any risk is capable of being manageable with mitigations proposed by the Applicant.
9	Moderate risk	When considering the entire Business Plan, the overall proposal presents a moderate risk to one or more of Delivery, Operations, Cost and Resilience with some uncertainty of likelihood of success for mitigations proposed.
12	High risk	When considering the entire Business Plan, the overall proposal presents a high risk to one or more of Delivery, Operations, Cost and Resilience that may be incapable of being entirely mitigated by the Applicant.
15	Very high risk	When considering the entire Business Plan, the overall proposal presents a very high risk to one or more of Delivery, Operations, Cost and Resilience that is likely to be unmanageable and incapable of being entirely mitigated by the Applicant.

Table 11: Evaluation criteria for Solution Risk Factor

8.7 FINANCIAL RESPONSE

Each Applicant is required to submit a detailed Financial Template in support of its Application, alongside Supporting Financials and Supporting Narrative which combined comprise the 'Financial Response'. The Financial Response will not be evaluated in its own right but it will be crucial to the overall Evaluation; it will be used as a tool to support evaluation of Applications.

The purpose of the Financial Response is:

- to support assessment of the credibility and deliverability of the Business Plan and Proposed Good Causes Contribution;
- to demonstrate that financial projections are well founded, based on reasonable and properly held assumptions and are consistent with the proposals set out in response to this ITA;
- to support assessment of the risks inherent in each Applicant's proposals including both those specific to Business Plan Areas and solution-level risks; and
- to demonstrate the Applicant's financial strength in a range of scenarios.

As with the rest of the Application, Applicants must demonstrate due propriety and protecting Participants' interests across the Financial Response. If any element of the Financial Response invalidates the Applicant's responses to, or fails to comply with, Statutory Duties, their Application will Fail and be excluded from the competition.

Further detail relating to the Financial Response requirements can be found in Section 23 (Financial Response).

The Financial Response will be used in Evaluation as follows:

8.7.1 Base Case

Licensee's Proportion of Surplus

The Applicant's proposed Licensee's Proportion of Surplus will be taken from the Base Case and will be evaluated using a relative scoring methodology. See Section 8.4 (Licensee's Proportion of Surplus) for further detail.

Good Causes Contribution

The Applicant's Proposed Good Causes Contribution will be taken from the Base Case and will be evaluated using a relative scoring mechanism. See Section 8.5 (Good Causes Contribution) for further detail.

Business Plan

The Base Case will be used to support the assessment of the credibility and deliverability of the proposals in each Business Plan Area. As part of the Business Plan Evaluation, Applicant's proposed cost lines in their Financial Template will be reviewed using available industry information in order to test the credibility of their proposals. See Section 8.6 (Business Plan) further detail.

Solution Risk Factor (SRF)

Where relevant, the Base Case will be used to support the assessment of the impact of 'solution-level' risks to the Business Plan. See Section 8.6.2 (Solution Risk Factor) for further detail.

8.7.2 Breakeven Case

Solution Risk Factor (SRF)

The Breakeven Case will be used to support the assessment of the 'Resilience Risk' element of SRF. See Section 8.6.2 (Solution Risk Factor) for further detail.

8.7.3 Upside Case

Solution Risk Factor (SRF)

The Upside Case will be used to support the assessment of the 'Resilience Risk' element of SRF. See Section 8.6.2 (Solution Risk Factor) for further detail on the other elements of the SRF evaluation.

8.7.4 Financial Strength Scenarios

The Financial Strength Scenarios component of the Financial Template including the Supporting Narrative will be evaluated as part of financial strength, which is a key component of each of the Statutory Duties. This component of the Financial Template will therefore be evaluated on a Pass/Fail basis. See Section 8.3 (Financial strength) for further detail.

8.8 ANCILLARY ACTIVITIES

The Commission does not require Applicants to submit any proposals for Ancillary Activities as part of their Application. However, the Commission recognises that Ancillary Activities may represent an opportunity for meaningful innovation and enhancement of Returns to Good Causes. Accordingly, should an Applicant wish to propose an Ancillary Activity that they view as material to their Application, and that Ancillary Activity has the potential to drive material additional Good Causes Contribution, the Commission will consider such a proposal.

In line with the above, Applicants will be required to confirm whether they are submitting any Ancillary Activities as part of their Application for the Commission to consider during the Competition.

If an Applicant does not submit any Ancillary Activities as part of their Application, they are only required to provide confirmation that they are not submitting any Ancillary Activities and they are not required to complete the other Ancillary Activities questions. The Commission will evaluate their Application in accordance with the methodology outlined in this Section 8 (Evaluation Methodology).

If an Applicant proposes an Ancillary Activity as part of their Application, they must complete all the Ancillary Activities questions. Such Applicants are encouraged to provide full details of such Activities in their Phase One Applications, in as close to final form as possible. This will enable the Commission to provide feedback on the likelihood of such Activities being approved.

Applicants who propose Ancillary Activities as part of their Application should include the revenues and costs associated with the Ancillary Activity or Activities in their Financial Template. The projected revenues and costs associated with those Ancillary Activities must be fully detailed in the Applicant's Supporting Financials and Supporting Narrative.

Any Ancillary Activities proposed as part of an Application are required to apply the provisions of the Incentive Mechanism as detailed in Schedule 5 (Good Causes Contribution) of the Proposed Form of Fourth Licence. The Commission will not consider any bespoke revenue and cost allocation models for Ancillary Activities proposed as part of an Application. This position will not affect the Licensee's ability to propose other Ancillary Activities with bespoke treatment of revenues and costs during the Fourth Licence Term.

The Commission will evaluate the Applicant's response to Section 22.11 (Ancillary Activities) in order to determine whether the proposed Ancillary Activity would meet the requirements, which are designed to indicate whether such an Activity would be likely to be approved. However, formal approval of that Ancillary Activity will not take place until the Implementation Period, in accordance with the application process set out in the Enabling Agreement.

If the proposed Ancillary Activity or Activities meet the Commission's requirements, the Commission will evaluate the Applicant's Business Plan as described in this Section 8 (Evaluation Methodology), inclusive of the proposed Ancillary Activities and any associated revenues and costs. The Commission will also consider the impact that the proposed Ancillary Activities may have on other aspects of the application including the Business Plan and Solution Risk Factor. The Commission may adjust the Applicant's scores in these sections accordingly.

If any proposed Ancillary Activities do not meet the Commission's requirements, the Commission will remove the revenues associated with those Activities from the Financial Template prior to Evaluation. The Commission will also remove Ancillary Activities Direct Costs from the Financial Template prior to Evaluation. Ancillary Activities Indirect Costs will not be removed. Applicants should note that these cost categories are only relevant for the purposes of competition and evaluation and do not affect the conditions of the Licence.

At Phase Two, Ancillary Activities proposals that do not meet the Commission's requirements may also adversely impact the four solution risk areas outlined in Section 8.6.2 (Solution Risk Factor) of this document, by indicating higher levels of risk associated with delivery, operations, costs and/or resilience. Where this is the case, this will be reflected in that Applicant's Solution Risk Factor.

Applicants should note that if they do not provide sufficient evidence and detail relating to the costs and revenues associated with their proposed Ancillary Activities, such that the Commission is not able to determine the revenues and Ancillary Activities Direct Costs to be removed from the Business Plan in the event that the Activity does not meet the Commission's requirements, the Commission reserves the right not to evaluate their Application.

The Applicant must be willing for its Proposed Licensee to be granted the Fourth Licence without any Ancillary Activities and the Proposed Licensee must not be dependent on revenues from the Ancillary Activities in order to maintain its financial strength or commercial viability.

The Commission will use the following criteria to determine whether a proposed Ancillary Activity or Activities meets their requirements:

Definition	Description
<p>Meets requirements</p>	<ul style="list-style-type: none"> • The Applicant has responded to the questions regarding Ancillary Activities in full. Responses are relevant to the questions asked and deal comprehensively with each of the issues and/or subheadings under that question. • The Applicant has provided satisfactory evidence that the proposed Ancillary Activity is material to their Application, and therefore should be considered at competition stage. • The Applicant has demonstrated that the proposed Ancillary Activity can be run in accordance with the Statutory Duties and the conditions of the Fourth Licence. • The Applicant has provided satisfactory evidence that any risks associated with the proposed Ancillary Activity will be appropriately managed and/or mitigated. • The Applicant has provided satisfactory evidence that the proposed Ancillary Activity is viable, compliant with any applicable laws and/or regulations, and has appropriate approvals in place from any third parties (if relevant). • The treatment of costs, revenues and Proposed Good Causes Contribution associated with the proposed Ancillary Activity is consistent with the Incentive Mechanism and the conditions of the Fourth Licence. • The Applicant has provided satisfactory evidence to support any assumptions in relation to the costs, revenues and Proposed Good Causes Contribution projected in their Financial Template.
<p>Does not meet requirements</p>	<ul style="list-style-type: none"> • The Applicant has failed to meet one or more of the above criteria.

Table 12: Criteria for Ancillary Activities

8.9 EVALUATION MECHANICS

Applicants must meet the Pass criteria for propriety, protecting Participants’ interests and financial strength (described in Section 8.1 to 8.3 above). The Commission will consider the entire Application in determining a Pass/Fail result. Where the Commission identifies any inconsistency or contradiction between responses to Pass/Fail elements and the Business Plan, which means that it cannot determine the Pass/Fail result, the Commission will submit a request to the Applicant for clarification before completing the Pass/Fail evaluation.

Applicants must fulfil all Pass criteria across their entire Application in order to be included in the final ranking of Applicants following Evaluation.

Given that the Business Plan will take into account the credibility and deliverability of the Proposed Good Causes Contribution, the two scores will be multiplied to provide a combined score for the overall Good Causes Contribution and Business Plan sections.

The Total Score for an Application will be derived from the Licensee’s Proportion of Surplus Weighted Score (15% of the Total Score) and the combined Business Plan and Good Causes Contribution Weighted Score (85% of the Total Score).

Applicants should note that the value to be used for Evaluation of Good Causes Contribution Score will be the Good Causes Contribution which results from the application of the Discount Rate to the Surplus and subsequent calculations, not the Proposed Good Causes Contribution.

The formula for an Applicant’s Total Score in its most simplistic form is as follows:

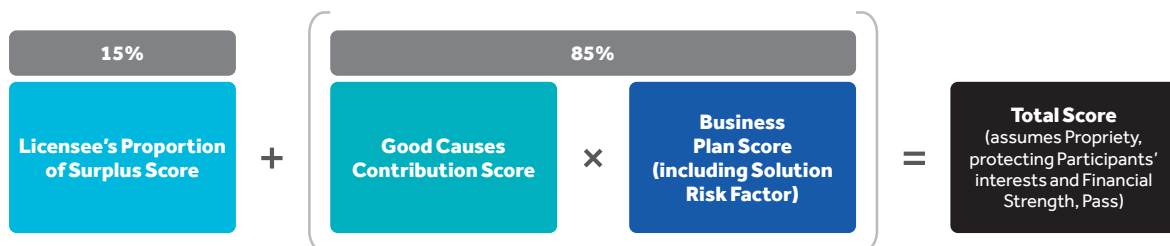


Figure 7: Total Score calculation

An example of how the Total Score will be calculated is set out below. Applicants should note that the scores used in this example are for illustrative purposes only and only involves the comparison of two Applicants. Again, for illustrative purposes only, Applicant A achieves the highest score in all 3 areas of the Evaluation.

		Licensee's Proportion of Surplus 15% of Total Score		Business Plan & Good Causes Contribution 85% of Total Score					
				Good Causes Contribution		Business Plan			
Applicant input	A	Lowest Licensee's Proportion of Surplus:	1.5%	A	Highest Good Causes Contribution:	£22,000m	A	Highest Total Business Plan Mark (/75):	72.75
	B	Applicant B Licensee's Proportion of Surplus:	4%	B	Applicant B Good Causes Contribution:	£20,000m	B	Applicant B Total Business Plan Mark:	65.80
Calc.	B	Calculation	$1.5 / 4$	B	Calculation	$20,000 / 22,000$	B	Calculation	$65.80 / 72.75$
	B	Score	37.50%	B	Score	90.91%	B	Score	90.45%
Weighting	B	Total Score = (37.50% x 15%) + [(90.91% x 90.45%) x 85%] = 75.52%							
Applicant A (highest scoring Applicant)		Applicant B (for comparison)							

Figure 8: An illustrative example for calculating the Total Score for Applicant B

N.B Numbers used within this example are for illustrative purposes only.

The illustrative example above for calculating the Total Score, notes the following:

- Applicant B scored 5.63% towards its Total Score, from the Licensee's Proportion of Surplus section of the Evaluation
- Applicant B scored 69.89% towards its Total Score in the remaining sections (Business Plan x Good Causes Contribution) of the Evaluation
- Applicant B's Total Score is the summation of these two scores. 5.63% + 69.89% = 75.52%

8.9.1 Further worked example in calculating Total Scores of Applicants

A further example is shown below. In this example, and for illustrative purposes only, three Applicants' Total Scores have been calculated.

Ref	Input	Applicant 1	Applicant 2	Applicant 3
A	Projected Surplus (£m)	15,284	16,791	16,822
B	Good Causes Contribution (£m)	14,596	15,364	15,813
C	Licensee's Proportion of Surplus (%)	4.5	8.5	6.0
D	Business Plan Mark (/75 marks)	61	69	65
E	Solution Risk Factor (%)	3	9	6
Total Score calculation				
F	Licensee's Proportion of Surplus Score (relative score, derived from C)	$(4.5/4.5) \times 100 = 100.00\%$	$(4.5/8.5) \times 100 = 52.94\%$	$(4.5/6.0) \times 15\% = 75.00\%$
G	Licensee's Proportion of Surplus Weighted Score (15% weighting of Total Score)	$100.00\% \times 15\% = 15.00\%$	$52.94\% \times 15\% = 7.94\%$	$75.00\% \times 15\% = 11.25\%$
H	Total Business Plan Mark (D x E)	$(61 \times 0.97) = 59.17$	$(69 \times 0.91) = 62.79$	$(65 \times 0.94) = 61.10$
I	Business Plan Score (relative score, derived from H)	$(59.17/62.79) \times 100 = 94.23\%$	$(62.79/62.79) \times 100 = 100.00\%$	$(61.10/62.79) \times 100 = 97.31\%$
J	Good Causes Contribution Score (relative score, derived from B)	$(14,596/15,813) \times 100 = 92.30\%$	$(15,364/15,813) \times 100 = 97.16\%$	$(15,813/15,813) \times 100 = 100.00\%$
K	Business Plan and Good Causes Contribution Score (I x J)	$94.23\% \times 92.30\% = 86.97\%$	$100.00\% \times 97.16\% = 97.16\%$	$97.31\% \times 100.00\% = 97.31\%$
L	Business Plan and Good Causes Contribution Weighted Score (85% weighting of Total Score)	$86.97\% \times 85\% = 73.93\%$	$97.16\% \times 85\% = 82.59\%$	$97.31\% \times 85\% = 82.71\%$
Total Score (G + L)				
		$15.00\% + 73.93\% = 88.93\%$	$7.94\% + 82.59\% = 90.53\%$	$11.25\% + 82.71\% = 93.96\%$

Table 13: Total Score calculation – further detail

From the illustrative example given above, the following can be observed:

- The highest ranked Applicant in this example is Applicant 3
- Applicant 3 scored 11.25% towards its Total Score from the Licensee's Proportion of Surplus section of the Evaluation
- Applicant 3 scored 82.71% towards its Total Score in the remaining areas (Business Plan x Good Causes Contribution) of Evaluation
- Applicant 3's Total Score is the summation of these two scores: $11.25\% + 82.71\% = 93.96\%$

8.9.2 Selecting between equal scores (for all positions)

In the unlikely situation that two Applicants have the same score or are within 0.10% of each other, the ranking will be completed using the approach below. If this is not the case, and there is a difference of more than 0.10% between scores, the Applicant with the highest score would be ranked higher and no further differentiation would be required. The approach below will apply to any tied Applicants.

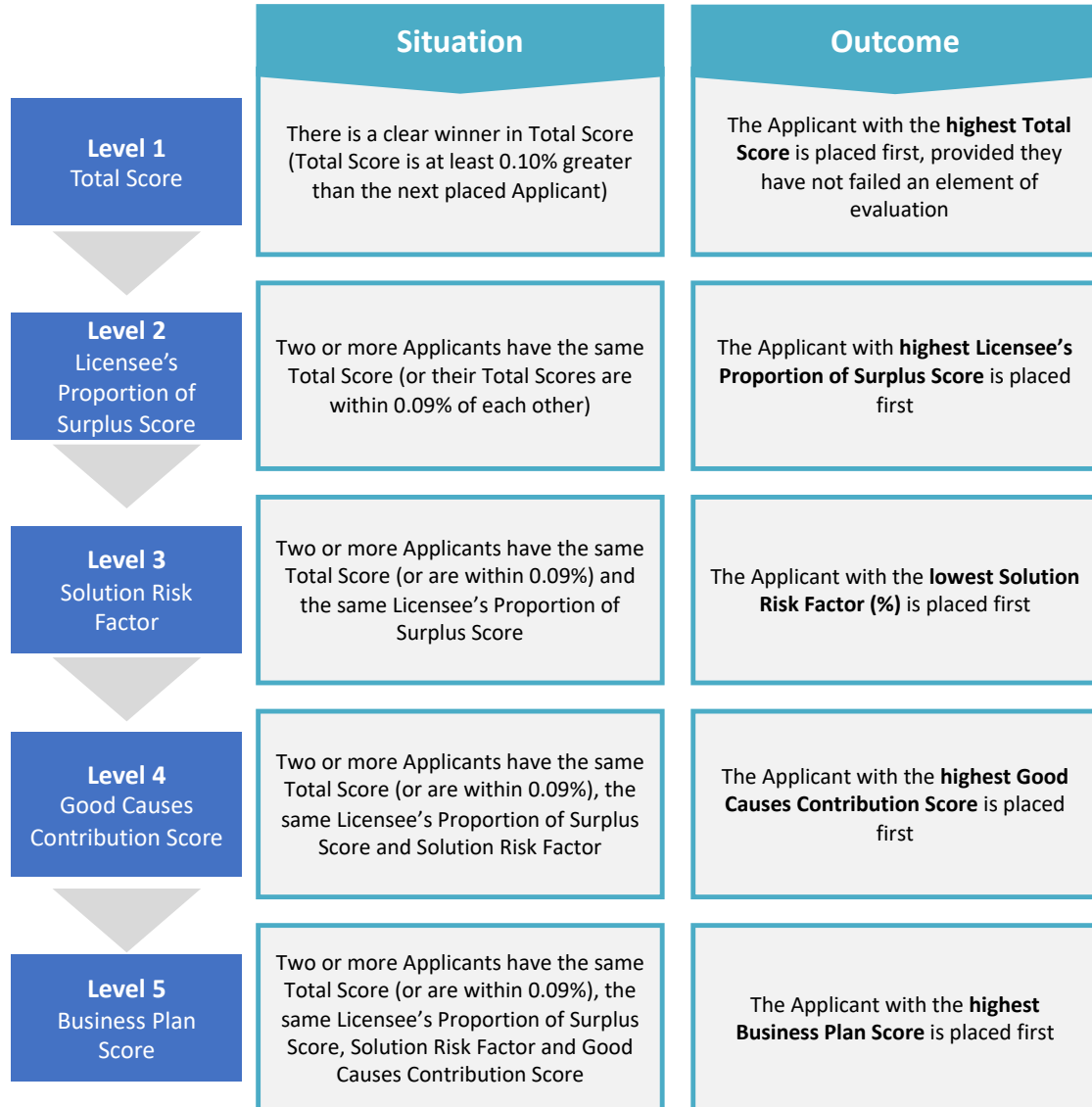


Figure 9: Approach to selecting between equal scores

VOLUME — E

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9 INTRODUCTION TO THE STATEMENT OF REQUIREMENTS (SOR)

Each Applicant will be required to demonstrate in its Application how its Proposed Licensee will operate the National Lottery in order to achieve the outcomes and comply with the obligations set out in the Fourth Licence. This Statement of Requirements (SoR) therefore acts as an introduction to and overview of the requirements in the Fourth Licence and is not intended to add to, modify or replace the requirements set out in the Fourth Licence.

It is important that in responding to each section of the SoR, Applicants have regard to all of the criteria relevant to an assessment of an Application and the requirements of the Fourth Licence.



10 PROPRIETY

10.1 CONTEXT

One of the Commission's overriding Statutory Duties is to exercise its functions in the manner it considers most likely to secure that the National Lottery is run with all due propriety. The Commission will apply that duty:

- in selecting the Licensee (in which regard it is also subject to the requirement that it must not grant a Licence unless it is satisfied that the Licensee is a fit and proper person to run the National Lottery)
- in determining the terms of the Fourth Licence; and
- in regulating the operation of the National Lottery under the Fourth Licence.

To achieve this objective, the Licensee will be subject to targeted and proportionate requirements throughout the Fourth Licence Term.

Applicants should take note of a number of key conditions in the Fourth Licence that are particularly relevant to propriety and that will shape the Licensee's required structure and operations. Specifically, as explained in section 1.4 (Formation of a Special Purpose Entity (SPE)), the Commission requires that the Licensee be an SPE which is established in the UK. The Commission requires that the Licensee does not do anything other than run the National Lottery and its operation without the Commission's written approval (see Licence Condition 14 (Activities other than Running the National Lottery)).

Operating with all due propriety will require the Licensee to demonstrate high standards of corporate governance in keeping with the UK Corporate Governance Code²³. Good corporate governance should enable the Licensee to establish a corporate culture that delivers and supports a successful and sustainable organisation, recognising that the objectives of the organisation will be aligned to the National Lottery's purpose in maximising Good Causes Contribution. The Licensee's approach to corporate governance should provide the Commission with the necessary confidence in the way the Licensee has set its strategy and met objectives through the decisions it has taken.

Fit and Proper Checks will take place in parallel with the ITA Stage. As part of ensuring that the Licensee is fit and proper to operate the National Lottery, the Commission will seek to ensure that those who manage the business (or part of the business) of running the National Lottery – or benefit from the running of the National Lottery – have undergone Fit and Proper Checks and meet the required standards regarding identity, integrity, criminality and financial standing. In the context of the Fourth Licence, those persons are described as Lottery Beneficiaries, Lottery Supervisors and Critical Function Employees.

As part of ensuring propriety, Applicants are also required to identify persons who will be members of Transition Staff during the Implementation Period. As those persons will have access to sensitive information in relation to the National Lottery and Participants, the Commission will also undertake Fit and Proper Checks in relation to those persons.

²³ <https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code>

Applicants must remain fit and proper throughout the Fourth Licence Term. Under section 10 of the Act, the Commission must revoke the Fourth Licence if, at any time, it is satisfied that the Licensee is, or never was fit and proper. Applicants should also note that the Licensee will have a responsibility to ensure that the National Lottery is operated with all due propriety and by fit and proper individuals during the Fourth Licence Term, and that this responsibility extends to Key Subcontractors and their Connected Parties. For more information, refer to the Information for Applicants on Fit and Proper Checks (which can be found in the VDR Folder 1.14).

Applicants should note that the Incoming Licensee will be required, during the Implementation Period, to put further policies and procedures in place relating to propriety in order to ensure compliance with the Fourth Licence on and from the Start Date. This includes a Code of Corporate Social Responsibility and a Framework for Ethical Business Decision Making.

10.2 **REQUIREMENTS**

It is important that when addressing this theme in their Application, Applicants have regard to all of the criteria relevant to an assessment of an Application and the requirements of the Fourth Licence, including the following as a minimum.

10.2.1 Special Purpose Entity

- The Licensee is required to be an SPE.
- The SPE must be established in the UK.

10.2.2 Scope of the National Lottery

- The Licensee is required to comply with the scope for the National Lottery as set out in legislation, including geographic scope and the nature of Games.

10.2.3 Corporate Governance

- The Licensee must always have a system of corporate governance, internal control and risk management which is Fit for Purpose.
- The Licensee must establish an Audit Committee.
- The board of Directors of the Licensee must establish and operate a Compliance and Risk Management Committee.

10.2.4 Anti-money laundering

- In order to meet the standard of Best Practice, the Commission expects the Licensee to have adequate policies, procedures and controls in place to manage and mitigate money laundering risks presented in both transactions with customers and business-to-business relationships.

11 PROTECTING PARTICIPANTS' INTERESTS

11.1 CONTEXT

The Commission has a Statutory Duty to ensure that the interests of every Participant are protected. In addition, the Directions state that no licence will be granted by the Commission which includes an authorisation to promote any lottery or lotteries which, in the opinion of the Commission, encourage excessive play or do not provide for sufficient controls to prevent underage play.

The Commission will therefore, in awarding the Fourth Licence, take steps to ensure that the Licensee will fulfil its obligations regarding protecting Participants' interests. Protecting Participants' interests under the Fourth Licence includes, but is not limited to, the Licensee doing everything it can to protect Participants' data, protect Participants' funds, prevent underage play and not encourage excessive play.

The Licensee's obligations to protect Participants' interests cover every person who plays, engages with or is exposed to the National Lottery.

Whilst the Commission does not seek to provide a prescriptive definition of those whose interests are particularly at risk (and therefore are likely to be in particular need of protection), Applicants should note that they are likely to include (but are not limited to):

- Vulnerable Participants which is likely to include people who gamble more than they want to, people who gamble beyond their means and people who may not be able to make informed or balanced decisions about gambling due to, for example, mental health, a learning disability or substance abuse relating to alcohol or drugs. Vulnerability may be long-lasting or temporary.
- Problem gamblers, meaning gamblers who experience severe or serious levels of harm. Problem gambling occurs when someone gambles to a degree that compromises, disrupts or damages family, personal or recreational pursuits.
- Moderate risk gamblers, meaning gamblers who experience a moderate level of problems, leading to some negative consequences.

However, Applicants should also note that Participants may experience harm from excessive play without meeting all the clinical criteria to diagnose problem gambling. Gambling may have an adverse impact on the health and wellbeing of individuals, families, communities and society. Effects can include loss of employment, debt, crime, breakdown of relationships and deterioration of physical and mental health.

Research data from the latest combined Health Survey showed that problem gambling rates for National Lottery Games were the lowest when compared with all other gambling activities surveyed²⁴. Ensuring that Games continue to pose a low risk of harm to Participants may entail specific protective measures in the Licensee's approach to products and channels (see Sections 16 (Channels) and 17 (Portfolio)), marketing and advertising, and engaging with Participants, including complaints and customer support. Where new Games or channels are developed, it is important that the Licensee considers any potential risks to Participant protection and mitigations that might be required. In their approach to protecting Participants, Applicants should have regard to the National Strategy to Reduce Gambling Harms²⁵.

Under the National Strategy to Reduce Gambling Harms, the Commission is bringing together health bodies, charities, regulators and businesses to deliver against two strategic priority areas:

- Prevention and education – making significant progress towards a clear public health prevention plan which includes the right mix of interventions.
- Treatment and support – delivering truly national treatment and support options that meet the needs of users.

As part of this strategy, the Commission seeks to appoint a Licensee that is committed to supporting the health and wellbeing of those affected by gambling-related harms (where attributable in whole or in part to play on the National Lottery), as well as their friends, families, communities and wider society. This will include contributions to Research, Prevention and Treatment of gambling-related harms as outlined under the requirements section below.

National Lottery products must not be made available to Participants under the Legal Age Limit and appropriate measures and controls must be in place to prevent underage play. Applicants should note that DCMS held a consultation seeking views on whether to raise the minimum age for playing National Lottery games between July and October 2019. The responses are currently being considered. DCMS aims to formally respond in Autumn 2020²⁶.

²⁴ <https://www.gamblingcommission.gov.uk/PDF/survey-data/Gambling-behaviour-in-Great-Britain-2016.pdf>

²⁵ <https://www.reducinggamblingharms.org/>

²⁶ <https://www.gov.uk/government/consultations/consultation-on-the-minimum-age-for-playing-national-lottery-games>

11.2 **REQUIREMENTS**

The Licensee is required to do everything it can to ensure that the interests of every person who plays, engages with or is exposed to the National Lottery are protected.

It is important that when addressing this theme in their Application, Applicants have regard to all of the criteria relevant to an assessment of an Application and the requirements of the Fourth Licence, including the following as a minimum.

11.2.1 Participant Protection Strategy

- The Licensee will be required to adopt and implement a Participant Protection Strategy covering at least the aspects of protecting Participants' interests set out in Sections 11.2.2 – 11.2.8 below as a minimum.
- The Licensee must maintain its Participant Protection Strategy throughout the Fourth Licence Term, ensuring ongoing alignment to Best Practice, which is currently considered to include the National Strategy to Reduce Gambling Harms.

11.2.2 Preventing underage play and not encouraging excessive play

- The Licensee must not encourage excessive play by anyone.
- The Licensee must do everything it can to identify, offer and provide support to Participants who engage - or are likely to engage - in excessive play in the National Lottery.
- The Licensee is required to do everything it can to prevent underage play and protect those at risk of excessive play. The Commission anticipates this would include vulnerable Participants and problem gamblers.
- There must be sufficient controls in place to prevent underage players from participating in Games.
- Participants should be provided with information to support responsible gambling and policies; processes and procedures should be in place to prevent excessive play.
- The Licensee is required to provide Participants with a broad suite of self-control and self-exclusion tools, including multi-operator national self-exclusion schemes, that are easily accessible, usable and reasonably adaptable.

11.2.3 Research, Prevention and Treatment of gambling-related harm

- The Licensee is required to provide an annual financial contribution to one or more organisations (to be approved by the Commission) that are involved in Research, Prevention and Treatment of gambling-related harms. Alternatively, or in addition to the financial contribution, the Licensee may contribute through equivalent measures, which must deliver or support research into the prevention and treatment of gambling-related harms, harm prevention approaches and treatment for those harmed by gambling attributable in whole or in part to play on the National Lottery.

11.2.4 Games and branding

- The Licensee is required to ensure that advertising, marketing and Game design are not detrimental to Participant interests.
- The Licensee is required to ensure that Game tickets and plays will not be priced at a level which the Commission considers unreasonably high.

11.2.5 Use of Lottery Data

- The Licensee must not, and must not permit any person to, use Lottery Data in a manner which might cause damage to Participants' interests.

11.2.6 Information for Participants

- The Licensee must do everything it can to ensure that full, accurate and up to date information relating to the National Lottery is made easily available, in a variety of formats, to any Participant. This must include a telephone line or other method through which a Participant can ask questions about the National Lottery without being charged (whether by way of a premium rate attaching to that telephone line or otherwise) by the Licensee. Information which is provided in Wales must be made available in Welsh as well as English.

11.2.7 Complaints and redress

- The Licensee is required to handle complaints effectively. Participants should be able to pursue complaints easily and free of charge and complaints must be dealt with quickly and openly.
- Participants must be provided with access to an independent dispute resolution mechanism in line with Condition 8.10 of the Fourth Licence (Protecting Participants' Interests).

11.2.8 Prizes and prize winners

- The Licensee is required to make accurate Prize payments.
- The Licensee must do everything it can to ensure that Participants can easily find out, free of charge, whether they have won a Prize and, if so, how they should claim it.
- The Licensee must ensure that the identity of Prize winners remains confidential, unless the Prize winner consents in writing to their identity being made public, or the Licensee is legally required to disclose their identity.
- The Licensee is required to provide support and assistance to any prize winner who wins a prize that to them is potentially life changing. Such support and assistance should be cognisant of the possibility that what constitutes a 'life changing' prize may vary depending on participants' personal circumstances.

12 GOOD CAUSES

12.1 CONTEXT

12.1.1 Incentive Mechanism

The way in which net revenues from the sales of National Lottery products is shared between Good Causes and the Licensee is determined in accordance with the formulae set out in Schedule 5 of the Fourth Licence (Good Causes Contribution), the “Incentive Mechanism”. The Commission’s approach to designing the Incentive Mechanism is intended to ensure that the Licensee is incentivised to maximise Good Causes Contribution throughout the Fourth Licence Term by aligning Licensee profits to the same measure. The Commission seeks to award the Fourth Licence to the Proposed Licensee identified in the Phase Two Application which proposes the highest credible and deliverable Good Causes Contribution for the Fourth Licence whilst first ensuring support for the Commission’s Statutory Duties of propriety and protecting Participants’ interests.

The Incentive Mechanism is based on a calculation of Surplus. Any Surplus will be shared between Good Causes and the Licensee according to a fixed formula for the duration of the Fourth Licence Term.

The Surplus for Licence Year t (S_t) is calculated as follows:

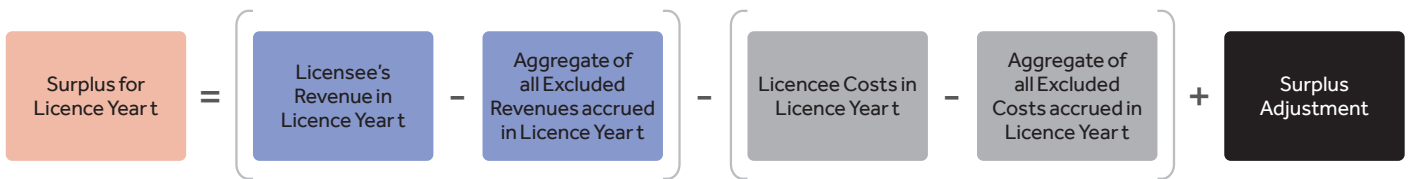


Figure 10: Surplus calculation for Licence Year t (S_t)

For further detail relating to Incentive Mechanism calculations, please see Schedule 5 of the Fourth Licence (Good Causes Contribution).

12.1.2 Good Causes Contribution

The annual payment from the Licensee to Good Causes is known as the Good Causes Contribution which will be calculated annually. It is made up of a Fixed Contribution and a proportion of the Surplus, as outlined in a simplified formula below.

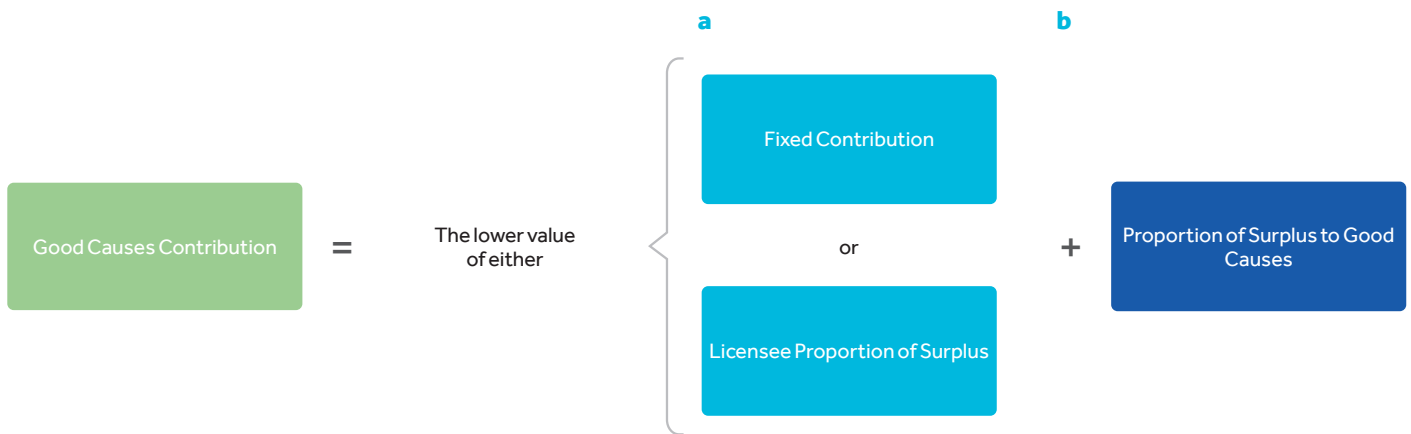


Figure 11: Calculation of Good Causes Contribution Licence Year t (St)

The Good Causes Contribution will be made up of:

a) A Fixed Contribution (£) (determined by the Commission as set out in Appendix 1 to Schedule 5 (Good Causes Contribution), Table 1 of the Licence)

The Licensee will be required to pay an annual Fixed Contribution to Good Causes as part of their Good Causes Contribution. The Fixed Contribution is fixed at £75m in each Licence Year (including during any Contingency Period) and will be indexed by CPI. There will be no requirement for the Licensee to make payments to Good Causes until Start of the Fourth Licence. The payment of the Fixed Contribution will be made from the quantum of the Licensee’s Proportion of Surplus (£). In the event that the Licensee’s Proportion of Surplus (£) is less than the value of the Fixed Contribution, the Fixed Contribution will be equal to the value of the Licensee’s Proportion of Surplus (£).

b) A Proportion of the Surplus (%) to Good Causes

The proportion of the Surplus paid to Good Causes as part of the Good Causes Contribution will be fixed in line with the Licensee’s Proportion of Surplus (%).

In the highly unlikely event that the Licensee’s Proportion of Surplus is less than the value of the Fixed Contribution, the Good Causes Contribution will be equal to the Surplus. Applicants should note that they cannot propose a Licensee’s Proportion of Surplus which when applied to the Surplus, has a value lower than the value of the Fixed Contribution.

Applicants should refer to Schedule 5 (Good Causes Contribution) of the Fourth Licence for the full formula that should be used to calculate the Good Causes Contribution.

Adjustments to the Surplus will apply in certain events during the Fourth Licence Term as set out in Schedule 5 (Good Causes Contribution) of the Fourth Licence. For example, adjustments may be used to address changes in Lottery Duty and/or changes in VAT arrangements during the Fourth Licence Term. The adjustments are intended to ensure appropriate and accurate calculation of the Good Causes Contribution, and to mitigate the impacts on the Licensee’s cost base from potential changes in Lottery Duty and/or changes in VAT arrangements.

12.1.3 Taxation Regime

At time of writing, Lottery Duty is 12% and the standard rate VAT is 20%. For the purposes of the Competition, these are assumed to remain the same.

Applicants should note that National Lottery ticket sales are currently exempt from VAT, meaning that the Licensee cannot reclaim VAT on this activity.

12.1.4 Payment Scheduling

As set out in Condition 15 (Payments to Good Causes) and Schedule 5 (Good Causes Contribution) of the Fourth Licence, at the end of each Licence Year, the Licensee will estimate its annual Good Causes Contribution for the next Licence Year (the Estimated Annual Payment) based on its best estimate of the revenue and costs during that Licence Year. As part of this process, the Licensee will also produce a schedule of weekly payments to be made to Good Causes during the next Licence Year.

The weekly payments will be based on:

1. an apportionment of the Fixed Contribution amount that is due for the relevant Licence Year; and
2. an apportionment of the Licensee’s estimate of the proportion of the Surplus to Good Causes for that Licence Year, which may vary each week depending on the Licensee’s best estimates of its revenue and costs in that week.

Following the end of each Licence Year, the estimated amounts paid weekly will be reconciled against the actual Good Causes Contribution for that Licence Year and a reconciliation adjustment (including interest) will be made.

12.1.5 Annual Overpayments and Annual Under Payments

Given the estimation process described above, the value of the actual Good Causes Contribution will not be determined until sometime after the end of the relevant Licence Year. Therefore, following a reconciliation process after the end of each Licence Year, the Licensee may be required to make an additional payment to Good Causes to address an Annual Underpayment (plus interest) in the previous Licence Year. If, however, the reconciliation process identifies that there has been an Annual Overpayment in the previous Licence Year, Scheduled Weekly Payments made by the Licensee will be decreased to reflect that Annual Overpayment (plus interest). For more details please refer to Licence Conditions 15.3 and 15.4 (Payments to Good Causes).

12.1.6 Restatements

If the Licensee's audited financial statements restate figures reported for any previous Licence Year, or the Licensee revises the revenues or costs data that it reports to the Commission in respect of any previous Licence Year, the Licensee must promptly provide the Commission with a report setting out details of the restatement or revision and information on the impact that restatement or revision has on the Actual Annual Amount paid in each Licence Year since the Start Date.

12.1.7 Contingency Period

The Fourth Licence includes a provision to allow the Commission to extend the Fourth Licence twice only, with the total extension period not extending 24 months. This is currently envisaged to be used in for unforeseen circumstances, such as where the award of the Fifth Licence is, for whatever reason, delayed. An extension would be a decision of the Commission (not a matter requiring consultation and negotiation) which must be notified to the Licensee no less than six months before the Fourth licence is due to expire. In the case of a contingency extension, the provisions of the Incentive Mechanism (including the Fixed Contribution) will continue to apply during the Contingency Period and will be a single Fixed Contribution value of £150m to cover the possible 2 year period, which would be pro-rated based on the actual duration of any extension(s).

12.1.8 Costs

Licensee Costs (minus Excluded Costs) are subtracted from Licensee Revenue (minus Excluded Revenue) to yield the Surplus, meaning that the Licensee's Proportion of the Surplus (£) (after deducting the Fixed Contribution) is similar to net profit (subject to Excluded Costs). Therefore, maximising turnover whilst spending efficiently will maximise the Surplus to be shared by Good Causes and the Licensee.

There are several categories of cost that may be incurred during the Fourth Licence Term that will be excluded from Licensee Costs and which are described in the Fourth Licence as 'Excluded Costs'. For the avoidance of doubt, this will mean that these costs are borne solely by the Licensee. Further details regarding these Excluded Costs can be found in Table 3 of Appendix 1 to Schedule 5 (Good Causes Contribution) of the Fourth Licence.

Any costs that the Commission determines to be Wasteful Costs will be Excluded Costs, and therefore borne solely by the Licensee. Further guidance on this is provided in the Regulatory Handbook.

12.1.9 Related Party Costs and Revenues

The Licensee can charge Related Party Costs and Related Party Revenues throughout each Licence Year as part of its Scheduled Weekly Payments. However, as part of the reconciliation process (undertaken after the end of the Licence Year), if the Commission is not satisfied that the Licensee has demonstrated that, in respect of any amount of Related Party Costs or Related Party Revenue, a reasonable operator of the National Lottery acting on the basis of information reasonably available to it at the time the costs or revenue accrued would have considered that the amount of costs or revenue represent Good Value for Good Causes, the Commission may substitute an amount of costs or revenue determined by the Commission as part of the reconciliation process. Please see Vol 3. Assurance and Reporting Requirements within the Regulatory Handbook for further information on Related Party Costs and Related Party Revenue and how reporting will be managed, Volume 2 for further detail on the adjustment process and Condition 5 (Fitness and Propriety of the Licensee) and Schedule 5 (Good Causes Contribution) in the Fourth Licence.

Any Related Party Costs that the Commission determines to be Wasteful Costs will be Excluded Costs, and therefore borne solely by the Licensee. Further guidance on this is provided in the Regulatory Handbook.

12.1.10 Lost or Stolen Scratchcards

Licence Condition 15 (Payments to Good Causes) requires the Licensee to ensure that any person who distributes Scratchcards which are lost or stolen whilst in their custody must pay the retail face value of such Scratchcards to the Licensee, who would then pay this amount to Good Causes along with the Scheduled Weekly Payment which immediately follows receipt of that amount. This condition is included to protect Good Causes from an event whereby Scratchcards are lost or stolen. Although revenues received by the Licensee in respect of lost and stolen Scratchcards are Excluded Revenue, the costs to the Licensee of recovering such amounts will flow through the Incentive Mechanism as a Licensee Cost. Further details can be found under Conditions 15.7 - 15.8 (Payments to Good Causes) in the Fourth Licence.

12.1.11 Contributions to National Lottery Promotion Unit (NLPU)

The NLPU is currently partially funded by Distributors, DCMS and the Current Operator. This will continue to be the case under the Fourth Licence, whereby the Licensee will fund one third (33.33%) of the total NLPU actual spend in respect of each Licence Year, to the extent that such NLPU actual spend will not exceed £5 million (including VAT) in any Licence Year.

12.1.12 Unclaimed Prizes

An Unclaimed Prize is a Prize that has not been claimed by a person entitled to do so within the time period allowed by the rules of the Game. The value of Unclaimed Prizes and any related interest will be promptly paid to Good Causes.

12.1.13 Ancillary Activities

Ancillary Activities are defined as any activity other than running the National Lottery and its operation. Any Ancillary Activities must be consistent with the requirements and relevant provisions of the Licence under Condition 14 (Activities other than running the National Lottery) and must be approved by the Commission prior to being undertaken. Unless otherwise agreed as part of the Commission's approval for specific Ancillary Activities during the Fourth Licence Term, the income the Licensee earns from any approved Ancillary Activities, and the costs that the Licensee incurs in carrying out Ancillary Activities, will be passed through the Incentive Mechanism.

12.1.14 Recoverable Implementation Costs

Following Fully Implemented Commencement and once the amount of Recoverable Implementation Costs has been approved by the Commission, the Licensee can recover such costs during the remaining Fourth Licence Term through the Implementation Adjustment (Schedule 5 (Good Causes Contribution), Part B, paragraph 9).

12.1.15 End of Licence Protection

In order to minimise the risk that the Licensee does not, or is not able to, make payments in respect of liabilities owed following the end of the Fourth Licence Term, a financial commitment will be required from the Licensee in respect of a defined period following the end of the Fourth Licence Term. This commitment is designed to address the following two specific scenarios:

Good Causes Underpayment Arrangements

The first of these scenarios arises where there is an Annual Underpayment in respect of the final Licence Year which will not be identified until the reconciliation process has been completed following the end of the Fourth Licence Term. There is no further Scheduled Weekly Payment to account for this difference, as there would be for an Annual Underpayment identified during the Fourth Licence Term. As such, a mechanism is required for the Licensee to set aside sufficient funds during the Fourth Licence Term to ensure that any such Annual Underpayment will be paid following the end of the Fourth Licence Term.

The Licensee is required to propose Good Causes Underpayment Arrangements which address the issue of a potential Annual Underpayment in the final Licence Year. These arrangements (or such other arrangements as the Commission may direct) must be established at least 48 months before the End Date. The Good Causes Underpayment Arrangements are therefore to be developed during the Fourth Licence Term and Applicants are not required to submit solutions at ITA stage. The Commission will reserve a position where, if it cannot agree an approach with the Licensee, then the Commission can determine the Good Causes Underpayment Arrangements.

For illustrative purposes only, in determining a potential approach to estimating the appropriate amount to be set aside as part of Good Causes Underpayment Arrangements to address any potential Annual Underpayment in the final Licence Year, historical data on the values of historical underpayments in any given Licence Year may be considered. In addition to this, it may be appropriate to also consider whether an uplift to historical data would be required to provide Good Causes further protection against a potential Annual Underpayment in the final Licence Year.

Outstanding Liability Fund (OLF)

The second scenario arises if the Licensee incurs a financial penalty as a result of a breach of the Fourth Licence. Enforcement action will typically take a period of time to progress and there is a possibility that the financial penalty will not be determined until after the end of Fourth Licence Term. In order to ensure all fines and penalties payable by the Licensee after the End Date are paid, a financial commitment mechanism will be put in place prior to the end of the Fourth Licence, which will remain in place until the second anniversary of the End Date.

The Licensee is required to propose a financial commitment mechanism that will provide protection (e.g. via escrow or similarly ringfenced or secured capital) to cover these liabilities to the satisfaction of the Commission by the start of Licence Year 6. This is therefore to be developed during the Fourth Licence Term and Applicants are not required to submit solutions at ITA stage. The Commission will reserve a position where, if it cannot agree an approach with the Licensee, then the Commission can determine the form of Outstanding Liability Fund (OLF) and the OLF Documents.

The OLF proposed by the Licensee should be in 'cash form' to cover the value of £10m. The Licensee will be expected to establish the OLF by no later than the beginning of Licence Year 7. The protection should have a straight-line profile, ensuring that the OLF is fully funded by the End Date.

The Commission will also have the ability to adjust the quantum of the amount to be paid into the OLF up to a maximum of £20m. This decision will be made by the Commission no later than the beginning of Licence Year 7 and re-visited by the end of Licence Year 9. The decision on whether to increase the amount to be paid to the OLF from £10m (up to a maximum of £20m), will be dependent on the Licensee's performance during the Fourth Licence Term. The Commission may, for example, consider and make a decision on an increased quantum which takes into account any financial penalties that have been imposed on the Licensee as a result of enforcement action taken by the Commission earlier in the Fourth Licence Term.

12.2 **REQUIREMENTS**

12.2.1 Good Causes Contribution

- The Licensee is required to make weekly payments to Good Causes, comprised of a Fixed Contribution and a proportion of the Surplus. Applicants should also expect to provide forecasts for Good Causes Contribution Weekly Payments

12.2.2 Contributions to National Lottery Promotion Unit (NLPU)

- The Licensee is required to fund up to one third (33.33%) of the NLPU's actual spend in respect of each Licence Year, to the extent such actual spend does not exceed £5 million (including VAT), in accordance with Licence Condition 13.6 (The National Lottery Brand and Reputation). This should be reflected in Applicant's Financial Response.

13 FINANCIAL STRENGTH

13.1 CONTEXT

The Licensee must do everything it can to ensure that it has sufficient financial and operational resources to run the National Lottery in accordance with the Fourth Licence throughout the Fourth Licence Term.

As part of Evaluation, the Commission will assess whether the Applicant's Proposed Licensee will be financially robust throughout the Implementation Period and Fourth Licence Term and that it will be able to mitigate any material financial or operational risks that may lead to a failure to meet obligations, including:

- Insolvency or financial distress arising from inability to meet costs incurred during the Implementation Period;
- Insolvency or financial distress arising from inability to meet operating or financing costs during the Fourth Licence Term; and
- Supply chain disruption to the National Lottery arising from Key Subcontractors failing to meet contractual obligations to the Licensee during the Fourth Licence Term (this should consider both the financial strength of the proposed supply chain and the Proposed Licensee's financial and operational strength to withstand any supply chain disruption).

Applicants should note that for the purposes of evaluating the financial strength of the proposed supply chain of the Licensee, the Commission will consider the financial strength of Key Subcontractors (including Proposed Trustee) which will enter into a Key Subcontract which relates to any Critical Function. Applicants should note that Related Parties who will enter into a Key Subcontract of this nature are Key Subcontractors the Commission will evaluate as part of this exercise.

13.2 REQUIREMENTS

13.2.1 Transition

- The Incoming Licensee is required to have sufficient resources to implement the Application and the Incoming Transition Plan and prepare to operate the National Lottery.

13.2.2 Fourth Licence Term

- The Licensee must do everything it can to ensure that it has sufficient resources to run the National Lottery in accordance with the Fourth Licence throughout the Fourth Licence Term.

14 PROTECTING PARTICIPANT FUNDS

14.1 CONTEXT

The Commission and the Licensee have a duty to protect Participants' interests; a key aspect of this is to protect prize winners and other Participants who have paid monies to enter, or for the purposes of future entries into, Games.

This means taking appropriate steps to ensure that monies will be readily available to meet the National Lottery's financial obligations to those persons in all foreseeable circumstances including if the Licensee suffers financial distress or in the event of Portfolio Volatility giving rise to unexpected multiple prize winnings. This includes through establishing and maintaining trust and bank account arrangements to safeguard funds which are paid to the Licensee in connection with the purchase of tickets in Games (the "4NL Trust").

The Commission intends that the 4NL Trust will have the same fundamental characteristics and purpose as the equivalent trust arrangements for 3NL. However, it is important to note that Applicants are not required to replicate the 3NL arrangements, rather that the Commission would favour 4NL Trust arrangements that avoid unnecessary complexity and reduce Licensee costs (which would otherwise reduce the Good Causes Contribution) as well as provide greater transparency and improved regulatory oversight.

With that in mind, the Commission has developed an outline of its intended approach to 4NL Trust which is reflected in a 'Short Form Trust Deed' provided to Applicants with this ITA. With the Short Form Trust Deed the Commission has provided an explanatory note and a request for feedback (the "4NL Trust Explanatory Note") from each Applicant and from the party which the Applicant intends should be the Trustee of the 4NL Trust if its Application is successful (the "Proposed Trustee"). The 4NL Trust Explanatory Note also specifies the Required Responses to be addressed by the Applicant in its Phase One Application.

Under the Fourth Licence, the Licensee will be required to establish 4NL Trust arrangements to safeguard funds which are paid to the Licensee in connection with the purchase of tickets in Games. To ensure that the 4NL Trust operates consistently with the Commission's Statutory Duties, and fulfils its purpose to protect Participant funds, the Commission has specified in the Proposed Form of Fourth Licence the Trustee Requirements which must be met by the Trustee, and the Account Bank Requirements which must be met by the Account Bank.

Each of the Short Form Trust Deed and the Long Form Trust Deed will specify Application Specific Provisions which can be proposed or tailored by Applicants to reflect the specific nature of their Application. Please refer to the 4NL Trust Explanatory Note for further details on Required Responses.

Applicants should note that the Long Form Trust Deed included in the Application of the Preferred Applicant will be the "Approved Form" Trust Deed for the Incoming Licensee, and entry into that document (and any changes to it) will be governed by the terms of the Enabling Agreement.

14.1.1 Engagement between Applicants and Proposed Trustees

The Commission has provided a "Supplier Directory" to Applicants in the VDR. This contains contact details of persons who have expressed an interest in becoming the Trustee for the 4NL Trust and who have consented for their contact details to be shared.

It will be the responsibility of each Applicant to select its Proposed Trustee, carry out the appropriate due diligence, identify their Proposed Trustee as a Key Subcontractor in their Application, ensure that the Proposed Trustee meets the Trustee Requirements and passes the relevant Fit and Proper Tests for Key Subcontractors (please refer to the Information for Applicants on Fit and Proper Checks document in the VDR for more information). No reliance must be placed on Commission for the inclusion of any person in the Supplier Directory. In addition, other persons may be equally or more suitable to be the Trustee for the 4NL Trust and so Applicants may consider persons outside of those provided in the Supplier Directory.

It will be Applicants' responsibility to demonstrate that their proposals meet the requirements in relation to the 4NL Trust.

14.1.2 Funds Protection Policies

Applicants will be expected to provide “Funds Protection Policies” as part of their Application. These will include a proposed methodology for the management of monies in a way which ensures that the “Funds Protection Outcome” (as described in Condition 16.1 of the Proposed Form of Fourth Licence), is met. Those policies must include, amongst other things:

- treasury, administration and investment policies;
- the making of provisions and creation of reserves (including reserves in respect of Prizes); and
- the approach to reporting, monitoring and measuring the financial exposures associated with the 4NL Trust.

Please refer to Condition 16 (Protecting Participant Funds) and the 4NL Trust Explanatory Note for further information.

14.1.3 EuroMillions

Currently, separate trust arrangements are in place in respect of monies paid by Participants in EuroMillions Games. If the Licensee offers EuroMillions in the UK as a Game in its portfolio, it will need to accede to those arrangements in place of the 3NL Licensee. Details of the EuroMillions trust arrangements have been made available to Applicants in the VDR.

14.1.4 Portfolio volatility

The 4NL Trust will be an important mechanism through which the Licensee ensures funds are available to meet liabilities to Participants, including in situations where the Licensee may need to call upon reserve sources of funding, for example where there are multiple prize winnings simultaneously or in quick succession.

In the context of the protection of Participants’ interests the Commission is, in particular, concerned with the risks of a scenario occurring in which available funds are exhausted so liabilities to Participants cannot be met. This will include both proposed management of Portfolio Volatility by the Licensee and the availability to the Trustee (in the event of Licensee failure) of funds to meet liabilities to Participants in the form of the Final Reserve Balance. Applicants are required to propose the amount of that balance.

In addition, in relation to the Portfolio Business Plan Area, the Commission will evaluate the implications of Portfolio Volatility (and management of this volatility) on the business performance of the National Lottery and the implications for Good Causes Contribution.

14.1.5 Treasury requirements

The Commission has provided Treasury Requirements in Condition 16 of the Proposed Form of Fourth Licence which must be met by the Licensee in relation to its management of Participant funds. These include the requirement that funds must be held by the Licensee in sterling and in bank accounts in the UK.

14.2 REQUIREMENTS

- The Licensee is required to establish a 4NL Trust that successfully protects the interests of Participants.
- The Proposed Trustee and Proposed Account Bank are required to meet the Trustee Requirements and the Account Bank Requirements. Applicants should refer to the requirements set out in the Proposed Form of the Fourth Licence, the Short Form Trust Deed and the 4NL Trust Explanatory Note for further details.

15 BRANDING

15.1 CONTEXT

15.1.1 The National Lottery Brand

The National Lottery has a strong and well-recognised brand, which is defined in the Fourth Licence as being “the National Lottery Logos, the name “the National Lottery”, the name of each Game and any and all characteristic get-up or styling used in connection with the National Lottery or any Game”.

The National Lottery Brand is distinctive, instantly recognisable and should be associated with core values including:

Funding of Good Causes: A strong selling point of the brand;

Trustworthy: Operated with trustworthiness and integrity;

Life changing: Offers Participants the opportunity to win life-changing prizes;

Safety: A safe place to play and participate;

Positivity: A brand that engenders positive sentiment among people;

National profile: Recognised and valued across the UK;

Inclusive: A brand that engenders diversity and inclusion.

Whilst the Commission owns the National Lottery Brand and other Core Lottery IP, the Licensee acts as custodian and has the right to use the National Lottery Brand and related Core Lottery IP to promote the National Lottery. The Commission seeks to provide the Licensee appropriate autonomy in the use, management and development of the Brand, subject to meeting the Statutory Duties and complying with the Licence generally including adhering to the Brand-related specific Licence Conditions 10 (Distributing National Lottery products in an appropriate way), 13 (The National Lottery Brand and reputation) and 19 (National Lottery IP).

15.1.2 Management of the National Lottery Brand

In order to maximise the Good Causes Contribution, the Licensee should consider how best to leverage the National Lottery Brand to both drive sales and, importantly, to communicate the role of the National Lottery in the funding of Good Causes. To facilitate this and to provide autonomy to the Licensee, the Fourth Licence does not include a minimum spend requirement on branding and marketing activities, other than the funding commitment of the NLPU (as set out under Section 12.1.11 (Contributions to National Lottery Promotion Unit (NLPU)) of this ITA). Branding and marketing spend is a Licensee Operating Expense in addition to the commitment to the NLPU; The Licensee will have to invest accordingly throughout the Fourth Licence Term to effectively manage the National Lottery Brand.

Management of the Brand is attributable to a series of elements that in conjunction, define and influence the National Lottery Brand. These elements include, but are not limited to:

- The National Lottery Logo(s)
- Driving positive linkages between the National Lottery and Good Causes
- Collaborating with Distributors to shape the image of the National Lottery
- Effective marketing strategies and suitable budget distribution
- Effective PR strategies – nationally, regionally and locally
- Effective marketing strategies to support distribution channels.

The National Lottery Brand is applied in several settings across the National Lottery landscape, and effective management of the Brand requires collaboration with a range of stakeholders.

For example, the Brand is used widely in association with funding of Good Causes; the Distributors therefore have a vested interest in the development and management of the brand. Distributors have a critical role in ensuring that the Good Causes Contribution is effectively used in the projects they allocate funding to, as well as championing the positive benefits delivered through Good Causes funding.

Another important stakeholder in the National Lottery landscape, as described in Section 2 (Foundations of the National Lottery), is the NLPU, which was established in 2003 to raise positive public awareness of National Lottery funding for Good Causes. It is governed by a Memorandum of Understanding between Distributors, the Licensee and DCMS. Again, this is an important stakeholder in the National Lottery family, that helps drive the link between the National Lottery and Good Causes.

Whilst the Licensee will have appropriate autonomy, it would not be possible to manage the Brand without reference to this broader landscape, and the Licensee will be required to engage with Distributors in order to promote the impact made by the Good Causes Contribution. In addition, the Licensee should also engage with the NLPU on Brand management and promotion of Good Causes funding throughout the Fourth Licence.

Applicants are required to submit their proposed Brand Management Plan as part of their Application which should set out their vision for the National Lottery Brand and overarching approach to managing the National Lottery

Brand throughout the Fourth Licence Term. As per Licence Condition 13.5 (The National Lottery Brand and reputation), the Licensee will be required to adhere to its Brand Management Plan throughout the Fourth Licence Term, unless it notifies the Commission of its intention to deviate from the plan.

15.1.3 Use of the National Lottery Brand

Use of the Brand by the Licensee will be subject to the conditions set out in the Fourth Licence. For example, the National Lottery Brand must be kept separate from the brand or logo of any other third party (other than a Good Causes Distributor), unless otherwise legally required or where approved in advance by the Commission. Use of the National Lottery Brand for non-National Lottery purposes is also prohibited without the Commission's consent.

Whilst there are restrictions on use of the National Lottery Brand set out in the Fourth Licence, the Commission wants to ensure that there is the opportunity for creative use of the Brand under the Fourth Licence, as long as this remains consistent with the Commission's Statutory Duties and regulatory framework. The Commission recognises that this may involve use of the National Lottery Brand alongside other suitable brands, for example for promotional purposes or to drive sales synergies (e.g. Promotional Prizes). As per Condition 13.2 (The National Lottery Brand and reputation), prior approval will be required by the Commission, ahead of co-branding activities, which will entail the Licensee providing rationale and benefits for the co-branding proposition and assurance that the co-branding will not go against the Commission's first two Statutory Duties. The Commission will agree this approach with the Incoming Licensee during the Implementation Period. Such approval will not be required for use of the Brand in retail outlets where it will naturally appear alongside the branding of retail outlets selling National Lottery products.

Throughout the Fourth Licence, the Licensee will have the autonomy to invest in the National Lottery Brand to ensure that it is developed in accordance with changing consumer trends and preferences, to ensure that the Brand is protected and contributes to strong sales, and the promotion of Good Causes. It should also be noted that the Brand will continue to be integral to the National Lottery's success beyond the Fourth Licence, and this should be an important consideration for the Licensee.

15.1.4 Monitoring Brand health

The Commission has set out an indicative set of Key Performance Indicators (KPIs) against which it will monitor the health of the National Lottery Brand throughout the Fourth Licence, as set out in section 14 of the Regulatory Handbook and Condition 13 (The National Lottery Brand and reputation). Applicants also can propose KPIs as part of their Brand Management Plan which will be incorporated into the Monitoring Performance Framework during the Implementation Period. Broadly, the themes covered by these KPIs should include:

- Brand awareness and recall;
- Overall sentiment towards the Brand;
- Brand perceptions related to Good Causes; life-changing; safety; trustworthiness; positivity; national profile; diversity and inclusion;
- Brand loyalty;
- Diversity and inclusion.

Additionally, continuity in the method and tracking of Brand health between the Third and Fourth Licence, in order to provide benchmarking and trend analysis between the two Licences, should also be considered in Applicant responses. Applicants have access to the current KPI set used to monitor Brand health and method for tracking the KPI set in the VDR. Finally, monitoring of Brand health should include broader industry benchmarks, market tracking and monitoring.

15.2 REQUIREMENTS

It is important that when addressing this theme in their Application, Applicants have regard to all of the criteria relevant to an assessment of an Application and the requirements of the Fourth Licence, including the following as a minimum. The Licensee is required to use, manage and develop the National Lottery Brand, and associated Core Lottery IP, in accordance with conditions specified in the Fourth Licence;

- The Licensee is required to ensure that the National Lottery Brand is used independently from the Licensee's brand or the brand of any third party unless one of the exceptions specified in the Fourth Licence applies;
- The Licensee is required to ensure that Participants can easily access information on the proportion of the National Lottery Distribution Fund which is allocated to expenditure on each of the arts, sport, communities and national heritage (or such other areas of expenditure as are required by the Act from time to time);
- The Licensee is required to actively engage with Distributors with a view to facilitating Participants' understanding as to how the Good Causes Contribution will be used;
- The Licensee is required to implement and maintain a Brand Management Plan;
- The Licensee must do everything it can to ensure that the way in which National Lottery products are promoted, sold, and made available does not damage any of the Matters to be Protected.

16 CHANNELS

16.1 CONTEXT

16.1.1 Distributing the National Lottery

The variety of distribution channels that Participants can access to play the National Lottery has evolved since the inception of the National Lottery. Managing the distribution channel mix will be a key factor in the success of the National Lottery throughout the Fourth Licence, as Participant trends change in the face of technological and societal developments (such as those presented by the COVID-19 pandemic – further detail can be found in the Monthly Analysis of COVID-19 in the VDR). It will be imperative for the Licensee to find the right balance between ensuring its portfolio of Games is accessible to Participants, whilst helping maximise the Good Causes Contribution.

Whilst the Licensee should maximise the appeal and reach of the National Lottery throughout the UK, it must do so upholding the highest standards of protecting Participants' interests. All distribution channels operated by the Licensee must comply with applicable law and regulation, and with the provisions of the Fourth Licence and the applicable Section 6 Licence. For further details on the legal and regulatory framework that govern the sale of National Lottery products please refer to the Section 6 Licensing Guidance Note.

16.1.2 National Lottery Retailers and Sales Outlets

A Sales Outlet is defined in the Fourth Licence as “any distribution channel at or through which Participants can purchase tickets or otherwise participate in a Game”, which means that Sales Outlets include both online and physical sales channels. A Retailer is “a person other than the Licensee who operates a Sales Outlet”. Therefore, a Retailer potentially covers persons operating various types of Sales Outlet, including for example online Sales Outlets or physical Sales Outlets, where these Sales Outlets are not operated by the Licensee. A Physical Sales Location is “a terminal, till or other item of physical equipment: (a) at or from which tickets in Draw-based Games can be purchased; and (b) which is branded, promoted or presented as permanent physical location from which tickets in Draw-based Games can be purchased”, meaning a Physical Sales Location is a type of physical Sales Outlet.

The physical retail network is a critical element of the National Lottery infrastructure with c. 70% of sales (prior to COVID-19) being made through Physical Sales Locations with a shift in channel preference as an impact of COVID-19 (further detail can be found in the Monthly Analysis of COVID-19 in the VDR). The Fourth Licence contains a postcode-based obligation, as per Condition 9.2 (Ensuring Access to the National Lottery), for there to be at least one Physical Sales Location per postcode district (with over 2,000 residents) throughout the Fourth Licence Term, where tickets in the Draw-based Game operated by the Licensee in accordance with Licence Condition 11.2 (Having an appealing but safe portfolio of Games) are available to be purchased. This is to help ensure that those who are unable to play online, or prefer not to, will continue to have reasonable access to the National Lottery. As of the 2011 Census, there were c.2,500 postcode districts with over 2,000 residents.

There will be no additional requirement to maintain a minimum total number of Physical Sales Locations, allowing the Licensee flexibility to determine the optimal channel mix to maximise the Good Causes Contribution. For the avoidance of doubt, Physical Sales Locations may be provided by a variety of different delivery mechanisms at the discretion of the Licensee (which may/may not include a dedicated lottery 'terminal' as used by the Current Operator).

16.1.3 Retailer management

The effective management of Retailers is necessary for both promotion of the National Lottery Brand, as well as maximising the Good Causes Contribution. To provide the Licensee with the required flexibility to manage its Retailer network, the Commission is not imposing prescriptive requirements on Retailer commission and management. The Licensee will have autonomy to set an appropriate commission structure and governance regime that in turn incentivises Retailers to sell National Lottery products appropriately and effectively.

The Licensee will also be required to establish and operate a Retailer Charter for its communication and engagement with its Retailer network. The Licensee has the autonomy to set up the charter but should consider inclusion of how the Licensee will engage with Retailers on material contractual points (e.g. changes to retail commission, methods of communication and termination of Sales Outlets).

16.1.4 Participant protection safeguards for channels

There are several restrictions on sales channels as per the National Lottery Regulations:

- National Lottery products cannot be sold in gambling/betting premises;
- National Lottery products cannot be sold in a street;
- National Lottery products cannot be sold in a person's home;
- There are restrictions on the sale of National Lottery products at vending machines; and
- National Lottery products cannot be sold to underage Participants.

Any new channels, or changes to channels, that involve the use of Participant Data (e.g. for personalisation) must also reflect applicable law and regulation and the conditions of the Fourth Licence. In addition, all proposed changes to channel types or proposed new channel types must be assured by the Licensee throughout the Fourth Licence Term. The specific details that should be submitted to the Commission and overarching principles for managing changes to the channel mix, are set out in Licence Condition 10 (Distributing National Lottery products in an appropriate way).

16.2 REQUIREMENTS

It is important that when addressing this theme in their Application, Applicants have regard to all of the criteria relevant to an assessment of an Application and the requirements of the Fourth Licence, including the following as a minimum.

16.2.1 Physical Sales Locations

- The Licensee is required to do everything it can (taking account of normal business opening hours, reasonable maintenance downtimes and unavoidable businesses interruptions) to ensure that tickets in the Draw-based Game(s) operated by the Licensee in accordance with Licence Condition 11.2 (Having an appealing but safe portfolio of Games) are available to be purchased from a Physical Sales Location in every postcode district (a postcode district is the first half of a postcode, for example UB7 from UB7 0EB), which has more than 2,000 residents. Throughout the Fourth Licence Term, the Licensee will be expected to meet this requirement according to the latest available postcode district population estimates published by the Office of National Statistics or equivalent organisation.

16.2.2 Channel strategy and management

- The Licensee is required to adopt and implement a Distribution and Portfolio Strategy (per Licence Condition 9.6 (Ensuring Access to the National Lottery)).
- The Licensee must do everything it can to ensure that persons located outside of the UK cannot participate in the National Lottery, unless the Commission has approved in writing specific circumstances in which such access may be permitted.

16.2.3 Retailer management

- The Licensee is required to establish and operate a Retailer Charter for its communication and engagement with its Retailer network throughout the Fourth Licence (as per Condition 10.5 (Distributing National Lottery products in an appropriate way)).

17 PORTFOLIO

17.1 CONTEXT

17.1.1 Maximising appeal of the National Lottery portfolio

The National Lottery offers a range of Games. The Licensee will be expected to continue to develop the Games portfolio in line with section 6 of the Act, and evolving consumer trends and technological developments. The Licensee is required to seek approval for all Games, whether new or continuing, through the Section 6 licensing process. This will be an ongoing requirement throughout the Fourth Licence for any new Games proposed by the Licensee during the Fourth Licence Term. When deciding whether to approve such Games/Game changes, the Commission will consider each application against its Statutory Duties and the National Lottery statutory and regulatory framework. In addition to the Act, the Commission will have regard to the definition of a "Lottery" in the Gambling Act 2005, Directions and any other applicable regulations.

In the interest of facilitating innovation, the Commission will establish and, by the Implementation Period have in place, streamlined governance and approval processes for new Games and changes to existing Games proposed by the Licensee, whilst ensuring that appropriate safeguards remain in place, particularly in relation to new or novel Game features.

As part of the Competition, the Commission aims to mitigate the risk that an Applicant proposes and bases their Business Plan around a portfolio of Games that cannot be fully licensed when the Section 6 licensing process takes place during the Implementation Period. To achieve this, there will be a process during the Competition to provide feedback to Applicants on their proposed Game portfolios. For additional guidance on this process and broader context around the Section 6 licensing process, please refer to Section 3 (Licensing regime) and the Section 6 Licensing Guidance Note.

17.1.2 Protection of Draw-based Games

Draw-based Games are intrinsic to and have always been a key part of the National Lottery. For this reason, the Commission has set the requirement for the Licensee to ensure there is at least one Draw-based Game for the full duration of the Fourth Licence, which is to be made available throughout the UK (and the Isle of Man). This is to ensure that Draw-based Games remain a central feature of the National Lottery portfolio in future.

17.1.3 Participant protection safeguards

When operating and developing the portfolio of Games, the Licensee must comply with applicable law and regulation, including the Act. In their applications for Section 6 Licences, Applicants will be required to identify how they will ensure that the portfolio, and associated pricing, is not harmful to Participants and that prices are not unreasonably high. This should include measures to identify at risk Participants and mitigate the risks to them.

New Games or changes to Games that involve the use of Participant Data (e.g. for personalisation) must also reflect applicable law and regulation and the conditions of the Fourth Licence. Applicants should have in mind the requirements of the Fourth Licence which relate to Participant Protection when developing their solutions and strategies for the management of the National Lottery portfolio.

17.1.4 Portfolio Volatility

As set out in Section 14.1.3, Portfolio Volatility management is important to ensure funds are available to meet liabilities to Participants. Applicants will need to demonstrate how they will manage Portfolio Volatility for each Game and undertake statistical analysis to simulate the possible outcomes of their proposed Game portfolio, as well as identify a Final Reserve Balance capable of sufficiently mitigating the exposure and mitigating the risk of Portfolio Volatility. Further information can be found in Section 14.1.3 (Portfolio Volatility), the Short Form Trust Deed and the 4NL Trust Explanatory Note.

17.2 **REQUIREMENTS**

It is important that when addressing this theme in their Application, Applicants have regard to all of the criteria relevant to an assessment of an Application and the requirements of the Fourth Licence, including the following as a minimum.

17.2.1 Protection of Draw-based Games

- The Licensee is required to ensure that at all times the National Lottery portfolio includes at least one Draw-based Game which;
 - has a national profile across, and is only available in, the UK;
 - involves a Draw which occurs at least once a week; and
 - offers life-changing Prizes.

17.2.2 Management of National Lottery portfolio

- The Licensee is required to adopt and implement a Distribution and Portfolio Strategy (per Licence Condition 9.6 (Ensuring Access to the National Lottery)).
- The Licensee must ensure that, on the Start Date, the National Lottery includes the Start Date Committed Games (as per Licence Condition 26.2 (Starting to run the National Lottery under this Licence)).
- The Licensee is required to do everything it can to ensure that the portfolio of Games maximises the appeal and accessibility of the National Lottery to persons who are over the Legal Age Limit and persons who have not self-excluded, but does not damage any Matter to be Protected.



18 THE NATIONAL LOTTERY OPERATION

18.1 CONTEXT

The National Lottery is a complex operation and there are a range of operational capabilities required to successfully deliver it. As per Condition 17 (Licensee and its operations to be Fit for Purpose), the Licensee must do everything it can to ensure the National Lottery Operation is Fit for Purpose throughout the Fourth Licence. In addition, the Licensee will be required to ensure there are sufficient operational resources throughout the Fourth Licence to operate the National Lottery in accordance with the Licence. Below sets out some of the core capabilities required to deliver the National Lottery operation:

Operational resilience: The delivery of the National Lottery is dependent on effective implementation and management of strategies, policies, processes and procedures across the operation. Key operational areas include logistics (warehousing and distribution of National Lottery products), servicing Participants' needs, managing Retailers, and effectively managing cash flow across the National Lottery (from Participant ticket returns through to the distribution of prizes and Good Causes Contribution).

In addition to incorporating resilience into its operations, the Licensee will also be responsible for effective and timely performance and assurance reporting as per Conditions 23 (Providing Information and Assurance to the Commission) and 24 (Regulatory Oversight and Performance Management) of the Licence. This will include Exception reporting for any breaches of the Licence (unless the breach falls within a category agreed with the Commission in accordance with Condition 24.3 (Regulatory Oversight and Performance Management)), as well as an Annual Assurance Statement and Ad Hoc Assurance Statements (as required by the Licence or if directed by the Commission). For further detail on reporting requirements and guidelines please refer to the Proposed Form of Fourth Licence and the Regulatory Handbook. Applicants should also note that during the Implementation Period, the Commission will engage with the Incoming Licensee to define the reporting regime throughout the Fourth Licence, as per the requirements set out in the Monitoring Performance Framework.

Organisational Management: Throughout the Fourth Licence, the Licensee will have to ensure it has sufficient operational resources in place to run the National Lottery and ensure the operation is Fit for Purpose. To deliver this, the

Licensee will need to have the requisite capacity and capability in place throughout the organisation, underpinned by a cohesive culture and approach to employee and workforce management and development that ensures employees are competent in undertaking their roles. Additionally, the Licensee should consider how its recruitment and workforce management approach contributes to social value (in addition to Good Causes Contribution), incorporating practices such as employing a diverse workforce, effectively developing personnel and collaborating with the voluntary and community sectors across the operation.

Managing Lottery Subcontractors and Subcontracts:

The National Lottery supplier landscape is likely to mirror the complexity of the National Lottery operation and the multitude of capabilities required to deliver it. Where the Licensee enters into Lottery Subcontracts it will need to adhere to Fourth Licence requirements around the management of Lottery Subcontractors (as per Condition 21 (Contractors) of the Licence), which includes ensuring Lottery Subcontracts do not raise risk or harm to any Matter to be Protected or to the ongoing delivery of the National Lottery operation. The scope of products and services provided by Lottery Subcontractors will be dependent on the Licensee's operating model but could include a broad range of services including technology (hardware and software), marketing, logistics, property and vehicle leasing, printing (including specialist design), human resources and consultancy services (amongst others). It will therefore be important for the Licensee to effectively manage its Lottery Subcontractors and supply chain throughout the Fourth Licence Term to ensure all Lottery Subcontracts reflect Best Practice.

Applicants should note that all Lottery Subcontracts except Minor Lottery Subcontracts will be subject to the requirements of parts 21.4 to 21.9 and 21.11 to 21.13 under Condition 21 of the Licence (Contractors). Additional requirements specified in the Licence apply to Designated Lottery Subcontracts and to Key Subcontracts. During the Implementation Period, the Commission will engage with the Incoming Licensee to define which Lottery Subcontracts are defined as Designated and Minor.

Technology Operation: The Licensee will need to deliver an industry best practice Technology Operation with a combination of the appropriate technology, a well-run and experienced organisation, and high-quality processes.

18.2 **REQUIREMENTS**

It is important that when addressing this theme in their Application, Applicants have regard to all of the criteria relevant to an assessment of an Application and the requirements of the Fourth Licence, including the following as a minimum.

18.2.1 **Overriding requirement**

- The Licensee must do everything it can to ensure that the operation of the National Lottery, the performance of any Ancillary Activity and all Lottery Assets are Fit for Purpose.

18.2.2 **Operational resilience**

- The Licensee must do everything it can to ensure that it has sufficient operational resources to run the National Lottery in accordance with the Licence throughout the Term.
- The Licensee must adopt and implement strategies, policies, processes and procedures to ensure that business continuity of the National Lottery operation is maintained in all foreseeable circumstances.
- No later than 31 October in each Licence Year, the Licensee must provide to the Commission either:
 - an Unqualified Resilience Assurance Statement; or
 - a Qualified Resilience Assurance Statement.

18.2.3 **Employees**

- The Licensee must do everything it can, in accordance with Best Practice, to ensure that each member of Lottery Staff is honest, acts with integrity and is competent to undertake their role.

18.2.4 **Contractors**

- The Licensee must do everything it can to ensure that no Lottery Subcontract, or action taken by the Licensee, a Licensee Subsidiary or a Lottery Subcontractor in connection with a Lottery Subcontract, gives rise to any risk or harm to:
 - any Matter to be Protected; or
 - the uninterrupted operation of the National Lottery both during and at the end of the Term.

18.2.5 **Providing information and assurance to the Commission**

- The Licensee must do everything it can to assure the Commission, in accordance with any requirements of the Commission, that it has performed its functions in the manner best calculated to achieve the outcomes set out in Condition 1.2 (Purposes and outcomes).
- No later than 15 November in each Licence Year, the Licensee must provide to the Commission a written Annual Assurance Statement certified as approved by the board of Directors of the Licensee. The Annual Assurance Statement must confirm that:
 - the Licensee has completed the Compliance and Risk Management Audit;
 - either the Licensee's board of Directors is satisfied that the Licensee has complied with this Licence during the previous Licence Year or, if it is not so satisfied, specify the breaches which have been identified and the steps which have been taken to address any matters giving rise to any breach; and
 - in the previous Licence Year, the Licensee has undertaken and implemented a review of all its strategies, policies, processes and procedures as required by Condition 23.2 (Providing Information and Assurance to the Commission).

18.2.6 **Independent Verification System**

- The Licensee must establish, maintain and operate an Independent Verification System ("IVS") to ensure the integrity of all Games and all financial transactions related to Participants, Sales Outlets, and Good Causes are made accurately and securely. The IVS must ensure the integrity of:
 - Ticket sales by Game and day
 - Subscriptions paid, by Game, day and Participant
 - Prizes paid and to be paid by Game, day and where known Participant
 - Account balances by day and Participant
 - Sales, prizes and invoices by day for each Sales Outlet
 - Valued stock positions (e.g. Scratchcards), their locations, and status.
- The Licensee must ensure that the IVS can be accessed directly by the Commission or its nominee. An example of when this would be required is to enable the Trustee of the 4NL Trust to manage the distribution of un-played wagers or unpaid prizes, Retailer settlements, and monies due to Good Causes in the event of a Licensee default.

18.2.7 Technology Operation

Technology and Data Architecture Strategy

- The Licensee must develop a Technology and Data Architecture Strategy prior to the start of the Licence and maintain this throughout the Fourth Licence Term. This strategy should support the Licensee in meeting its obligations under Condition 17.4 (Licensee and its operations to be Fit for Purpose (Technology Operation)).

Security Strategy

- The Licensee must develop, implement and maintain a Security Strategy in relation to the security of the National Lottery operation, the Technology Operation and Lottery Data. This must be aligned with Best Practice and:
 - the Fourth Licence specifically provides that this will require alignment with guidance from the National Cyber Security Centre; and
 - the Commission envisages it would be likely to cover physical and digital security of information and data, people and property, governance and policies, and the overall solution lifecycle from development through testing to production.

Applicable laws and standards

- The Licensee must comply with Licence Condition 4 (Compliance Obligations). In the context of the Technology Operation, compliance with Licence Condition 4 (Compliance Obligations) will include data protection laws and the Payment Card Industry Data Security Standard (PCI-DSS) or any successor to or replacement of this standard.

Other Technology Operation requirements

- The Licensee must comply with Licence Condition 17.4 (Licensee and its operations to be Fit for Purpose) which sets out requirements regarding the Technology Operation. Some of the factors the Commission considers are likely to be relevant to assessing compliance with this Condition are:

Sustainability

- Use of sustainable modern technologies
- An appropriate approach to technology maintenance that ensures that the Technology Operation is fully supported and maintained (if a failure to maintain or renew any components of the Technology Operation results in material, adverse impact upon any of the required outcomes described in the Fourth Licence, this is likely to indicate an appropriate approach is not in place).

Flexibility

- Ease of implementation of changes in usage, functionality, accessibility or technology to be implemented within appropriate timescales and at minimal operational risk.

Interoperability

- A degree of interoperability which facilitates the successful operation of the National Lottery.

Availability and Resilience

- Design, implementation and operation which provides the high levels of service availability and resilience, as are required to meet the expectations of users, service levels agreed with Retailers and other partners, and to deliver the Business Plan
- Appropriate levels of reliability, resilience and recoverability which ensure that:
 - failures of systems or components are rare;
 - when failures do occur, key services continue to function (possibly to a reduced level of function or performance); and
 - failures are resolved, and normal services resumed within a reasonable timeframe.

Capacity and performance

- Sufficient capacity to ensure adequate system performance, and throughput, as required to meet the expectations of users, meet service levels agreed with Retailers and other partners, and deliver the Business Plan.

Integrity

- Design, implementation and operation which ensure the overall integrity of the National Lottery operation.
- If:
 - a Game is played using software or other technology that is known by the Licensee to be materially defective or unable to ensure the integrity of the National Lottery operation or integrity is otherwise compromised; and/or
 - the Licensee fails to take all reasonable steps to identify incidents where integrity has been compromised as soon as possible after their occurrence and to minimise the impact of those incidents

this would be an indication that the integrity standard has not been met.

19 IMPLEMENTATION, TRANSITION AND EXIT

19.1 CONTEXT

The Commission attaches great importance to the orderly transition of the National Lottery from one licence period to the next with the minimum of disruption, as doing so is important to protecting the interests of Participants and maximising returns to Good Causes. This is the case in the context of the transition from the Third Licence to the Fourth Licence. It will also be the case in relation to the transition from the Fourth Licence to the Fifth Licence.

19.1.1 Implementation

As set out in Section 1.3 (Fourth Licence) above, there can only be one Section 5 Licence in place in respect of the operation of the National Lottery at any time. Therefore, after an Award Notification has been issued, the Incoming Licensee and the Commission will enter into an Enabling Agreement which will set out the responsibilities of the Incoming Licensee to implement its Application and cooperate with the Outgoing Licensee and the Commission and confirm that, subject to this, they will be formally granted the Fourth Licence.

19.1.2 Transition to the Fourth Licence

The Third Licence (in the case of the Outgoing Licensee) places, and the Enabling Agreement (in the case of the Incoming Licensee) will place, obligations on the Outgoing Licensee and the Incoming Licensee to cooperate with each other and the Commission with the aim of ensuring such an orderly transition is achieved.

It will be important that the transition plans of the Outgoing Licensee and Incoming Licensee are aligned and work together. The framework set out in clause 5 of the Cooperation Agreement aims to provide a structure for that alignment.

The arrangements for Implementation and transition to the Fourth Licence are further described in the Transition Guidance Note and below.

19.1.3 Transition to the Fifth Licence

The obligations on the Licensee for exiting the Fourth Licence are set out in Licence Condition 27 (Exit), with further detail in the Commission's Regulatory Handbook. The Exit arrangements in the Fourth Licence are intended to ensure the outcome that at any point throughout the Fourth Licence Term, there is an effective Exit Plan in place in the event that Exit occurs for a reason other than relicensing, such as revocation or early termination of the Fourth Licence.

As part of their Application, each Applicant is required to submit an Exit Plan which must set out how the Licensee will propose to manage an exit from the Fourth Licence for a reason other than relicensing, and how it will support the transition from the Fourth Licence to the Fifth Licence.

This means that the Licensee will be required to always maintain an Exit Plan detailing how they will support the transition from the Fourth Licence to the Fifth Licence. The Exit Plan at the start of the Licence Term will be the plan submitted as part of the Competition.

19.1.4 Third Licence

The obligations on the Current Operator associated with transition from the Third Licence to the Fourth Licence are set out in Condition 18 of the Third Licence.

19.1.5 Third to Fourth Licence Transition

The Commission intends to commence the Handover Period (referred to in condition 18.5 of the Third Licence), and expects the Current Operator to execute the Cooperation Agreement, in Phase Two. This will provide clarity for both the Current Operator and the Incoming Licensee and will ensure that the process of cooperation in connection with Transition can begin as soon as the Incoming Licensee is identified.

As part of their Application, each Applicant is required to submit an Incoming Transition Plan which must set out how it will manage the transition from the Third Licence to the Fourth Licence. The Commission expects Applicants to design a rigorous, structured and programmatic approach to transitioning to the Fourth Licence so to ensure a successful transfer. Each Incoming Transition Plan should contain detailed information on how the relevant Proposed Licensee plans to implement and assure all of the deliverables from the Application to enable the Fourth Licence to Start. The Enabling Agreement will require the Incoming Licensee to implement its Incoming Transition Plan.

19.2 IMPLEMENTATION AND TRANSITION DOCUMENTS

This section details the contractual arrangements that will govern the Implementation and Transition. It is a condition of submitting a valid Application that the Applicant executes a Deed of Commitment. The Deed of Commitment will require the Incoming Licensee to execute the Enabling Agreement and the Deed of Adherence to the Cooperation Agreement.

- **Deed of Commitment (DoC)** – This is the deed to be executed by each Applicant and provided as part of their Phase Two Application that would commit that Applicant, if selected as the Preferred Applicant, to procure that its Proposed Licensee executes the Enabling Agreement and the Deed of Adherence to the Cooperation Agreement. As described further in the Transition Guidance Note, the DoC will impose initial requirements on the Preferred Applicant regarding financial strength reflecting the Applicant's response to Section 22.5 (Financial strength), to ensure that the Incoming Licensee will have sufficient financial resources available to it to meet the obligations under the Enabling Agreement and the Cooperation Agreement.

The DoC also sets out a Reserve Applicant process and how it will apply, as described in further detail in the Transition Guidance Note.

- **Enabling Agreement (EA)** – This is the contract between the Commission and the Incoming Licensee setting out the responsibilities of the Incoming Licensee to implement its Application and Incoming Transition Plan, cooperate with the Outgoing Licensee and confirming that, subject to this, they will be formally granted the Fourth Licence. This agreement will be executed by the Commission and the Preferred Applicant's Proposed Licensee, following the Award Notification.
- **Cooperation Agreement (CA)** – This is the contract between the Current Operator, the Incoming Licensee and the Commission, which will provide for the orderly handover of the National Lottery to the Incoming Licensee in a way which ensures the continuity of the National Lottery and minimum disruption to Participants. The agreement will be executed by the Commission and the Current Operator in Phase Two of the Competition and the Incoming Licensee will execute a Deed of Adherence to the Cooperation Agreement following the Award Notification (see below).
- **Deed of Adherence (DoA)** – This is the mechanism by which the Incoming Licensee will agree to be a party to, and abide by the terms of, the Cooperation Agreement which will have already been executed by the Commission and the Current Operator in Phase Two of the Competition. The Incoming Licensee will execute the DoA at the time of executing the Enabling Agreement. The form of the deed to be executed is set out in Schedule 6 of the Cooperation Agreement.

19.2.1 Management of Implementation and Transition Transition Plans

The Enabling Agreement sets out a process and timeline for the finalisation and implementation of the Incoming Transition Plan. The Cooperation Agreement provides details of the timeline for the development and implementation of the Outgoing Transition Plan and how the two transition plans will be aligned.

After the parties enter into the Enabling Agreement and the Cooperation Agreement, the Incoming Licensee and Outgoing Licensee will exchange their Initial Transition Plans and will follow a process to agree a Joint Action Plan. The Third Licence contains a non-exhaustive list of items to be included in the Outgoing Transition Plan. There are equivalent requirements in the Enabling Agreement in relation to the Incoming Transition Plan. These requirements in relation to the Transition Plans are referenced in the Cooperation Agreement.

Costs associated with Implementation

The Enabling Agreement, together with the provisions of the Fourth Licence, provide a mechanism for the Incoming Licensee to recover certain costs associated with implementing its Application through the Implementation Adjustment applied in the calculation of the Surplus.

Applicants must provide details of their Estimated Implementation Costs as part of their Application. Section 8.5.2 (Costs incurred in connection with Implementation and Transition) describes how these will be taken into account in Evaluation.

During Implementation, the Incoming Licensee will be required to report regularly on costs incurred. Costs will only be recoverable through the Implementation Adjustment to the extent the Commission determines that these are Recoverable Implementation Costs.

See Section 19.2.2 (Transition Management – Recoverable and Estimated Implementation Costs) below for further information.

Fit and Proper Checks and Implementation / Transition

Fit and Proper Checks will take place in parallel with the ITA Stage (as described in Section 10.1 (Context)). In addition to identifying the Proposed Licensee's Lottery Beneficiaries and (where possible) Lottery Supervisors and Critical Function Employees, Applicants should (where possible) identify the Proposed Licensee's Transition Staff and submit the relevant declaration forms so that they can undergo Fit and Proper Checks. Applicants should refer to the Information for Applicants on Fit and Proper Checks, and clause 9 of the Enabling Agreement, for further information.

Applicants should note that delays in identifying Transition Staff, where Fit and Proper Checks are required, may impact transition and implementation (including relevant timeframes).

Governance arrangements for Implementation and Transition

The Enabling Agreement and Cooperation Agreement set out the governance mechanisms in place in connection with Implementation and Transition, as well as the Transition Governance Boards and Operational Committee forums which will be established. The terms of reference for these forums will be drafted by the Commission and shared during Phase One of the Competition. The Transition Governance Boards will be established to respond to Enabling Agreement and Cooperation Agreement matters separately with relevant parties in attendance.

Operational Committees will be established as specified by the Commission and relate to core operational areas of transition. It is also intended that both the Incoming Licensee and Outgoing Licensee will have a Programme Manager in place, as set out in clause 20 of the Cooperation Agreement, to take primary responsibility for managing deliverables, communication, and operational coordination. Notwithstanding these arrangements, the Commission retains responsibility for approving or directing certain matters and artefacts as set out in the Agreements.

Relationship with the Commission in connection with Implementation and Transition

Under the contractual arrangements described above, the Incoming Licensee will provide the Commission with regular status updates, evidence of testing and assurance activities, and milestone reporting to assure the Commission of a successful migration of the National Lottery operations and the Incoming Licensee's readiness to comply with and Start the Fourth Licence on the Start Date.

The Commission will use the Implementation Period and Transition activity as an opportunity to work with the Incoming Licensee and its senior management to build confidence that all parties are ready for the Start Date and in readiness for the move into an outcomes focused licence regime.

19.2.2 Transition Management – Recoverable and Estimated Implementation Costs

The Enabling Agreement (clause 28) and Schedule 5 of the Fourth Licence (Good Causes Contribution) set out the process for the management reporting and oversight, and the process for the Incoming Licensee to recover, certain costs which the Incoming Licensee incurs during the Implementation Period.

Recoverable Implementation Costs

The only such costs which the Incoming Licensee can recover are, "Recoverable Implementation Costs". These are defined in clause 28.1 of the Enabling Agreement as costs which:

1. are:
 - actually incurred, or accrued with respect to activities undertaken, during the Implementation Period by the Incoming Licensee; or
 - costs actually incurred after the Start Date which are:
 - Implementation Redundancy Costs; or
 - costs of undertaking any Outstanding Implementation Step; and
2. are reasonably, properly and efficiently incurred or accrued (as applicable) in connection with the implementation of the Application and the delivery of the Incoming Transition Plan; and
3. fall within an Implementation Cost Category, provided that no additional cost will be recoverable to the extent that the aggregate cost in any Implementation Cost Category exceeds the relevant Estimated Implementation Cost (see below).

Estimated Implementation Costs

Each Application must include details of the categories of cost, and estimated quantum of costs within each category, expected to be incurred during the Implementation Period, related to the implementation of the Application and the delivery of the Applicant's Incoming Transition Plan. These Implementation Cost Categories and Estimated Implementation Costs will be included in Schedule 6 of the Enabling Agreement submitted by each Applicant as part of their Application and Applicants should also include these costs in their Financial Template.

The Incoming Licensee will be expected to provide regular updates during the Implementation Period to the Incoming Transition Governance Board, including details of:

- a) all costs which it considers will be Recoverable Implementation Costs;
- b) an updated forecast of costs which it anticipates it will incur, and will become, Recoverable Implementation Costs;
- c) all deviations from previously provided forecasts in actual costs;
- d) a reconciliation relating to (1) to (3) above against the Estimated Implementation Costs.

In addition to the regular monthly reporting described above, if the Incoming Licensee incurs or accrues, or proposes to incur or accrue, a cost which:

- does not fall within an Implementation Cost Category; and/or
- when considered together with other costs incurred or accrued, and forecasted to be incurred or accrued, within an Implementation Cost Category would exceed the Estimated Implementation Cost for that Implementation Cost Category,

the Incoming Licensee must make a Change Proposal in accordance with clause 7 of the Enabling Agreement.

Where there are changes to the Estimated Implementation Costs or the Implementation Costs Categories as part of the change control process or pursuant to changes notified under clause 28 of the Enabling Agreement, this does not indicate that the Commission has determined that a cost is a Recoverable Implementation Cost for the purposes of Schedule 5 of the Fourth Licence (Good Causes Contribution). Whilst the Commission might indicate at the time where it has concerns regarding the reasons for incurring, or the scale of, such additional costs, the final assessment of the total Recoverable Implementation Costs will be confirmed following Fully Implemented Commencement (as per clause 28.6 of the Enabling Agreement).

Provisions for the recovery of Recoverable Implementation Costs are set out in Schedule 5 (Good Causes Contribution), Part B, paragraph 9 of the Proposed Form of Fourth Licence (defined as an Implementation Adjustment). The recovery of costs varies depending on whether the Incoming Licensee achieves Fully or Partially Implemented Commencement as of the Start Date. These two alternative scenarios are covered separately below.

Fully Implemented Commencement is achieved as of the Start Date

In this scenario, Recoverable Implementation Costs will include costs incurred during the Implementation Period and any Implementation Redundancy Costs incurred after the Start Date.

Within 120 days from the date on which the Commission has confirmed that Fully Implemented Commencement has occurred, the Fourth Licensee will provide a final statement of costs it proposes to be treated as Recoverable Implementation Costs. In accordance with clause 28.6 of the Enabling Agreement the Commission will conduct a final assessment and will then confirm the total amount of Recoverable Implementation Costs within 210 days of receiving that final statement. For the avoidance of doubt, in principle these costs may include operating expenditure as well as capital expenditure.

The Recoverable Implementation Costs will then be apportioned during the remaining Licence Years through the Implementation Adjustment as part of the calculation of Good Causes Contribution. The effect of this is that the cost will be shared with Good Causes rather than being borne by the Licensee alone. For the avoidance of doubt, "Licensee Costs" (as defined in the Fourth Licence) will not include any depreciation or amortisation related to capital expenditure incurred during the Implementation Period as that capital expenditure will (if determined to be a Recoverable Implementation Cost by the Commission) be recovered by the Fourth Licensee through the Implementation Adjustment.

Partially Implemented Commencement is achieved as of the Start Date

In this scenario, Recoverable Implementation Costs may include both costs incurred during the Implementation Period up until the Start Date and any additional costs incurred beyond this date in connection with Implementation Redundancy Costs or costs incurred by the Licensee in order to complete the agreed Outstanding Implementation Steps.

In the event of a Partially Implemented Commencement, Recoverable Implementation Costs will only be fully assessed following completion of the Outstanding Implementation Steps and after Fully Implemented Commencement has been confirmed by the Commission.

Following the Start Date, the Licensee will be expected to continue to identify and report on the specific costs relating to the delivery and implementation of the agreed Outstanding Implementation Steps. These will not flow through the Incentive Mechanism for the Fourth Licence, but will be treated as an Excluded Cost. Once the Licensee has completed those steps and Fully Implemented Commencement has been confirmed by the Commission, the Commission will follow the process described above to conduct a final assessment of Recoverable Implementation Costs.

The Commission will then confirm the total amount of Recoverable Implementation Costs. For the avoidance of doubt, in principle these costs may include operating expenditure as well as capital expenditure.

The total Recoverable Implementation Costs will be pro-rated and recovered across the remaining term of the Fourth Licence through the Implementation Adjustment (from the date of Fully Implemented Commencement, up to and including the tenth Licence Year). For the avoidance of doubt, Licensee Costs will not include any depreciation or amortisation related to capital expenditure incurred during the Implementation Period, or during the term of the Fourth Licence where this capital expenditure is attributable to the completion of Outstanding Implementation Steps as that capital expenditure will (if determined to be a Recoverable Implementation Cost by the Commission) be recovered by the Fourth Licensee through the Implementation Adjustment.

Implementation Redundancy Costs

In certain circumstances redundancy costs associated with staff that are transferred to the Fourth Licensee under TUPE regulations can be treated as a Recoverable Implementation Cost. In accordance with clause 28.7 of the Enabling Agreement they will be limited to costs associated with those redundancies that are identified during the Implementation Period and immediately actioned when the employees transfer to the Incoming Licensee (i.e. the payment is incurred within 90 days of the Start Date). Within 10 Business Days from the date on which the Incoming Licensee notifies the Commission that it intends to make redundancies as described above, the Incoming Licensee must provide to the Commission its best estimate of the costs it will incur in connection with those redundancies, which will be the Estimated Implementation Costs for that category of costs.

19.3 REQUIREMENTS

This section summarises the headline requirements for Applicants in connection with the execution and provision of documents set out in this section:

Competition

19.3.1 Deed of Commitment

- Applicants are required to provide a signed copy of the Deed of Commitment with their Phase Two Application.

Implementation Period

19.3.2 Enabling Agreement

- The Incoming Licensee is required to enter into the Enabling Agreement with the Commission as described above.

19.3.3 Cooperation Agreement

- The Incoming Licensee must execute a Deed of Adherence at the same time as entering into the Enabling Agreement thereby agreeing to be a party to and abide by the terms of the Cooperation Agreement as described above.

19.3.4 Incoming Transition Plan

- The Incoming Licensee must implement their Incoming Transition Plan, which will set out their approach to implementing a successful transition to the Fourth Licence.

Fourth Licence Term

19.3.5 Fourth Licence Exit Plan

- The Licensee is required to maintain an Exit Plan that sets out the arrangements for exiting the Fourth Licence at any period during the Term of the Licence.

20 ANCILLARY ACTIVITIES

20.1 CONTEXT

The Commission requires that the Licensee be an SPE. If the Licensee, or its subsidiaries, intend to do anything other than run the National Lottery and its operation, or use (or allow any other person to use) any Core Lottery IP, Licensee Assets, or the benefit of any Lottery Subcontract for any other purpose, this would be considered an Ancillary Activity. Ancillary Activities will only be permitted where the Licensee has first sought and obtained written approval from the Commission (see Licence Condition 14 (Activities other than the National Lottery)).

While Applicants are not required to include any Ancillary Activities as part of their Application and the primary focus of their Application should be on the business of running the National Lottery, if the Applicant intends to carry out any initiatives or activities which, whilst they may fall under the definition of an Ancillary Activity, are material in the context of their Application, they should propose such activities by responding to Section 22.11 (Ancillary Activities). Feedback on any such proposals included in Applicant's Phase One Applications will be provided by the Commission at the end of Phase One. Any proposed Ancillary Activities which are material in the context of an Application and which meet the Commission's requirements (as outlined in Section 8.8 (Ancillary Activities)) above, will be considered by the Commission during Evaluation, but will not be formally approved until the Implementation Period (see clause 12 of the Enabling Agreement for further information).

If an Ancillary Activity were to be rejected at competition stage, this would not prevent the Licensee from applying to the Commission for approval for a similar activity during the Fourth Licence Term, if they were able to address any concerns previously raised by the Commission.

The process for proposing Ancillary Activities during Competition will not hinder the Licensee's ability to put forward further Ancillary Activities for the Commission's consideration during the Fourth Licence Term, per the Conditions of the Fourth Licence. However, Applicants must not rely on the approval of any future submissions in their Business Plans.

20.2 REQUIREMENTS

Any Ancillary Activities proposed must be compliant with the Fourth Licence. In particular, Applicants should note the following requirements if they choose to submit any Ancillary Activities as part of their Application.

20.2.1 Approvals and liability

- The Licensee and its subsidiaries shall not undertake an Ancillary Activity without first seeking and obtaining the Commission's written approval.
- The Licensee must ensure that, in performing any Ancillary Activity, it does not result in the Commission or any Commission Staff or representatives of the Commission incurring any liability.

20.2.2 Treatment of revenues, costs and Good Causes Contribution

- The Licensee must ensure that, in performing any Ancillary Activity, it does not reduce the Good Causes Contribution.
- Ancillary Activities proposed at competition stage (because such Ancillary Activities are material in the context of an Application) must apply the standard approach to Licensee Revenue and Licence Costs set out in Schedule 5 of the Fourth Licence (Good Causes Contribution).
- Revenue and costs associated with Ancillary Activities put forward for approval during the Fourth Licence Term will be treated as Licensee Revenue and Licensee Costs in accordance with the Incentive Mechanism, unless different treatment for revenue and costs is agreed as part of the Commission's approval for that specific Ancillary Activity. Before the Commission agrees any bespoke treatment of revenue and costs, the Licensee will be required to demonstrate clear and compelling rationale for the specific Ancillary Activity to be treated in such a manner.

20.2.3 Matters to be Protected

- The Licensee must ensure that, in performing any Ancillary Activity, it does not damage the Matters to be Protected, namely:
 - the interests of Participants in the National Lottery
 - that the National Lottery is run with integrity and that Games are, and are perceived as being, honestly and fairly run and that Prizes are accurately awarded in accordance with the rules of each Game
 - the National Lottery Brand
 - the reputation of the National Lottery; and
 - the ability of the Licensee to otherwise comply with the Licence.

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21 YOUR APPLICATION

21.1 INTRODUCTION

Each Applicant is required to submit an Application drawn up in accordance with the requirements set out in this ITA. Applications will consist of a detailed Financial Response and the Applicant's qualitative ITA response that clearly explains the Applicant's proposed approach to running the National Lottery.

It is important that in formulating their Application, Applicants have regard to all the criteria relevant to an assessment of an Application and the requirements of the Fourth Licence. Applicants should include direct references to the relevant SoR section and/or Fourth Licence Condition; provide detail which clearly evidences how they are meeting each requirement; provide evidence that the response is credible, and provide evidence in support of all components of the Financial Template.

Qualitative Response

The Fourth Licence requires the Licensee to have in place several plans, strategies and other specified documents. The Qualitative Response described in Section 22 (Qualitative Response) requires the Applicant to submit a certain number of these documents, which will be evaluated. If the Applicant is successful, those documents will become the documents as referred to in the Fourth Licence and, without prejudice to the need to continuously improve and maintain relevance, will form the baseline against which the Licensee will be regulated.

The Enabling Agreement will set out the process by which documents submitted as part of the Application will be implemented as part of the Fourth Licence regime.

In addition, the Qualitative Response includes questions to which the Applicant must respond. Those responses will be considered in Evaluation.

Further detail can be found in Section 22 (Qualitative Response).

Financial Response

Each Applicant is required to submit a Financial Template as part of its Application. The Financial Template will be crucial to the overall Evaluation. In addition to setting out the Applicant's financial proposals, it will be used to assist in the credibility and deliverability assessment of the Business Plan and Proposed Good Causes Contribution. Applicants must ensure that the projections submitted within the Financial Template are based on the general assumptions set out in Section 23.3 (General assumptions) of this document as well as their own assumptions which should be set out in Supporting Narrative. Projections should also be consistent with all proposals set out in the Application.

The Financial Template will consist of a Base Case, Breakeven Case, Upside Case and Financial Strength Scenarios alongside financial and non-financial supporting evidence. The Financial Template has been provided by the Commission via Jaggaer.

Further detail can be found in Section 23 (Financial Response).

A summary of the required response can be found in Section 21.3 (Summary of response).

21.2 INSTRUCTIONS

General

- All questions must be answered for the Application to be compliant
- It is incumbent on each Applicant to ensure that it has returned all relevant documentary evidence to accompany its Application. Failure to do so may result in Applications being deemed non-compliant and the Applicant concerned excluded from the competition
- Each Applicant must ensure that all the information that it provides is complete and accurate
- Applications should be returned through Jaggaer in accordance with the instructions contained in this document
- The Commission reserves the right to request responses from Applicants to additional questions at any point during the Competition
- All Applicants should use the file naming convention: Applicant Name_Response Section Number_Section Name
- Applicants may provide appendices to their response but should note that Evaluation will be carried out on the basis of the response to each question set out within the page limit
- Appendices should use the file naming convention: Applicant Name_Response Section Number_Section Name_APPENDIX_Filename
- Each Applicant should ensure that it has completed the full submission checklist in Section 24.1 (Submission Checklist) before submitting its Application.

Qualitative Response

- Applicants should include data or other evidence wherever appropriate in support of their responses
- Responses must be provided in Arial 10 point
- Responses, including any diagrams, must not exceed the page counts specified in each question
- Any content included beyond the page count will not be considered in Evaluation
- Each Applicant should provide its response to each ITA response section in a separate document
- Please start each question on a new page
- Applicant responses should not be converted into PDF format.

Financial Response

- Applicants are expected to provide a Financial Template for the Implementation Period, the 10-year Fourth Licence Term plus 2-year Contingency Period. Only the Implementation Period and 10-year Fourth Licence Term will be evaluated
- Financial Response to be completed in line with the general assumptions set out in Section 23.3 (General assumptions)
- Applicants should ensure that a detailed breakdown of all its projected revenues and costs of delivering its proposals are captured in the Financial Template. Applicants must provide the full breakdown of projected revenues and associated costs. For further detail, please see Section 23 (Financial Response), where the Commission has set out (non-exhaustive) examples of associated revenue and cost categories.

21.3 SUMMARY OF RESPONSE

The table below provides a summary of the components of an Application. It is intended to provide a breakdown of the questions contained in the following sections, together with an indication of the principal area of Evaluation it will be considered as part of, its form of response and useful (non-exhaustive) reference points across the full suite of competition documents. Elements highlighted in the 'Required for Fourth Licence' column are those which are also required during the Fourth Licence Term as outlined above.

Qualitative Response															
Response Section	Question	Title	Principal area of Evaluation				Evaluation mechanism	Req. for Fourth Licence	Form of response				Useful references		
			Propriety, protecting Participants' interests, financial strength	Good Causes	Business Plan	Sub-area of Evaluation			Written	Financial Template	Other	Page limit	SoR Section	Licence Condition(s)	Regulatory Handbook /other
22.2 Propriety	Q1	Evidence of the SPE's registration in the UK	✓			Propriety	Pass/Fail		✓			1	10	14	
	Q2	Corporate Governance overview	✓			Propriety	Pass/Fail		✓			20	10	1, 4, 5, 6, 7, 14, 17, 22, 23, 24	9, 10, 15, 20, 21, 22
	Q3	Financial Crime, Anti-Money Laundering and Anti-Terrorist Financing response	✓			Propriety	Pass/Fail		✓			15			
22.3 Protecting Participants' Interests	Q4	Participant Protection Strategy	✓			Protecting Participants' interests	Pass/Fail	✓	✓			40	11	1, 8, 9, 10, 11, 12, 16, 29	8, 11, 12, 13, 20, 21, 22
	Q5	Details of how you plan to implement, manage, monitor, and adapt Participant Protection Strategy	✓			Protecting Participants' interests	Pass/Fail		✓			10			
22.4 Protecting Participant Funds	Q6	Phase One feedback on Short Form Trust Deed	N/A			N/A	N/A			✓		N/A	14	16	17, 22
	Q7	(4NL Trust) Required Responses	✓			Protecting Participants' interests	Pass/Fail		✓		✓	See 4NL Trust Explanatory Note			
22.5 Financial strength	Q8	Financing structure	✓			Financial strength	Pass/Fail		✓	✓	✓**	30	13	18	16, 20, 21, 22
	Q9	Financial standing of supply chain	✓			Financial strength	Pass/Fail		✓	✓	✓**	12			
22.6 Branding	Q10	Brand Management Plan	*		✓	Branding	Scored	✓	✓			80	15	10, 11, 13	13, 14
22.7 Channels	Q11	Channel mix component of Distribution and Portfolio Strategy	*		✓	Channels	Scored	✓	✓			50	16	9, 10, 11	12, Section 6 Licensing Guidance Note
	Q12	Retailer Charter	*		✓	Channels	Scored	✓	✓			4			

Table 14: Summary of response (1)

Notes:

(*) Applicants must demonstrate due propriety and protecting participants' interests across their full ITA Response. Applicants that do not do so will 'Fail' the relevant section of the ITA.

(**) Section 22.5 (Financial Strength) also requires completion of the Key Subcontractor Financial Strength Template and Financial Strength Supporting Evidence.

Qualitative Response																
Response Section	Question	Title	Principal area of Evaluation				Scoring mechanism	Req. for Fourth Licence	Form of response				Useful references			
			Propriety, protecting Participants' interests, financial strength	Good Causes	Business Plan	Sub-area of Evaluation			Written	Financial Template	Other	Page limit	SoR Section	Licence Condition(s)	Regulatory Handbook /other	
22.8 Portfolio	Q13	Distribution and Portfolio Strategy	*		✓	Portfolio	Scored	✓	✓			130	17	9, 10, 11	13, Section 6 Licensing Guidance Note	
22.9 The National Lottery Operation	Q14	Operating Model	*		✓	Operations	Scored		✓			80	18	12, 17, 18, 20, 21, 22, 23	16	
	Q15	Technology and Data Architecture Strategy	*		✓	Operations	Scored	✓	✓			90				
	Q16	Security Strategy	*		✓	Operations	Scored	✓	✓			25				
	Q17	Technology Operation	*		✓	Operations	Scored		✓			25				
22.10 Transition	Q18	Incoming Transition Plan	*		✓	Transition	Scored	✓	✓			100	19	26, 27	15, 17, Transition Guidance Note, EA/CA	
	Q19	Exit Plan	*		✓	Transition	Scored	✓	✓			30				
	Q20	Changes to the Form of DoC, EA and CA					N/A			✓	Feedback Form	N/A				
	Q21	Executed DoC									per Appendix 1 of DoC	N/A				
22.11 Ancillary Activities	Q22	Confirmation	Ancillary Activities will be Evaluated following guidance set out in Section 8.8 of the ITA					N/A		✓			N/A	20	14	22
	Q23	Details						Reviewed not scored		✓			15 (per Activity)			
	Q24	Risks						Reviewed not scored		✓			10 (per Activity)			
	Q25	Compliance						Reviewed not scored		✓			10 (per Activity)			
22.12 Additional Information	Q26	Risk Register	*		*	✓	Reviewed not scored		✓			N/A	N/A	N/A	N/A	
	Q27	Changes to the Proposed Form of Fourth Licence					N/A			✓	Feedback Form	N/A	N/A	N/A	N/A	

Table 15: Summary of response (2)

Notes:

(*) Applicants must demonstrate due propriety and protecting Participants' interests across their full ITA Response. Applicants that do not do so will 'Fail' the relevant section of the ITA.

Financial Response															
Response Section	Question	Title	Principal area of Evaluation				Scoring mechanism	Req. for Fourth Licence	Form of response				Useful references		
			Propriety, protecting Participants' interests, financial strength	Good Causes	Business Plan	Sub-area of Evaluation			Written	Financial Template	Other	Page limit	SoR Section	Licence Condition(s)	Regulatory Handbook/other
23.4 Base Case	Q28a	Base Case Cover Sheet	*	✓			Reviewed in line with Business Plan		✓			N/A	12	14, 15, Schedule 5	22
	Q28b	Base Case Supporting Financials	*	✓			Reviewed in line with Business Plan		✓	✓		N/A			
	Q28c	Base Case Supporting Narrative	*	✓			Reviewed in line with Business Plan	✓				150			
23.5 Breakeven Case	Q29a	Breakeven Case Cover Sheet	*			SRF	Reviewed as part of SRF		✓			N/A			
	Q29b	Supporting Narrative	*			SRF	Reviewed as part of SRF	✓				20			
23.6 Upside Case	Q30a	Upside Case Cover Sheet	*			SRF	Reviewed as part of SRF		✓			N/A			
	Q30b	Supporting Narrative	*			SRF	Reviewed as part of SRF	✓				20			
23.7 Financial Strength Scenarios	Q31	Financial Strength Scenarios	✓			Financial strength	Pass/Fail in line with financial strength		✓			N/A			
23.8 Additional Information	Q32	Financial Template assurance	*			N/A	Reviewed not scored	✓				N/A			
	Q33	Guidance to the Commission	*			N/A	Reviewed not scored	✓				10			
	Q34	Appointed Individual	*			N/A	Reviewed not scored		✓			N/A			

Table 16: Summary of response (3)

Notes:

(*) Applicants must demonstrate due propriety and protecting Participants' interests across their full ITA Response. Applicants that do not do so will 'Fail' the relevant section of the ITA.

22

QUALITATIVE RESPONSE

22.1 INTRODUCTION

This section contains several questions which either require the Applicant to submit a written response or to provide a document which is required by the Fourth Licence. Where a document is submitted which is required by the Fourth Licence, and without prejudice to the need to continuously improve and maintain relevance, that document as submitted will form a baseline against which the Proposed Licensee of the Preferred Applicant will be regulated in this area.

The answers to questions which require a narrative response will be evaluated but those responses will not be directly incorporated in the Fourth Licence.

All Qualitative Responses are required to be accompanied by supporting materials which demonstrate the credibility and deliverability of your proposals.

Please note the Commission reserves the right to clarify, supplement or amend the required responses at Phase Two.

22.2 PROPRIETY

In order to prepare your response to these questions, you may find it useful to refer to the following non-exhaustive list of references:

SoR Section(s)	10
Licence Condition(s)	1, 4, 5, 6, 7, 14, 17, 22, 23, 24
Regulatory Handbook Section(s)	9, 10, 15, 20, 21, 22

Table 17: Propriety references

Q1.

Please confirm and provide evidence that you have formed your Proposed Licensee, this being a Special Purpose Entity (SPE) established in the UK.

Your response should be no more than one page.

Please respond with one of the following forms of words:

Yes, I have formed an SPE established in the UK. This SPE is my Proposed Licensee. I have provided copies of evidence of the SPE's registration as a corporate entity, such as a Certificate of Incorporation and Articles of Association.

No, I have not yet formed an SPE. I understand that the Commission will not award the Licence to any Applicant who has not established an SPE in the UK and provided satisfactory evidence of its registration by the end of the Phase Two Response Period.

If you have formed your SPE, please provide copies of evidence of your SPE's registration in the UK as part of your Application and confirm that you have provided details of all Persons Needing to be Checked to the Commission for Fit and Proper Checks to take place.

If you have not yet formed your SPE at the time of submitting your Phase One Response, please provide further details of your plans to establish your SPE, including:

- Confirmation that you will establish the SPE in the UK
- Details of the planned timelines for establishing the SPE
- Organisational charts demonstrating the relationships that your proposed SPE will have with any proposed Lottery Beneficiaries
- Confirmation that you have provided details of all Persons Needing to be Checked to the Commission for Fit and Proper Checks to take place.

Organisational charts may be attached as appendices and are not counted towards the maximum page count.

Q2.

Please provide an overview of your proposed corporate structure and describe how you will operate and maintain a system of corporate governance, internal control and risk management that reflects Best Practice.

Your response should be no more than 20 pages.

Your response should demonstrate alignment with Condition 22 of the Fourth Licence (Ensuring Good Governance) and the application of the UK Corporate Governance Code to the environment in which the National Lottery operates.

As a minimum, your response should provide an overview of your proposed:

- **Corporate structure**, including how your proposed corporate structure, board leadership and company purpose will support long-term, sustainable success and achieve the outcomes of the Fourth Licence.
- **Division of responsibilities**, including how the proposed division of responsibilities will promote constructive challenge, objective decision-making and a culture of openness and debate.
- **Board composition**, including how the composition, succession and evaluation of the board of Directors will demonstrate diversity of skills, experience and knowledge.
- **Audit, risk and internal control**, including how you will adopt a formalised and transparent approach to audit, risk and internal control, ensuring:
 - competency and integrity in financial and narrative reporting
 - fair, balanced and understandable board assessments of the Licensee's position throughout the Fourth Licence Term
 - appropriate procedures to manage risk and oversee the internal control network
 - how your Audit Committee and Compliance and Risk Management Committee will support good corporate governance.
- **Remuneration**, including how your remuneration policies and practices will be aligned to the purpose, values and long-term success of the National Lottery.

Please note: You should ensure that all your projected revenues and costs of delivering associated with this proposal are captured in your Financial Template. In your Supporting Financials and Supporting Narrative you must provide the breakdown of projected revenues and associated costs and how these relate to your proposal. For further guidance, please see Section 23 (Financial Response) of this document.

You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register details in Section 22.12 (Additional Information) and are appropriately categorised to ensure they are evaluated correctly.

Q3.

Please describe how you will detect, manage, prevent and report against the risks associated with financial crime, in particular money laundering and terrorist financing.

Your response should be no more than 15 pages.

Your response should address the money laundering and terrorist financing risks presented both by transactions with Participants and by business-to-business relationships, and arrangements for the identification and reporting of money laundering and terrorist financing in accordance with the Proceeds of Crime Act²⁷ and Terrorism Act²⁸.

As a minimum, your response should:

- Provide a methodology for identifying the key money laundering and terrorist financing risks relevant to your operation on an ongoing basis, including:
 - **Threats:** identifying the individuals or entities that have the potential to cause harm.
 - **Vulnerabilities:** identifying those things that may be exploited by the threat or that may support or facilitate its activities.
 - **Consequences:** the impact or harm that the risks identified may cause.
- Provide details of the key money laundering and terrorist financing risks you have identified relating to your Business Plan, using the above methodology, and the associated mitigations.

²⁷ <https://www.legislation.gov.uk/ukpga/2002/29/contents>

²⁸ <https://www.legislation.gov.uk/ukpga/2000/11/contents>

- Describe how you will design and implement policies, procedures and controls to manage and mitigate the identified risks and ensure that known or suspected money laundering and terrorist financing activity is identified and reported, including:
 - **Responsibilities:** including, but not limited to, appropriate allocation of responsibility for ensuring that, when appropriate, information or any other matter leading to knowledge or suspicion of money laundering or terrorist financing is properly disclosed.
 - **Procedures:** including, but not limited to, reporting mechanisms, prize pay-out procedures and, where appropriate, termination of business relationships in the event of concerns regarding money laundering or terrorist financing.
 - **Training and communications:** reasonable steps to ensure that employees are aware of risks, procedures, and the potential consequences of breaches.
- Describe how you will monitor and improve the effective operation of policies, procedures and controls, including:
 - **Process improvement mechanisms:** how you will implement robust mechanisms to ensure policies, procedures and controls are carried out effectively and that weaknesses are identified, and appropriate improvements made.
 - **Changes in circumstance:** how you will conduct risk assessments for the introduction of new products or technology, new methods of payment, changes in Participant demographic and other material changes and ensure that policies, procedures and controls are reviewed, amended and implemented appropriately.

The Commission considers that each of the above elements must be satisfied as part of providing the Commission with the necessary assurance that the Licensee will operate the National Lottery with all due propriety.

Please note: You should ensure that all your projected revenues and costs of delivering associated with this proposal are captured in your Financial Template. In your Supporting Financials and Supporting Narrative you must provide the breakdown of projected revenues and associated costs and how these relate to your proposal. For further guidance, please see Section 23 (Financial Response) of this document.

You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register, details in Section 22.12 (Additional Information) and are appropriately categorised to ensure they are evaluated correctly.

22.3 PROTECTING PARTICIPANTS' INTERESTS

In order to prepare your response to these questions, you may find it useful to refer to the following non-exhaustive list of references:

SoR Section(s)	11
Licence Condition(s)	1, 8, 9, 10, 11, 12, 16, 29
Regulatory Handbook Section(s)	8, 11, 12, 13, 20, 21, 22

Table 18: Protecting Participants' interests references

Q4.

Please provide your Participant Protection Strategy

Your response should be no more than 40 pages.

The Participant Protection Strategy should provide a joined up, cohesive strategy to protect the interests of all Participants. The Strategy should be relevant and appropriate to the Business Plan and proportionate to any risks inherent in it. Where aspects of your Business Plan (such as Games in your proposed portfolio) may drive specific or increased risks to participants, you should include additional protective measures to mitigate such risks.

As a minimum, your Participant Protection Strategy must show due consideration of the Licensee's obligations under Condition 8 of the Fourth Licence (Protecting Participants' Interests). It must contain a complete set of measures to protect Participants' interests, including:

- Preventing underage play
- Not encouraging excessive play
- Ensuring that the price of tickets is not unreasonably high
- Provision of adequate information about Games
- Complaints and redress system
- Payment of prizes
- Protection and support for prize winners
- Details of the proposed contributions to be made by the Licensee to Research, Prevention and Treatment of gambling-related harms, with details of the form and value of this commitment.

Where relevant, the Strategy should demonstrate how you would use National Lottery Data and Participant Data to proactively prevent harm.

You may wish to refer to the Regulatory Handbook for guidance on the nature of participant protection measures that the Commission may consider relevant to meeting the requirements to protect Participants' interests. Please note that for the purposes of the Competition, the Regulatory Handbook should be used for guidance only and you may propose alternative, equivalent, or additional measures as appropriate to your Business Plan.

Please note: You should ensure that all your projected revenues and costs of delivering associated with this proposal are captured in your Financial Template. In your Supporting Financials and Supporting Narrative you must provide the breakdown of projected revenues and associated costs and how these relate to your proposal. For further guidance, please see Section 23 (Financial Response) of this document.

You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register, details in Section 22.12 (Additional Information) and are appropriately categorised to ensure they are evaluated correctly.

Q5.

Please detail how you will implement, manage, monitor and adapt your Participant Protection Strategy to continuously uphold the Statutory Duties in a changing environment.

Your response should be no more than 10 pages.

As a minimum, your response should include the following key elements:

- Appropriate allocation of responsibility (named individual and role) for the Participant Protection Strategy and compliance with the Licensee's obligation to protect Participants' interests.
- A plan to implement new participant protection tools, methods or procedures, covering timelines, resource requirements and mitigations against any risks related to implementation.
- Processes you will adopt to monitor, evaluate, and improve the effectiveness of the Participant Protection Strategy, including processes to make sure that the Participant Protection Strategy takes account of:
 - instances where the interests of Participants have been (or have been at risk of being) harmed;
 - past, present or future market, legal or technological developments relevant to the National Lottery; and
 - past, present or future developments in regulatory policy.
- Methods to maintain compliance with Condition 8 of the Fourth Licence (Protecting Participants' Interests) when faced with relevant changes in circumstances. Such changes in circumstances may relate to the external environment and market conditions, or to changes to the Licensee's own strategy such as changes affecting branding, portfolio or operations.

Please note: You should ensure that all your projected revenues and costs of delivering associated with this proposal are captured in your Financial Template. In your Supporting Financials and Supporting Narrative you are free to define the breakdown of projected revenues and associated costs and how these relate to your proposal. For further guidance, please see Section 23 (Financial Response) of this document.

You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register, details in Section 22.12 (Additional Information) and are appropriately categorised to ensure they are evaluated correctly.

22.4 PROTECTING PARTICIPANT FUNDS

In order to prepare your response to these questions, you may find it useful to refer to the following non-exhaustive list of references:

SoR Section(s)	14
Licence Condition(s)	16
Regulatory Handbook Section(s)	17,22
Other	4NL Trust Explanatory Note, Short Form Trust Deed (Phase One), Long Form Trust Deed (Phase Two)

Table 19: Protecting Participant funds references

Q6.

Please provide your Phase One feedback on the Short Form Trust Deed

A response to this question is required during Phase One only; the deadline for this feedback is 22 January 2021.

Please provide your response in the 4NL Trust Feedback Form provided by the Commission in Jaggaer. You have been provided with two 4NL Trust Feedback Forms. One should be completed by the Applicant, and the other should be completed by your Proposed Trustee.

A Short Form Trust Deed is issued alongside the ITA. The Commission is inviting feedback related to the position described in the Short Form Trust Deed, this ITA, Condition 16 of the Proposed Form of Fourth Licence and the Regulatory Handbook from Applicants and Proposed Trustees during the Phase One Response Period.

If Applicants consider that any provisions of the Short Form Trust Deed released with this ITA require amendment in order to ensure the success of the Competition and of 4NL Trust operation, they are invited to provide details of the relevant provisions and proposed changes, with an explanation of the need for the change.

Please note: Any changes proposed should relate to the overall success of the Competition and of 4NL Trust operation and not to the position of the Individual Applicant.

Please note that this feedback will not be evaluated, it will be used to finalise the Long Form Trust Deed that will be drafted by the Commission during Phase One.

It is the Commission's current intention that the provisions set out in the Long Form Trust Deed that will be provided at Phase Two will be unamendable. However, should Applicants or their Proposed Trustees have any fundamental concerns regarding any technical aspects of the Long Form Trust Deed, they will have an opportunity to make the Commission aware of those, in writing, by the deadline specified in the Phase Two 4NL Trust Addendum. A template for the communication of those concerns will be provided by the Commission in Jaggaer at Phase Two.

Q7.

Please provide your proposals to the Required Responses set out in Appendix G of the 4NL Trust Explanatory Note

You should respond with input from your Proposed Trustee.

The Short Form Trust Deed issued with this ITA sets out the indicative provisions which will be finalised and set out in the Long Form Trust Deed, which your Proposed Licensee, Proposed Trustee and Account Bank will be required to agree to. There are a number of 'Application Specific Provisions' that are marked as such within the Short Form Trust Deed with square brackets that you are required to respond to alongside other Required Responses that are set out in Appendix G of the 4NL Trust Explanatory Note.

At Phase One, your Required Responses should reflect the position as set out in the Short Form Trust Deed and at Phase Two the position as set out in the Long Form Trust Deed. Please refer to the 4NL Trust Explanatory Note for full details of the proposals you are required to provide.

Once you have selected your Proposed Trustee, please refer to Condition 16 (Protecting Participant Funds) of the Proposed Form of Fourth Licence, the Enabling Agreement, the Deed of Commitment and the Regulatory Handbook provided with this ITA to respond to this question.

Any changes to the requirements or Required Responses at Phase Two will be specified in the Phase Two Trust Addendum.

Please note: You should ensure that all your projected revenues and costs of delivering associated with this proposal are captured in your Financial Template. In your Supporting Financials and Supporting Narrative you must provide the breakdown of projected revenues and associated costs and how these relate to your proposal. For further guidance, please see Section 3 of this document.

You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register, details in Section 22.12 (Additional Information) and are appropriately categorised to ensure they are evaluated correctly.

22.5 FINANCIAL STRENGTH

In order to prepare your response to these questions, you may find it useful to refer to the following non-exhaustive list of references:

SoR Section(s)	13
Licence Condition(s)	18
Regulatory Handbook Section(s)	16, 20, 21, 22

Table 20: Financial strength references

Important notice: Before responding to the financial strength questions, please ensure that you have completed the Financial Template (see Section 23 (Financial Response) of this document) and the Key Subcontractor Financial Strength Template. You will be required to refer to these in your response.

Q8.

Please describe your proposed financing structure and explain how it will support transition, transformation and ongoing operations and minimise any material risk, on financial grounds, that may lead to a failure to meet the obligations under the Fourth Licence, Enabling Agreement and/or Cooperation Agreement under the Base Case and/or Financial Strength Scenarios.

Your response should be no more than 30 pages.

Your response should also provide clear reference to page numbers and sections of relevant supporting documents from the equity funding and debt funding sections of your Financial Strength Supporting Evidence.

At Phase Two, your Financial Strength Supporting Evidence must include copies of legally binding financing agreements. These financing agreements must evidence that sufficient finances are committed and available to the Proposed Licensee to enable them to meet the financial strength requirements.

Your response should include a description of your proposed financing structure for the Licensee. If you are proposing any Ancillary Activities in response to Section 22.11 (Ancillary Activities), you must also explain any effects of such Ancillary Activities on your proposed financing structure and financial strength.

Elements of your response to this question, including any Financial Strength Supporting Evidence, may be used to populate the Applicant Specific Conditions of the Licence (see Section 22.12 (Additional Information)) and Schedule 7 of the Enabling Agreement (see Section 22.10 (Implementation, Transition and Exit)).

Your response should include the following, with evidence that each requirement would be met under the Base Case and each of the Financial Strength Scenarios, where revenues are lower and/or costs are higher than projected in the Base Case:

- **Sufficiency of Implementation and Transition funding.** Please demonstrate how the Proposed Licensee will have sufficient financial resources to meet the costs it will incur in connection with Implementation and Transition under all specified scenarios.

- **Solvency during the Fourth Licence Term.** Please demonstrate the Licensee's ability to run the National Lottery in accordance with the Fourth Licence as a going concern and with sufficient liquidity throughout the period of the Fourth Licence. Please note that you must demonstrate that the financial resources to be made available to the Licensee will be adequately protected. Protections proposed by the Licensee will be written into the Fourth Licence under Condition 18 (Financial and operational resilience). Please also demonstrate, using appropriate financial analysis, that you have adequate measures in place to manage the impact on peak working capital of any Portfolio Volatility identified in your response to Section 22.8 (Portfolio). Please note that you must demonstrate and provide supporting agreements (as appropriate) evidencing how the Proposed Licensee will protect against any foreign exchange volatility which would otherwise impact on their funding capacity.
- **Conditionality of funding.** Please demonstrate that the funding would be made available to the Licensee as required to meet implementation costs and support ongoing operations.
- **Deliverability of funding.** Please demonstrate the proposed financing structure is obtainable and implementable and funding providers have the financial capacity and capability to support financing commitments. Please note that you must demonstrate and provide supporting agreements (as appropriate) evidencing how the Proposed Licensee will protect against any foreign exchange volatility which would otherwise impact on their funding capacity.
- **Funding covenants.** Please provide details of any covenants and leverage thresholds included in the proposed funding agreements. This would include, but is not limited to:
 - Financial covenants and leverage ratios
 - Projections (e.g. excel file) of the financial covenants and leverage ratio during the proposed funding period
 - Proposed KPIs expected to be used to measure business performance as agreed with shareholders.
- **Any other relevant information.** Please provide details of any other relevant information on how your proposed financial structure can effectively support the transition and implementation plan and ongoing operations during the Fourth Licence Term.

Financial Strength Supporting Evidence (Part 1)

Throughout your response to the above question, you should reference appropriate evidence and information as outlined in this section. You should provide this evidence alongside your response.

You must provide summary term sheets for each provider of equity and/or debt to the Licensee. The term sheets must be supported by the key documents listed below, where relevant to your proposed financing structure.

At Phase One, the Commission does not require financing agreements to be legally binding.

At Phase Two, your Financial Strength Supporting Evidence must include copies of legally binding financing agreements. These financing agreements must evidence that sufficient finances are committed and available to the Proposed Licensee to enable them to meet the financial strength requirements.

You must also provide any relevant financial analysis to evidence that the Proposed Licensee's financial strength will not be adversely affected by Portfolio Volatility.

Equity funding

For equity funding, please provide (where relevant) the following information:

- a) Details of providers or intended providers of the Licensee's equity funding and the amounts of their commitments.
- b) Evidence of the commitment of each provider to provide the stated funds, any pre-conditions of investment, and the status of each provider's internal approval process required to confirm the availability of the funding.
- c) Evidence to substantiate the ability of those providers to meet their respective commitments.
- d) Copies of all subscription, shareholders' or SPE agreements which concern the Licensee and its share or loan capital or where such agreements have not yet been entered into, then the latest available drafts.
- e) Copies of any guarantees (e.g. parent company guarantee) of the obligations of the Licensee from its shareholders, or by or to any provider of finance to the Licensee, or where such agreements have not yet been entered into, then the latest available drafts.
- f) Information concerning the distribution policy and entitlements of shareholders of the Licensee.
- g) Details of any fees payable to shareholders or connected entities of the Licensee.

Debt funding

For debt funding to be provided to the Licensee, please provide (where relevant) the following information:

- h) The identity of the providers, or intended providers, of the Licensee's debt funding (including any junior or subordinated debt), the nature of the facilities provided or to be provided, and the amounts of any facilities or intended commitments. This may include, but is not limited to:
- Overdraft facilities
 - Revolving credit facilities
 - Term loans
 - Subordinated facilities
 - Finance leases
 - Any loans from any of the Licensee's shareholders.
- i) Commitment letters from each debt provider, detailing all conditions precedent to providing such finance and each provider's internal processes to delivering that funding.
- j) Evidence to substantiate the ability of those providers to meet their respective commitments.
- k) Term sheets relating to any existing or intended facilities, including:
- Facility amount, type, maturity and extent to which they are drawn down (where applicable);
 - Terms including any fees and margins to be paid;
 - Drawdown and repayment schedules;
 - Financial and any other covenants including specific details of cover or debt ratios;
 - Events of default;
 - Any security provided or required in support of the facility and charges against company (or any subsidiary) assets;
 - The length of time required to put the facility in place, including details of any due diligence, prior obligations or conditions precedent which would need to be met for the funding to be available; and
 - The names and addresses of lenders of and guarantors for any of the facilities.
- l) Details of any contingent liabilities and off-balance sheet funding arrangements.
- m) Term sheets for any relevant intercreditor agreements.
- n) Details of any other financial instruments the Licensee will enter into, including derivative contracts and/or hedging.

Please note: You should ensure that all your projected revenues and costs of delivering associated with this proposal are captured in your Financial Template. In your Supporting Financials and Supporting Narrative you must provide the breakdown of projected revenues and associated costs and how these relate to your proposal. For further guidance, please see Section 23 (Financial Response) of this document.

You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register, details in Section 22.12 (Additional Information) and are appropriately categorised to ensure they are evaluated correctly.

Q9.

Please demonstrate the financial standing of your supply chain and describe how you will ensure that supply chain disruption risks are minimised during the Fourth Licence Term.

Your response should be no more than 12 pages.

Your response to this question should include:

- A completed Key Subcontractor Financial Strength Template (excluded from word count), together with supporting evidence where relevant (as outlined below).
- The processes, procedures and controls in place for each Key Subcontractor to ensure that they are sufficiently financially resilient in the event of supply chain disruptions. This section should be no more than 4 pages.
- Details of any other financial risks you have identified which might disrupt the supply chain. For each of these risks, please detail what contingency planning is in place to minimise the risk of disruption. This section should be no more than 4 pages.

Financial Strength Supporting Evidence (Part 2)

Please provide the latest available audited financial statements of each Key Subcontractor as supporting evidence for the accuracy of the numbers contained in your Key Subcontractor Financial Strength Template. Please note that the 'Instructions' tab within the template provides guidance on its completion.

Your response to the question above should also reference the evidence outlined below where relevant.

Turnover ratio

The Turnover ratio (calculated from the Key Subcontractor Financial Strength Template) compares the contract size to the annual revenue of the Key Subcontractor.

A lower number is assumed to indicate the Key Subcontractor can accommodate the contract more easily and be better able to deliver the contract. The Commission deems a ratio of above 67% as high risk; however, a high-risk score does not automatically constitute a Fail. In this event, Applicants may identify enhanced information as mitigation. This information may include, but is not limited to:

- a) Extension of the test to the Key Subcontractor's wider group (if applicable) if the Key Subcontractor is supported by, for example, evidence of a parent company guarantee.
- b) Evidence of new contracts won by the supplier since the publication of its latest financial results.
- c) Evidence on the processes, procedures and controls in place to ensure the relevant Key Subcontractor is sufficiently financially resilient to reduce financial risk and maintain the supply chain in the event of adverse financial / market conditions. This should be referenced in your narrative response.

Credit rating score

A Non-Prime grade score result in the Key Subcontractor Financial Strength Template will be deemed as high risk. A high-risk score does not automatically constitute a Fail. In this event, the Applicant and the relevant Key Subcontractor should provide evidence on the processes, procedures and controls in place to ensure Key Subcontractor is sufficiently financially resilient to reduce financial risk and maintain the supply chain in the event of adverse financial / market conditions.

Processes, procedures and controls

As part of your response to the question above, you should provide evidence on processes, procedures and controls in place to ensure that your Key Subcontractors individually and collectively will have sufficient financial strength in the event of supply chain disruptions. Evidence may include, but is not limited to:

Key Subcontractor information

- a) Key Subcontractor's Business Contingency Plans to ensure uninterrupted supply to the National Lottery and its business continuity approach.
- b) Key Subcontractors' parent company guarantees or any other forms of guarantees which will support the operation and funding of the Key Subcontractor.
- c) Sufficient headroom available on funding facilities committed and made available to Key Subcontractors, e.g. revolving credit facilities.
- d) Evidence of the extent to which equity / debt providers are willing to commit to additional funding when necessary during the Fourth Licence Term to support the supply chain.

Applicant information

- a) A high-level summary of the commercial arrangements (non-price terms) the Applicant will put in place (if successful in their Application) with Key Subcontractors and Related Parties and the impact they may have on the Applicant's financial strength. In particular, Applicants should provide this evidence where a Key Subcontractor or Related Party is providing the Applicant with revenue, profit share or other performance guarantees that are material to the Application or the Applicant's ability to meeting the obligations of the Licence.
- b) Evidence of contingency plans to ensure uninterrupted supply to the National Lottery should a Key Subcontractor fail or become insolvent.
- c) Evidence of your ability to source supply from a different supplier in the event of Key Subcontractor failure.

- d) Evidence of contingency agreements with third party suppliers.
- e) Certified commitment letters of equity / debt providers to provide financial resources to the Licensee to maintain supplies to the National Lottery.
- f) Your financial plans to maintain sufficient liquidity in the event of Key Subcontractor disruptions.

Please note: You should ensure that all your projected revenues and costs of delivering associated with this proposal are captured in your Financial Template. In your Supporting Financials and Supporting Narrative you must provide the breakdown of projected revenues and associated costs and how these relate to your proposal. For further guidance, please see Section 23 (Financial Response) of this document.

You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register, details in Section 22.12 (Additional Information) and are appropriately categorised to ensure they are evaluated correctly.

22.6 BRANDING

In order to prepare your response to these questions, you may find it useful to refer to the following non-exhaustive list of references:

SoR Section(s)	15
Licence Condition(s)	10, 11, 13
Regulatory Handbook Section(s)	13, 14

Table 21: Branding references

Q10.

Please provide your Brand Management Plan.

Your response should be no more than 80 pages.

Your response should include the following key elements:

- Approach to managing and safeguarding the National Lottery Brand and building Brand value throughout the Fourth Licence Term, including:
 - Vision and Brand positioning for the National Lottery Brand, including a detailed proposal on core Brand positioning, definition of Brand promise, rational and emotional benefits, target consumer definition, key consumer insight and competitive edge
 - Communications strategy including key selling messages for Participants, including associated imagery and illustrations to showcase how the National Lottery Brand will be presented. Rationale should be provided as to how Participants will not be at risk as a result of key selling messages and associated branding imagery, referring to Participant Protection Strategy content where relevant
 - Brand analysis including an assessment of the National Lottery’s current Brand status. Applicants should include:
 - An assessment of the perceived key risks and challenges to the National Lottery Brand and proposed mitigation strategies moving forward
 - An assessment of the opportunities for growth of the National Lottery Brand, including timeframes to achieve these and any associated risks, and strategies you will implement to drive development of the Brand
 - How the values of the National Lottery, as set out in Section 15 (Branding), will be reinforced and developed throughout the Fourth Licence Term
 - Safeguards the Licensee will put in place to ensure that the National Lottery Brand remains independent (as per Licence Condition 13.2 (The National Lottery Brand and Reputation)) and all Core Lottery IP relating to the National Lottery Brand remains safeguarded throughout the Fourth Licence Term (as per Licence Condition 19 (National Lottery IP))
 - Proposals for co-branding opportunities throughout the Fourth Licence, including rationale and benefits for these proposals and how you will ensure they adhere to the Commission’s first two Statutory Duties.
 - Proposed KPIs for monitoring Brand health, having regard to the indicative Brand KPIs provided by the Commission in the Regulatory Handbook, and overarching approach to monitoring proposed KPIs. Continuity in the method and tracking of Brand health between the Third and Fourth Licence, in order to provide benchmarking and trend analysis between the two Licences, should also be considered in your response. You will have access to the current KPI set used to monitor Brand health in the VDR.
 - How to ensure that Participants understand the link between the National Lottery and Good Causes, as per Condition 13.4 (The National Lottery Brand and Reputation). Consideration should be given to how you will manage collaboration with Distributors (as per Condition 13.4 (The National Lottery Brand and Reputation) of the Licence) to help drive understanding of this link between the National Lottery and Good Causes.

- Your approach to managing and maintaining the Brand Management Plan throughout the Fourth Licence Term. This should include your approach to leveraging data and the use of consumer insight to guide on-going planning and development.
- Proposed marketing approach, including:
 - Marketing strategy, including core marketing objectives, assessment of the customer base, core marketing propositions and approaches throughout the Fourth Licence Term. This should also include your approach to digital marketing, including your proposed digital strategy. Please outline the consumer insights that underpin the proposed strategy
 - Proposed outline of each type of communications campaign required to deliver the proposed strategy, including purpose of campaigns, analysis of the consumer landscape and an assessment of how each target audience will be engaged with, campaign targets and measurement framework, creative propositions, imagery/illustrations and channels for distribution
 - Outline the approach for diversity and inclusion in the promotion of the National Lottery and Good Causes
 - Rationale for proposed marketing and advertising spend as set out in your Financial Template. This should include but not be limited to:
 - Commentary on how this spend will impact the sales projections and overall expected ROI
 - Approaches to driving efficiency of this spend
 - How value-for-money on Brand development and marketing costs will be delivered
 - Which activities will be outsourced to agencies and which kept in-house (please ensure alignment to your marketing department capability and structure within the National Lottery Operation question set out in Section 22.9 (The National Lottery Operation))
 - Outline the approach to the selection, engagement and management of agencies
 - Outline approach to marketing and branding innovation to ensure National Lottery remains relevant, attractive and evolves throughout the lifetime of the Fourth Licence.
- How you will maximise the effectiveness of owned and earned media to complement paid media in delivering your marketing objectives, including through Search Engine Optimisation (SEO)
- Your outline approach to ensuring Brand safety in paid-for media channels
- Approach to non-consumer (stakeholder) communications including:
 - Analysis of the National Lottery stakeholder landscape and an assessment of how each stakeholder group should be engaged with, including (but not limited to) Distributors, the NLP, DCMS, the Commission and Retailers
 - Your proposed PR strategies (proactive and reactive), including crisis management.

Please note: You should ensure that all your projected revenues and costs of delivering associated with this proposal are captured in your Financial Template. In your Supporting Financials and Supporting Narrative you must provide the breakdown of projected revenues and associated costs and how these relate to your proposal. For further guidance, please see Section 23 (Financial Response) of this document.

You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register, details in Section 22.12 (Additional Information) and are appropriately categorised to ensure they are evaluated correctly.

22.7 CHANNELS

In order to prepare your response to these questions, you may find it useful to refer to the following non-exhaustive list of references:

SoR Section(s)	16
Licence Condition(s)	9, 10, 11
Regulatory Handbook Section(s)	12
Other	Section 6 Licensing Guidance Note

Table 22: Channels references

Q11.

Please provide your Distribution and Portfolio Strategy. For this question, please set out your approach to managing the National Lottery distribution channel mix

Your response should be no more than 50 pages.

Your response to the channels section should include the following key elements:

- A summary of your distribution channel mix, including rationale and commercial viability for the proposed channel mix, and anticipated evolution of the channel mix across the Fourth Licence Term
- Detailed description of your distribution channel mix, detailing channel types, rationale for each channel and evolution of the channel mix throughout the Fourth Licence Term. For each channel type, please provide the following:
 - A description of the proposed channel, including detail on key infrastructure and delivery methods required across online, retail and any other proposed channels
 - Rationale for leveraging this channel and evidence of channel appeal across Participant segments / socio-demographic groups
 - Assessment of potential risks to the Matters to be Protected (as set out in Condition 10.1 (Distributing National Lottery products in an appropriate way)) and proposed steps to mitigate these risks, taking into consideration Condition 8 of the Fourth Licence (Protecting Participants' Interests)
 - Assessment of potential risks that your distribution channel mix will not comply with the Regulations, and how you will mitigate any such risks
 - Key commercial risks and mitigations
 - For physical channels, breakdown of projected number of Physical Sales Locations across the UK, including segmentation by Retailer type (Applicants are free to provide their own segmentation, but this could include Retailers such as supermarkets, independent, online Retailers). You should also provide commentary on how the proposed breakdown of Physical Sales Locations satisfies Licence Condition 9.2 (Ensuring Access to the National Lottery).
- Overarching approach to governing and managing the channel mix throughout the Fourth Licence Term. This should include the following:
 - Overview of key policies that will drive your decision-making with regards to management of the channel mix
 - Overview of your proposed channel development and implementation processes and procedures.
- Overarching approach to managing and supporting online and physical Retailers. This should include details on your proposed approach to:
 - Overview of required standards to be adhered to by Retailers
 - Retailer governance
 - Retailer support and training
 - Retailer commission/incentivisation.

Please note: You should ensure that all your projected revenues and costs of delivery associated with this proposal are captured in your Financial Template. In your Supporting Financials and Supporting Narrative you must provide the breakdown of projected revenues and associated costs and how these relate to your proposal. For further guidance, please see Section 23 (Financial Response) of this document.

You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register, details in Section 22.12 (Additional Information) and are appropriately categorised to ensure they are evaluated correctly.

Q12.

Please provide your Retailer Charter.

Your response should be no more than 4 pages.

Your response should include the following key elements:

- Methods and timings of communication from the Licensee to Retailers (across online, physical and any other retailer types as applicable)
- Methods by which Retailers can obtain information from the Licensee
- How Retailers can make enquiries and raise grievances (including contact channels where appropriate)
- Complaints management processes

Please note: You should ensure that all your projected revenues and costs of delivering associated with this proposal are captured in your Financial Template. In your Supporting Financials and Supporting Narrative you must provide the breakdown of projected revenues and associated costs and how these relate to your proposal. For further guidance, please see Section 23 (Financial Response) of this document.

You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register, details in Section 22.12 (Additional Information) and are appropriately categorised to ensure they are evaluated correctly.

22.8 PORTFOLIO

In order to prepare your response to these questions, you may find it useful to refer to the following non-exhaustive list of references:

SoR Section(s)	17
Licence Condition(s)	9, 10, 11
Regulatory Handbook Section(s)	13
Other	Section 6 Licensing Guidance Note

Table 23: Portfolio references

Q13.

Please provide your Distribution and Portfolio Strategy. For this question, please set out your approach to managing the National Lottery Game portfolio.

Your response should be no more than 130 pages.

Your response to the Portfolio Section should include the following key elements:

- A summary of your Games portfolio, including rationale and commercial viability for the proposed Games, and anticipated evolution of the portfolio across the Fourth Licence Term
- Proposed portfolio of Games, including at least one Draw-based Game which meets the criteria set out in Licence Condition 11.2 (Having an appealing but safe portfolio of Games), covering the following details for each Game/Game-type:
 - A description of the Game, including key features and selling points
 - Frequency of Games (e.g. days of the week a Draw-based Game will be delivered) and proposed channel(s)
 - Price points
 - Key selling points (Game-specific marketing campaigns should be captured within the Brand Management Plan if the Game is to be launched in the first year of the Licence.)
 - Proposed lifespan of the Game (including proposed launch dates)
 - Proposed prize pay-out percentages
 - Proposed management of Portfolio Volatility for your portfolio of Games. This should include at minimum:
 - Evidence and a form of assurance that you have undertaken statistical analysis to calculate and simulate the possible outcomes of Portfolio Volatility risks for each Game and demonstration that you understand the probability risk and exposure associated with each Game.
 - Key outputs of the statistical analysis that you have undertaken and its implications for Portfolio Volatility risk for each Game and the portfolio as a whole;
 - How you intend to mitigate the risk using tools/methods to mitigate prize payout volatility risk (e.g. prize caps for fixed prize tier draw based games or additional funding sources);
 - An understanding of the likelihood and exposure of all reasonable worst case portfolio scenarios (e.g. probability of multiple portfolio capping events occurring (in a given week) and therefore the likelihood of it breaching cumulative funding sources;
 - The mechanisms with reference to those set out in your Funds Protection Policies and the operations of the 4NL Trust that would address any scenario occurring which would result in insufficient funds to pay prizes; and
 - Reference (if applicable) to the relevant elements of your 4NL Trust Required Responses (including the Funds Protection Policies) both to the extent they are inherently linked to management of Portfolio Volatility and also to demonstrate any implications for the protection of Participants' interests (e.g. as part of your evidence for your proposed Final Reserve Balance or details of additional reserve funds that are required as a result of your proposed Portfolio).

Please note that you should include Games from the current National Lottery portfolio that you intend to deliver in the Fourth Licence. Additionally, you should note that those Games to be launched at the start of the Fourth Licence will be considered Start Date Committed Games (as per Condition 26.2(a) (Starting to run the National Lottery under this Licence)) and those Games to be launched in the first year of the Fourth Licence will be considered First Year Committed Games (as per Condition 26.2(b) (Starting to run the National Lottery under this Licence)) for the purposes of the Fourth Licence and the Enabling Agreement.

Your response should be broken down into “existing” Games which form part of the Current Operator’s portfolio of Games (or variants of those Games) and new Games (i.e. Games not currently included in the National Lottery portfolio). For all new Games or existing Games that you propose making changes to, please include the additional detail:

- Game rules and mechanics (e.g. what constitutes a play and win)
- Description of imagery to be used for each Game
- Evidence of Game appeal across Participant segments / socio-demographic groups
- Proposed prize pay-out percentages – broken down by prize tiers
- Assessment of potential risks to the Matters to be Protected (as set out in Condition 10.1 (Distributing National Lottery products in an appropriate way)) and proposed steps to mitigate these risks
- Key commercial risks for each Game and proposed mitigations
- Overarching approach to governing and managing the portfolio throughout the Fourth Licence Term. This should include the following:
 - Overview of key policies that will drive your decision-making with regards to management of the portfolio
 - Overview of your proposed Game development processes and procedures

Please note: You should ensure that all your projected revenues and costs are captured in your Financial Template. **You must provide a breakdown of revenue by specific Game for each year in your Supporting Financials.** For further guidance, please see Section 23 (Financial Response) of this document.

You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register, details in Section 22.12 (Additional Information) and are appropriately categorised to ensure they are evaluated correctly.

22.9 THE NATIONAL LOTTERY OPERATION

In order to prepare your response to these questions, you may find it useful to refer to the following non-exhaustive list of references:

SoR Section(s)	18
Licence Condition(s)	12, 17, 18, 20, 21, 22, 23
Regulatory Handbook Section(s)	16

Table 24: Operations references

Q14.

Please provide your proposed operating model for delivering the National Lottery in accordance with the Licence and the Commission’s Statutory Duties, during the Fourth Licence Term.

Your response should be no more than 80 pages.

Your response should include the following key elements:

- Your proposed organisation structure, broken down by department, including departmental headcounts, key leadership positions, geographic locations and scope of department responsibilities. This organisational overview should then break down into the following detail:
 - An overview of which elements of your organisation will be Critical Functions, as defined in the Licence
 - How your organisation (including partners and Key Subcontractors) will work to deliver an efficient and effective operation, with clear lines of management responsibility, control and accountability. You should reference how your proposed organisation will ensure delivery of the Commission’s Statutory Duties
 - How operational performance management and issue identification, resolution and escalation will be managed
 - How you will ensure continuity of personnel in key roles
 - An overview your proposed governance structure.
- Interfaces with the Commission, setting out key meetings/governance forums, proposed attendees (by grade/rank) and principal matters to be addressed. You should also set out:
 - Proposed structure for the Annual Assurance Statement required to be submitted to the Commission (as per Condition 23.17 (Providing Information and Assurance to the Commission))
 - Indicative set of overarching operational performance metrics to assure the Commission that the operation of the National Lottery is Fit for Purpose. For further guidance please refer to *Performance standards* report in section 22 of the Regulatory Handbook (Regulatory reporting requirements).
- An overview of all proposed key process areas and the associated controls framework you will put in place to ensure the National Lottery is delivered effectively and in accordance with the requirements set out in the Licence. This detail should also include, but not be limited to, how you will ensure that the National Lottery’s services and operations are cost efficient throughout the Fourth Licence Term, including:
 - Business planning processes
 - Internal monitoring and reporting of performance against budgets
 - Authorisation processes and controls regarding expenditure and investments.
- How you will provide the appropriate level of cost transparency to assure the Commission that reported profits are accurate.

Please note: Applicants should refer to Table 23 of the Regulatory Handbook for information required to be provided during the Fourth Licence Term in relation to the breakdown of operating and other costs across functional business areas, and cost allocations against the different National Lottery types of Game, business activity and/or function.

- Your approach to operational risk management. This should be underpinned by analysis of the top 10 operational risks and associated mitigation strategies.
- Approach to managing Lottery Subcontracts, including:
 - An assessment of the end-to-end supply chain including segmentation of Lottery Subcontracts, approach to supply chain visibility, supply risks and proposed risk-mitigation strategies
 - Approach to Subcontractor management, detailing governance, performance management frameworks, controls and approaches to supplier development and collaboration (where applicable). Focus should be placed on overall assurance of the supply chain and its performance
 - An assessment of Key Subcontractors, detailing an assessment of Subcontractors' track record, criticality of Subcontractors and identified risks of proposed Key Lottery Subcontractor base
 - At Phase One – Provide details of your proposed set of Key Subcontracts and any Designated Lottery Subcontracts you expect to enter into, including the scope of the contracts and an assessment of the criticality of those contracts to the ongoing operation of the National Lottery. Designated Lottery Subcontracts shall include those already identified by the Commission in the Proposed Form of Fourth Licence and any additional individual or categories of Lottery Subcontracts that that Commission specifies as Designated Lottery Subcontracts during the competition.
 - At Phase Two – Provide:
 - For Key Subcontracts, evidence that the Key Subcontractors will enter into an agreement in accordance with the terms set out in Condition 21 (Contractors) of the Licence and that the agreement is binding (e.g. MOU/ Commitment Letters)
 - For Designated Lottery Subcontracts identified during the competition phase and/or as required under the Proposed Form of Fourth Licence, full contract terms in accordance with the terms set out in Condition 21 (Contractors) of the Licence, and evidence (e.g. MOU/Commitment Letters) that these are binding.
- In relation to Designated Lottery Subcontracts
 - The approach to how you will ensure that your Lottery Subcontractor arrangements will be aligned to the Statutory Duties and that any Related Party Arrangements will:
 - Be conducted on arm's length terms
 - Be operated with all due propriety
 - Be operated in a way which protects the interests of Participants
 - Demonstrate Good Value for Good Causes
- Approach to recruitment, management and development of employees; including an overview of how you might incorporate Social Value principles into your recruitment and workforce management practices.

Please note: You should ensure that all your projected revenues and costs of delivering associated with this proposal are captured in your Financial Template. In your Supporting Financials and Supporting Narrative you must provide the breakdown of projected revenues and associated costs and how these relate to your proposal. For further guidance, please see Section 23 (Financial Response) of this document.

You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register, details in Section 22.12 (Additional Information) and are appropriately categorised to ensure they are evaluated correctly.

Q15.

Please provide your Technology and Data Architecture Strategy

Your response should be no more than 90 pages.

The Technology and Data Architecture Strategy should set out your approach to delivering and managing the Technology Operation throughout the Fourth Licence Term.

As a minimum, your response should include the following key elements:

- A clear description of all aspects of your proposed Technology Operation using annotated diagrams, tables, and descriptions, covering as a minimum:
 - Draw technology and core gaming systems
 - Retailer terminal infrastructure and supporting telecommunication solutions
 - Other proposed sales channels including web and mobile app based
 - Infrastructure components including data centres, server/storage, core network, and any use of cloud services
 - Data architecture and where key data elements are mastered, how shared reference data is managed, and how the requirements of applicable data protection legislation will be met
 - The Independent Verification System
 - Provision of management information and data analysis
 - Back-office systems supporting finance, stock management, Participant/ retailer contact management and interfaces with and Lottery Subcontractors who provide these services
 - Business continuity and disaster recovery capabilities and the level of Recovery Point Objective (RPO) and Recovery Time Objectives (RTO) that will be achieved.
- Clearly define what existing technology assets will be transferred from the Current Operator and used as part of your initial solution at the start of the Fourth Licence Period and how this will evolve during the Fourth Licence Term.
- For each major component state whether the component will be built or sourced from a 3rd party supplier and the reasons for these decisions.
- Describe the proposed technology maintenance plan, including the overall approach and the optimum/maximum replacement periods for each type of technology component of the Technology Operation. The plan must make it clear how each component will remain up-to-date, maintainable and supportable throughout the Fourth Licence Term.

Please note: You should ensure that all your projected revenues and costs of delivering associated with this proposal are captured in your Financial Template. In your Supporting Financials and Supporting Narrative you must provide the breakdown of projected revenues and associated costs and how these relate to your proposal. For further guidance, please see Section 23 (Financial Response) of this document.

You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register, details in Section 22.12 (Additional Information) and are appropriately categorised to ensure they are evaluated correctly.

Q16.

Please provide your Security Strategy

Your response should be no more than 25 pages.

The Security Strategy should set out your approach to protecting and ensuring the security of the Technology Operation. As a minimum, the Security Strategy should include the following key elements:

- Risk assessment approach
- Identification of key information assets and classifications
- Cybersecurity strategy – approach for protection of Game systems, back-office systems, cloud systems, and IT management systems
- Physical security strategy – for data centres, distribution centres, and office locations
- Staff and Lottery Subcontractor security – both vetting and protection of
- Security organisation, governance and training
- Security testing and external audits – during development and in production
- Approach to crisis management.

Please note: You should ensure that all your projected revenues and costs of delivering associated with this proposal are captured in your Financial Template. In your Supporting Financials and Supporting Narrative you must provide the breakdown of projected revenues and associated costs and how these relate to your proposal. For further guidance, please see Section 23 (Financial Response) of this document.

You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register, details in Section 22.12 (Additional Information) and are appropriately categorised to ensure they are evaluated correctly.

Q17.

Please describe the key features of your Technology Operation

Your response should be no more than 25 pages.

As a minimum, your response should include the following key elements:

- How your technology development processes will ensure that new releases of functionality do not compromise the integrity, stability, and availability of the National Lottery operation.
- How your technology operational processes will ensure that incidents, problems, system changes, capacity, performance, and security are managed in an effective way. Clearly show how the Commission will be assured that the operational processes are appropriate to underpin the National Lottery Operation.
- Where development or operational processes are delivered by Lottery Subcontractors, provide clarity on how the overall quality and resilience of the overall service will be maintained.
- When describing proposed processes, you should make reference to relevant international standards and codes of practice, or equivalent, stating clearly the extent to which the solution will comply with these, and highlighting areas where it will not comply with such standards. You should define when formal accreditation to these standards will be achieved.
- Descriptions of how your change management capability will cover the management of change to any aspect of the Technology Operation, including changes to Games, sales channels, processes and personnel.
- How you will combine the need for integrity and continuity of the Technology Operation with the need for responsiveness, flexibility and maximising Good Causes Contribution.

Please note: You should ensure that all your projected revenues and costs of delivering associated with this proposal are captured in your Financial Template. In your Supporting Financials and Supporting Narrative you must provide the breakdown of projected revenues and associated costs and how these relate to your proposal. For further guidance, please see Section 23 (Financial Response) of this document.

You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register, details in Section 22.12 (Additional Information) and are appropriately categorised to ensure they are evaluated correctly.

22.10 IMPLEMENTATION, TRANSITION AND EXIT

In order to prepare your response to these questions, you may find it useful to refer to the following non-exhaustive list of references:

SoR Section(s)	19
Licence Condition(s)	26, 27
Regulatory Handbook Section(s)	15, 17
Other	Transition Guidance Note, EA/CA

Table 25: Implementation, Transition and Exit references

Q18.

Please provide your Incoming Transition Plan.

Your response should be no more than 100 pages.

Your response should set out your overall transition strategy and include specific details of how you will organise, plan, implement and assure transition into the Fourth Licence.

This plan needs to be sufficiently detailed to deliver Implementation and Transition as outlined in the Enabling Agreement and Cooperation Agreement. It should include details of your approach to governance and the organisational arrangements that the Incoming Licensee will adopt in connection with Implementation and Transition, including through its supply chain and an assessment of the skills required and retention strategies for key staff/roles. Details of the project management methodology to be adopted, the controls that the Incoming Licensee will implement, and the approach that the Incoming Licensee will take to managing change, risk and contingency management, escalations, milestones and product acceptance should also be included.

To align with the Cooperation Agreement and Enabling Agreement, your plan should be split into two parts as follows:

Part A – dealing with the transfer, cooperation, and assistance from the Outgoing Licensee, and

Part B – dealing with the operational implementation as set out in your Application

Note: Capitalised terms used below have the meanings given to them in the Cooperation Agreement. Regarding Part A, Applicants should refer to Appendix 1 in the Cooperation Agreement. Regarding Part B, Applicants should refer to Schedule 3 in the Enabling Agreement.

As a minimum, your response should include the following elements for each of the two parts:

- **Part A – Transition Plan covering transfer, cooperation, and assistance from the Outgoing Licensee:**
 - The transition programme structure, governance arrangements and allocation of accountabilities and responsibilities between the Commission, the Incoming Licensee and the Outgoing Licensee
 - The transition planning and monitoring controls, working arrangements and details of core employees, that will be established with the Commission and Outgoing Licensee to ensure an orderly handover, compliance with the transition plan and minimum disruption to the National Lottery

- The proposed approach, governance, processes and mechanisms to provide assurance of transition delivery in compliance with the transition plan and with minimum disruption to the National Lottery
- The security arrangements, including data security, to be put in place through the Implementation Period
- A description of how the continuity of the National Lottery will be maintained, including a risk and contingency management plan
- Consideration of the items you propose are required to be transferred by the Outgoing Licensee on the Start Date and a proposed migration plan, which includes:
 - Licensee Assets (including scope and use of Lottery IP)
 - Licensee Staff
 - Licensee Subcontracts
 - Licensee information, including books, records, systems, documents, software, scripts, Processes, Procedures, instructions, databases etc (as defined in the Third Licence)
- Details of the Transition Assistance Services that are required to be provided by the Outgoing Licensee, including the scope, resources, timetable, processes, critical deliverables and critical controls that will be established to ensure the delivery of this this assistance
- Consideration of and arrangements for Continuing Obligations (including plans for financial cutover and reconciliation), and Ongoing Disputes
- Where any ongoing work or projects are likely to be in progress at the expiry of the Third Licence, plans should include details of the processes for the Outgoing Licensee to document the status and training required to achieve transfer
- Identification of Continuing Games, including plans for their transfer and operation
- Proposals for implementing the 4NL Trust arrangements, including your proposal to transition from the Outgoing Licensee’s Trust which should include the following:
 - The key practical and operational steps to be taken by the Proposed Trustee and Incoming Licensee during the Implementation Period in order to establish the 4NL Trust and manage the transition from the 3NL Trust to the 4NL Trust. This should include reference to the milestones that you expect to be described in your proposed Trust Implementation Agreement (which will be submitted as part of the 4NL Trust Required Responses at Phase Two). You should refer to the 4NL Trust Explanatory Note for more information.
 - Your approach to contingency planning, and the arrangements the Incoming Licensee will put in place to minimise the risk that the Trust Arrangements cannot be implemented within the timeframes described in the Trust Implementation Agreement.
 - Reference (if applicable) any impacts of your proposed Incoming Transition Plan on 4NL Trust arrangements set out as part of your proposals for Required Responses regarding the 4NL Trust.
- The proposed strategy for transitioning existing Technology Solution(s) and Operations from the Outgoing Licensee (if required)
- An underpinning plan which sets out the approach to implementing your Technology transition strategy and includes the following elements (to the extent in each case this is required in the context of your Application):

Technology and Data Migration

- Retailer network migration, including terminals and associated telecommunications
- Lottery Data migration
- Testing and assurance activities
- Cybersecurity controls

Technology Operation Migration

- Knowledge and skills transfer
- Resource and relationship transfer.

• **Part B – Transition Plan covering the operational implementation as set out in your Application:**

Your approach to developing and implementing new products, services, channels, supplier networks, infrastructure, operations and other matters during the Implementation Period to implement the proposals set out in your Application, and to meet the requirements that are set out in the Fourth Licence, Regulatory Handbook and Enabling Agreement, including:

- Proposed approach and timescales for developing and implementing your Application (giving consideration for relevant approvals) including:
 - Portfolio of Games (Start Date Committed Games and First Year Committed Games)
 - Participant protection initiatives
 - Establishing propriety measures / plans
 - Ancillary Activities (if appropriate)
 - Engagement and communication plans for key stakeholder groups
 - Marketing, public relations and other brand management activities that are being developed during the Implementation period, if applicable
- If your plan includes any development of new products, services, channels, supplier networks, infrastructure, operations and other matters that will be launched after the Start Date, your transition plan should include the specific activities, timescales and milestones that will be undertaken during the Implementation period, and the extent to which the development of these items will be completed during this. This should include:
 - Business operations
 - Technology operations
 - Stakeholder engagement and communication
- The proposed approach to implementation of your end-state Technology and Data solution which includes:
 - expected transition state(s) for solution and operations
 - IT service management model
 - IT risk management model(s) during the period prior to the Start Date
 - onboarding and upskilling approach for Technology Operations teams and/or suppliers
- The proposed approach, governance, processes and mechanisms to provide assurance of operational implementation as set out in your Application, in compliance with the transition plan and with minimum disruption to the National Lottery
- A schedule of all Estimated Implementation Costs should be included in your Financial Template. You should identify which of those costs are Transition Costs and which are Transformation Costs with a clear split and justification for this
- Details of financial resources to support resource availability assurance (as referred to in Section 8.3 (Financial Strength) of this document and referred to as the Resource Availability Commitments in clause 17 of the Enabling Agreement) should be included in your Application. The financial covenants that will cover the Implementation Period should be identified in your response to Section 22.5 (Financial strength) and will be included as Implementation Financial Covenants in Schedule 7 of the Enabling Agreement. You should provide a summary of the available resources and a plan and timeline for implementation.
- Details of any Required Third Party Approvals (as referred to in clause 15 of the Enabling Agreement) which the Applicant considers will be required to operate the National Lottery in accordance with their Application should be separately identified in the Application and will be included in Schedule 5 of the Enabling Agreement.

Please Note: You should ensure that all your projected revenues and costs of delivering associated with this proposal are captured in your Financial Template. In your Supporting Financials and Supporting Narrative you must provide the breakdown of projected revenues and associated costs and how these relate to your proposal. For further guidance, please see Section 23 (Financial Response) of this document.

You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register, details in Section 22.12 (Additional Information) and are appropriately categorised to ensure they are evaluated correctly.

Q19.

Please provide your draft Exit Plan setting out arrangements to ensure the ongoing running of the National Lottery in the event of the Fourth Licence expiring or being revoked.

Your response should be no more than 30 pages.

Your response should set out how the Licensee will create, update and maintain the Exit Plan which would support the migration from Fourth to Fifth Licence.

Your initial Exit Plan should include:

- The Licensee's approach to ensure that the ongoing running and operation of the National Lottery will not adversely impact the Matters to be Protected or the enduring value of the National Lottery up to and including the end of the Fourth Licence Term
- The Licensee's approach to creating and maintaining complete and accurate registers, documentation and associated records or information relating to the operation of the National Lottery
- The Licensee's approach to the effective transfer or novation of all matters (including Licensee Assets (including IP), Lottery Subcontracts, Lottery Staff, Lottery Goodwill, Lottery Data and Lottery Information) in connection with Exit, ensuring that risks are appropriately managed (including ownership) and assurance is provided
- The Licensee's approach to the effective transfer of Continuing Obligations and On-going Disputes
- The Licensee's approach to the removal, disposal and / or termination of any Residual Items
- The Licensee's approach to ensuring the continuity of Games into the Fifth Licence
- The process you would develop to agree a financial reconciliation and apportionment process with the Next Licensee including the approach to Exit costs
- The systems, processes and approach you will implement to ensure the retention of records in accordance with the Licence
- Your approach to the access and use of data including the entitlement to transfer data
- A description of the assistance services which would be made available to the Next Licensee and the Commission in connection with Exit and the Next Competition, including how you will ensure that the Commission is entitled to disclose Lottery Information
- Details of how the Exit Plan will be developed, validated and regularly updated throughout the Licence to ensure it remains Fit for Purpose and implementable. This should include:
 - governance arrangements
 - risk management policies, processes and procedures
 - change control processes
 - timing, scope and triggers for review
 - the approach to the capture of lessons learned
 - Exit Manager appointment.

For further information on the detail to be included in the Exit Plan to be submitted with the Application, see section 17 (Condition 27: Exit) of the Commission's Regulatory Handbook.

Please note: You should ensure that all your projected revenues and costs of delivering associated with this proposal are captured in your Financial Template. In your Supporting Financials and Supporting Narrative you must provide the breakdown of projected revenues and associated costs and how these relate to your proposal. For further guidance, please see Section 23 (Financial Response) of this document.

You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register, details in Section 22.12 (Additional Information) and are appropriately categorised to ensure they are evaluated correctly.

Q20.

Please provide your proposed changes to the Form of Deed of Commitment, Enabling Agreement and Cooperation Agreement

A response to this question is required at **Phase One only**.

You may propose:

- Amendments to the Form of Deed of Commitment, Enabling Agreement and Cooperation Agreement released with this ITA you consider are required in order to ensure the success of the Competition and of Implementation and Transition. Please include these in your Phase One Applications with details of the relevant provision as well the proposed change, and an explanation of the need for the change.

Please provide your response in the Implementation and Transition Documents Feedback Form provided by the Commission in Jaggaer.

The Commission will consider any such proposals from all Applicants together in the context of generating the most successful Competition and not by reference to the interests of any individual Applicant.

The Commission will assess comments made on each of the Implementation and Transition Documents. The Commission may issue revised versions of these documents for Phase Two of the Competition. At this point, the documents will be considered in final form, subject to completion of those sections in the Enabling Agreement which will need to reflect proposals submitted by an Applicant in its Application, for example, completion of Schedule 5 and 7 of the Enabling Agreement.

Please note: Any changes proposed should relate to the overall success of the Competition and of Implementation and Transition and not to the position of the Individual Applicant.

Q21.

Please provide an executed Deed of Commitment (DoC) alongside your Phase Two Application

A response to this question is required at **Phase Two only**.

Please use the Form of Deed of Commitment issued by the Commission at Phase Two.

Per Appendix 1 of the DoC, your response should include:

- the Form of Enabling Agreement, with completed Application Specific Provisions; and
- the Form of Fourth Licence, with completed Application Specific Provisions.

22.11 ANCILLARY ACTIVITIES

In order to prepare your response to these questions, you may find it useful to refer to the following non-exhaustive list of references:

SoR Section(s)	20
Licence Condition(s)	14
Regulatory Handbook Section(s)	22

Table 26: Ancillary Activities references

Q22.

Please confirm whether, as part of your Application, you are proposing any Ancillary Activities.

You should only propose Ancillary Activities as part of your response if these activities are material to your Application.

An Ancillary Activity should be considered material to your Application if it has a material impact on costs, or revenues and Proposed Good Causes Contribution. If an Ancillary Activity does not meet these criteria, you should not include it in your Application. This will not prevent you from proposing such Ancillary Activities for the Commission to approve during the Licence Term, if you are successful in your Application.

Please respond with one of the following forms of words:

Yes, I am proposing one or more Ancillary Activities material to my Application.

No, I am not proposing any Ancillary Activities as part of my Application. I have not included any Ancillary Activities (or associated revenues, costs or Proposed Good Causes Contribution) within my Base Case or Business Plan, or anywhere else in my ITA response.

If you are not proposing any Ancillary Activities as part of your Application, you are not required to respond to any other questions under this Section 22.11 (Ancillary Activities).

Please note: You should ensure that all your projected revenues and costs of delivering associated with this proposal are captured in your Financial Template. In your Supporting Financials and Supporting Narrative you must provide the breakdown of projected revenues and associated costs and how these relate to your proposal. For further guidance, please see Section 23 (Financial Response) of this document.

You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register, details in Section 22.12 (Additional Information) and are appropriately categorised to ensure they are evaluated correctly.

Q23.

Please provide details of the proposed Ancillary Activity or Activities.

Your response should be no more than 15 pages per proposed Ancillary Activity.

As a minimum, your response should include, for each proposed Ancillary Activity:

- An explanation of the nature of the Activity to be undertaken
- Details of any third parties involved in the delivery of the Activity and their role
- The rationale for proposing such an Activity be undertaken by the Licensee
- Justification as to why the proposed Activity should be considered material to your Application
- Any benefits that the proposed Activity would have for any relevant areas of your Business Plan, including:
 - Transition
 - Branding
 - Portfolio
 - Channels
 - Operations
- Any interdependencies between Ancillary Activities (if more than one Activity is proposed).

Please note: You should ensure that all your projected revenues and costs of delivering associated with this proposal are captured in your Financial Template. In your supporting financials and Supporting Narrative you must provide the breakdown of projected revenues and associated costs and how these relate to your proposal. For further guidance, please see Section 23 (Financial Response) of this document.

You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register, details in Section 22.12 (Additional Information) and are appropriately categorised to ensure they are evaluated correctly.

Q24.

Please explain any risks you have identified in relation to the proposed Ancillary Activity or Activities alongside details of how you would manage or mitigate any such risks.

Your response should be no more than 10 pages per proposed Ancillary Activity.

As a minimum, for each proposed Ancillary Activity, your response should include risks and mitigations in relation to:

- Your ability to ensure that the interests of every Participant in respect of playing, engaging with or being exposed to, the National Lottery are protected
- The integrity and reputation of the National Lottery and public perception of the National Lottery as being run honestly and fairly
- The National Lottery Brand
- The standing and reputation of any person who will have an interest in the Ancillary Activity
- Procedures that you would put in place with any third parties involved in the delivery of the Ancillary Activity in order to ensure that such relationships are appropriately documented, conducted on an arm's length commercial basis and are conducted in compliance with the Licence
- The impact that the Ancillary Activity could have on your financial strength and resources
- Ensuring that the Ancillary Activity does not result in the Commission or any Commission Staff or representatives of the Commission incurring any liability
- Protecting Participant data
- Your ability to provide Good Value for Good Causes in relation to any Related Party Arrangements
- Otherwise ensuring compliance with the Licence.

If you are proposing multiple Ancillary Activities, you should also include in your response a view of the cumulative risk to the National Lottery if all proposed Ancillary Activities were to be undertaken.

Please note: You should ensure that all your projected revenues and costs of delivering associated with this proposal are captured in your Financial Template. In your Supporting Financials and Supporting Narrative you must provide the breakdown of projected revenues and associated costs and how these relate to your proposal. For further guidance, please see Section 23 (Financial Response) of this document.

You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register, details in Section 22.12 (Additional Information) and are appropriately categorised to ensure they are evaluated correctly.

Q25.

Please provide evidence that the proposed Ancillary Activity or Activities is both viable and compliant with any applicable laws and/or regulations.

Your response should be no more than 10 pages per proposed Ancillary Activity.

Supporting evidence from third parties or legal advisors may be submitted separately and does not count towards the page limit.

The nature of the evidence offered in this section will be dependent on the proposed Ancillary Activity or Activities. The evidence must provide the Commission with the assurance that the proposed Ancillary Activity would not be prohibited by law or any third party. Examples of the type of evidence that the Commission may require under this section include:

- Market research
- Legal advice or assurances received by the Applicant
- Letters from third parties (e.g. regulators; retailers) providing that such activities would be permitted.

Please note: You should ensure that all your projected revenues and costs of delivering associated with this proposal are captured in your Financial Template. In your Supporting Financials and Supporting Narrative you must provide the breakdown of projected revenues and associated costs and how these relate to your proposal. For further guidance, please see Section 23 (Financial Response) of this document.

You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register, details in Section 22.12 (Additional Information) and are appropriately categorised to ensure they are evaluated correctly.

22.12

ADDITIONAL INFORMATION

Q26.

Please provide your Risk Register

Please provide a single, consolidated Risk Register which details all risks identified across your full ITA response.

Your risk register should include the following headers:

- Risk title
- Detail
- Owner
- Category (defined by the Commission below)
- Response reference (for items recorded in another area of response, Applicants should refer to the question number here)
- Impact type (cost/time/quality/resilience)
- Impact detail
- Timing
- Risk rating (including a definition of each risk level used)
- Mitigating action.

Risk Register Guidance

The Commission recognises that a number of the response sections require Applicants to provide details of risks, mitigating actions and management strategies relevant to those questions. Risks which are specific to one Business Plan Area will be considered as part of the credibility/deliverability assessment of that Area, risks which are cross-cutting will be considered under SRF.

We therefore require you to:

- Provide a consolidated Risk Register, ensuring that a complete and accurate explanation of each risk identified in your Application is included (including those which are specific to certain questions in this response section) along with the proposed mitigating action
- Provide references to Risk Register items in your written responses/Supporting Narrative where relevant
- Categorise each risk in the Risk Register according to the relevant area of your response.

Categorisation of risks in the Risk Register should be as follows:

- Propriety
- Protecting Participants' interests
- Good Causes
- Financial strength
- Protecting Participant Funds (risks related to the 4NL Trust)
- Transition (risks related to the Transition Business Plan Area response)
- Branding (risks related to the Branding Business Plan Area response)
- Portfolio (risks related to the Portfolio Business Plan Area response)
- Channels (risks related to the Channels Business Plan Area response)
- Operations (risks related to the Operations Business Plan Area response)
- Ancillary Activities (risks related to any Ancillary Activities proposed as part of the Applicant's response)
- Solution Risk (risks that relate to more than one other category OR are related to Breakeven/Upside Cases)

Q27.

Please provide your proposed changes to the Proposed Form of Fourth Licence

A response to this question is required at **Phase One only**.

You may propose:

- 1 Amendments to the proposed “Unamendable Conditions” which you consider to be necessary if the Fourth Licence is to be appropriate for the operation of the National Lottery (noting that these amendments should not be associated with your individual proposal); and
- 2 To change the designation of any proposed “Unamendable Conditions” (or any elements of such Conditions) to “Application Specific Conditions”, in order to allow you to tailor the Fourth Licence appropriately to your individual proposal.

Please provide your response in the Proposed Form of Fourth Licence Feedback Form provided by the Commission in Jaggaer.

The Commission will consider any such proposals from all Applicants together in the context of generating the most successful Competition and a not by reference to the interests of any individual Applicant. Any changes made to the Unamendable Conditions at this stage will apply to all Applicants.

Proposed Form of Fourth Licence Guidance

The Proposed Form of Fourth Licence contains two types of conditions:

- 1 **“Application Specific Conditions”** - specific conditions which need to reflect the particular approach which each Applicant proposes to take to fulfilling particular requirements specified by the Commission; and
- 2 **“Unamendable Conditions”** – conditions which will not be open to proposed amendment by Applicants. The vast majority of Conditions are in this category.

In the Proposed Form of Fourth Licence (provided in VDR Folder 4.3), a number of conditions are marked with square brackets and accompanied by an explanatory footnote to indicate that the Licensee’s Application will inform the completion of these conditions. For completeness, these are outlined in the following table.

Condition Category	Explanation
1 Application Specific Conditions	
Condition 16.13: Protection of Participant Funds	Excess of Trust Income exceeding Trust Costs to be specified by Applicants.
Conditions 17.7 - 17.11 (Licensee and its operations to be Fit for Purpose): Independent Verification System	The Licence conditions related to the Independent Verification System will be amended in line with the Licensee’s proposed solution.
Condition 18.2 (Financial and operational resilience): Contingency Protections	This condition will include the contingency protections proposed by the Licensee in its Application and approved by the Commission prior to the Start Date. It is anticipated these may include shareholder guarantees or ring-fenced liquidity accounts.

Condition Category	Explanation
Condition 18.9 (Financial and operational resilience) (b) (ii) Financial Distress Events	To refer to the breach of any financial covenants as will be set out in Schedule 6 (Financial Covenants), which will be set out in the Licensee's Application.
Condition 22.6 Audit Committee	The shareholder representation of the Audit Committee will be determined depending on Licensee's corporate structure.
Condition 22.10 Compliance and Risk Management Committee	The shareholder representation of the Compliance and Risk Management Committee will be determined depending on Licensee's corporate structure.
Condition 31.1 Address for Notices	Address and contact details for Licensee and Commission to be completed.
Schedule 1 (Glossary of words and phrases used in this Licence)	Definitions of Approved Account Bank, Approved Final Reserve Balance and Approved Trustee to be completed to reflect Licensee's Application.
Schedule 3, Ancillary Activities	Ancillary Activities approved prior to the Start Date will be included in this Schedule. This Schedule will be updated to reflect any additional Ancillary Activities approved by the Commission during the Term.
Schedule 5 (Good Causes Contribution), Appendix 1, Table 4, Licensee's Proportion of Surplus	Licensee's Proportion of Surplus will be informed by the Licensee's Application.
Schedule 6 Financial Covenants	This Schedule will include financial covenants given by the Licensee as set out in the Licensee's Application and approved by the Commission.
2 Unamendable Conditions	
All other Licence Conditions	

Table 27: Categories of Licence Condition

23 FINANCIAL RESPONSE

In order to prepare your response to these questions, you may find it useful to refer to the following non-exhaustive list of references:

SoR Section(s)	12
Fourth Licence Condition(s)	14, 15, Schedule 5
Regulatory Handbook Section(s)	22

Table 28: Financial Response references

23.1 INTRODUCTION

You are required to submit a Financial Template as part of your response to this ITA, in line with the requirements and conditions set out in the SoR. The Financial Template will contain; your projected costs and revenues for multiple scenarios as specified in this document, additional financial information relating to the Implementation Period (N.B. Applicant's own forecasts only, not inclusive of current operator financials), the full 10-year Fourth Licence Term, the 2-year Contingency Period, as well as your responses to the Financial Strength Scenarios. In addition to this, you will be required to provide Supporting Narrative and Supporting Financials as outlined in this document.

The Financial Template will be used to assist in the credibility and deliverability evaluation of your Business Plan and your Proposed Good Causes Contribution. The Supporting Narrative and Supporting Financials that you provide, as well as the assessment of financial strength, will be considered in this evaluation. You should ensure that throughout this narrative, you have demonstrated how each element of your ITA response will support the delivery of your Proposed Good Causes Contribution. For full details of how your financial response will be evaluated, please see Section 8.7 (Financial Response).

The Commission has provided forecast figures in the Commercial Vendor Due Diligence Report and monthly analysis of COVID-19 in the VDR which sets out the impact of COVID-19 on sales and channel data. Applicants may use the Commercial Vendor Due Diligence Report to establish an appropriate Year 1 starting point. The Commission may provide updated COVID-19 sales, channel data and forecasts, if appropriate, two months before the end of the Phase One Response Period and two months before the end of the Phase Two Response Period.

You should note that the Commission will use the data provided for the purpose of evaluating the credibility of your Proposed Good Causes Contribution. It is therefore important that you ensure every line item is completed accurately.

Your financial response will consist of:

Base Case

The Base Case will act as the principal forecast. It will be used to test credibility and deliverability of your Business Plan Area responses. As part of this, you must provide:

- 1 Base Case Cover Sheet
- 2 Supporting Financials (as additional tabs in the "locked" Financial Template or as a separate workbook) that includes a P&L, Cash Flow, Balance Sheet with all outputs clearly linked to the Base Case Cover Sheet
- 3 Detailed Supporting Narrative

Breakeven Case

The Breakeven Case will act as an alternative forecast in a breakeven scenario (being the point at which your net income / profit after tax, is £0) in order to understand the resilience of your Business Plan. It will be used to evaluate any potential risk under Solution Risk Factor. As part of this, you must provide:

- 1 Breakeven Case Cover Sheet
- 2 Supporting Narrative that references the Base Case and demonstrates how and why the Breakeven Case differs

Upside Case

The Upside Case will act as an alternative forecast in a scenario where revenue or sales volume is higher than the principal forecast set out in the Base Case in order to understand the impact on your Business Plan. It will be used to evaluate any potential risk under Solution Risk Factor. As part of this, you must provide:

- 1 Upside Case Cover Sheet
- 2 Supporting Narrative that references the Base Case and demonstrates how and why the Upside Case differs

Financial Strength Scenarios

The Financial Strength Scenarios will model the impact of decreases in revenue or increases in costs (as compared to the Base Case), on the Licensee's ability to meet its obligations under the Fourth Licence, Enabling Agreement and Cooperation Agreement. You are required to complete the financial strength section of the ITA with reference to the outcome of these scenarios. As part of this, you must provide:

- 1 Completed Financial Strength Scenarios (see Section 23.7 for details)

Additional Information

Additional information will also be required to support your Financial Template. As part of this, you must provide:

- 1 Assurance Statement
- 2 Audit letter
- 3 Guidance to the Commission
- 4 Appointed Individual's details

23.2 **INSTRUCTIONS**

A Financial Template output template has been provided by the Commission in Jaggaer, and consists of the following Cover Sheets/tabs:

- 1 Instructions
- 2 Cover Sheets (3) – to be populated using pre-defined cells in Financial Template
 - a) Base Case Cover Sheet
 - b) Breakeven Case Cover Sheet
 - c) Upside Case Cover Sheet
- 3 Financial Strength Scenarios (6) – to be populated using tabs in Financial Template

You are required to submit the completed Excel templates which combined make up the "Financial Template" as well as Supporting Financials (inclusive of the calculations that support your completed Financial Template and P&L, Cashflow and Balance sheet). You will be provided with:

- A 'locked' version: This should be completed with all financial information related to your proposal and should be completed and submitted. The locked Financial Template Cover Sheets provided by the Commission must not be altered beyond the population of cells that are required to be populated. You will, however, be able to add additional tabs as part of your Supporting Financials and Supporting Narrative if you wish; and
- An 'unlocked' version: This will be identical to the 'locked' version; however, you will be free to use the 'unlocked' version to support in your own calculations. Please note that you will not need to submit the unlocked version, it is provided for your own use.

You should not change or adapt the locked Financial Template, and all evidence should support the financials set out in your completed locked Cover Sheets.

23.3 GENERAL ASSUMPTIONS

You are expected to provide a Financial Template for the Implementation Period, the 10-year Fourth Licence Term plus 2-year Contingency Period. Only the Implementation Period and 10-year Fourth Licence Term will be evaluated.

Your Financial Template should be completed based on the general assumptions provided below, together with any additional assumptions you may set out in your supporting evidence. You are required to ensure that the projections submitted within your Financial Template are based on reasonable and properly held assumptions, are consistent with the financial information presented elsewhere in your response and are consistent with the proposals set out in response to this ITA.

The general assumptions are outlined below. The Commission reserves the right to update these core parameters during the competition:

- A single 10-year Licence commencing on 1 August 2023; plus an Implementation Period ahead of the Start Date 4 October 2021 - 31 July 2023 and a potential 2-year extension Contingency Period to 31 July 2035.
- Real GDP growth in the UK economy consistent with latest published reference rate forecast of the Office of Budget Responsibility (please note this will not be provided but Applicants should refer to the latest published rate at the time of submission);
- The Commercial Vendor Due Diligence Report will be provided, from which Applicants should establish their Year 1 starting point. Applicants may choose not to use this as a starting point for their Application, in which case Applicants must provide adequate rationale for how the starting point has been calculated;
- The Commission will also provide updated COVID-19 data and forecasts during the Competition which Applicants can refer to;
- Details related to Licensee Assets (as defined in the Third Licence) which may be selected by the Licensee to be transferred from the Current Operator as part of the handover of the National Lottery at the start of the Fourth Licence will be provided in the VDR;
- Inflation (as measured by the annual change in the consumer price index, CPI) consistent with the Bank of England target assumption, currently set at 2%;

- Reference interbank borrowing rate and other financing rates should be taken as the midpoint and as at close of business (London); and Exchange rates should be derived from the Bank of England daily spot exchange rates against sterling website²⁹. For Phase One Applications, the rates should be as of 19 February 2021, and for Phase Two Applications as of the date which is four weeks before submission due date. Please note that the Commission retains the right to set the exchange rates on an alternative basis should it be deemed appropriate;
- Applicants may use whichever accounting standards they deem appropriate in their financial response. The Commission is aware, and accepts, that different treatment and/or allocation of costs may impact the calculation of Surplus;
- Lottery duty remains at 12%;
- Licence fees are not subject to VAT;
- VAT is not chargeable on tickets in any Game since they are an exempt supply;
- Sales of tickets in Games are limited to the Commission's current jurisdiction (i.e. UK and Isle of Man)
- The regulatory environment of the National Lottery and other relevant industries (including society lotteries, other forms of gaming, and gambling) remains unchanged (including in relation to prize limits and advertising). Applicants should note that the Government has committed to review the Gambling Act 2005 and has consulted on possible changes to the minimum age for playing National Lottery games and is expected to make a decision on this in due course;
- All values in your projections should be provided in sterling and in nominal terms;
- You should submit your Financial Template based on the assumption that any proposed Ancillary Activity or Activities will be approved.

All assumptions, dates, risks, mitigations and sources should be provided in each case and set out in the Supporting Narrative of the Financial Template. The Commission reserves the right to require assumptions are adjusted where those applied are not consistent with the above parameters.

²⁹ <https://www.bankofengland.co.uk/boeapps/database/Rates.asp?Travel=NlXlRx&into=GBP>

23.4 BASE CASE

Q28.

Please provide your Base Case

Q28a.

Please complete the Base Case Cover Sheet (provided by the Commission)

Base Case Cover Sheet Guidance

You are expected to complete the Base Case Cover Sheet with all financial information for each line item related to your responses. Completion of your Base Case Cover Sheet should be aligned to your Qualitative Responses/Business Plan. You should ensure you complete all yellow cells in the Base Case Cover Sheet.

When completing your Base Case Cover Sheet in the Financial Template, it is crucial that you include all costs/revenues related to the proposals set out in your Application.

The Commission have provided forecast figures in the Commercial Vendor Due Diligence Report and monthly analysis of COVID-19 in the VDR which sets out the impact of COVID-19 on sales and channel data. Applicants may use the Commercial Vendor Due Diligence Report to establish an appropriate Year 1 starting point. The Commission will provide updated COVID-19 data and forecasts during the Competition that Applicants should refer to. If you choose not to use the Year 1 starting point set out in the Commercial Due Diligence Report provided, you must provide adequate rationale in your Supporting Narrative for how you have calculated your Year 1 starting point for your Application.

Please note: You must complete the Base Case on the assumption that any Ancillary Activity or Activities will be approved.

Q28b.

Please provide your Supporting Financials

Please note your Supporting Financials should provide:

- Clearly separated out irrecoverable VAT within each line item where it is incurred;
- A clear breakdown of variable and fixed costs;
- Additional detailed annual profit and loss accounts;
- Additional detailed cash flow statements; and
- Additional detailed balance sheets.

All information should be provided for the duration of the Implementation Period, Fourth Licence Term and Contingency Period.

Supporting Financials guidance

The Commission will not prescribe the form of the supporting financials to be provided alongside your Base Case Cover Sheet. You are free to define the structure and content, however we would expect that in your supporting financials, you ensure that all projected values show a clear link to the line items in the Base Case Cover Sheet as well as reference to the relevant ITA response that it relates to. Your financials should clearly demonstrate where they relate to line items in the Base Case Cover Sheet. You may use the locked version to show linkages.

For your Supporting Financials, you must provide a line-by-line breakdown of all your costs and revenues associated with all areas of your response to this ITA. Your Supporting Financials should demonstrate detail as to how each value set out in the Base Case Cover Sheet has been calculated.

You should provide additional tabs/workbooks in the locked version or provide your own modelling that will form your Supporting Financials to support your Base Case. You should clearly demonstrate how your additional tabs/supporting models link to the financial information you have set out in your Base Case Cover Sheet.

Please note Estimated Implementation Costs should be completed in the 'Cash Flow' section under "Estimated Implementation Costs" as if these are determined by the Commission to be "Recoverable Implementation Costs" these will be amortised over the life of the Fourth Licence. Any costs which you expect to incur in connection with Implementation or Transition which you are not seeking to be treated as Recoverable Implementation Costs should be put in the "Operator P&L" section.

If you are not proposing any Ancillary Activities, you are not required to submit any Ancillary Activities information in your Base Case Cover Sheet. If you are proposing Ancillary Activities as these are material to your Application, you should complete the Financial Template on the assumption that any proposed Ancillary Activities will be approved.

The table below sets out a list of non-exhaustive examples of financial information and relevant calculations we would expect you to provide as part of your Supporting Financials for your Base Case. You should provide a clear split between operating expenditure and capital expenditure in your Supporting Financials. Please note the sections outlined below are not indicative of the layout you should use; they are purely to provide examples of costs.

Section of your Application	Relevant question(s)	Examples of Supporting Financials required
Propriety	1-3	<ul style="list-style-type: none"> • Costs of carrying out Fit and Proper Checks on Critical Function Employees e.g. DBS checks • Audit costs • Governance costs • Senior Executive Remuneration
Protecting Participants' Interests	4-5	<ul style="list-style-type: none"> • Costs related to implementing and maintaining the Participant Protection Strategy. • Costs related to monitoring, evaluating and improving the effectiveness of the Participant Protection Strategy.
Good Causes Contribution	–	<ul style="list-style-type: none"> • Breakdown of your Proposed Good Causes Contribution • Breakdown of your Proportion of Surplus to Good Causes and your proposed Licensee's Proportion of Surplus • Expected profit before/after tax • Breakdown of irrecoverable VAT for each relevant line item
Protecting Participant Funds	6-7	<ul style="list-style-type: none"> • Fees of Proposed Trustee (including both monthly/annual base fees and estimated fees for predicted changes to the Trust Deed (e.g. if a new Game is set up during the Licence Term) • Reporting costs (both to the Commission and between the Proposed Trustee and the Proposed Licensee) • Costs related to the operation of 4NL Trust • Costs related to the impact of setting up a new Game during the Licence Term on the operation of 4NL Trust arrangements • Costs related to Portfolio Volatility arrangements <p>You should note that:</p> <ul style="list-style-type: none"> – Costs related to 4NL Trust during the Implementation Period should be reflected in your Implementation costs (transfer of funds from 3NL-4NL should be classed as Transition Costs and establishment and set up of 4NL Trust operations should be classed as Transformation Costs; – Costs of staff for 4NL Trust should be reflected in your Operations costs
Financial strength	8-9	<ul style="list-style-type: none"> • Financing costs

Table 29: Examples of Supporting Financials

Section of your Application	Relevant question(s)	Examples of Supporting Financials required
Branding	10	<ul style="list-style-type: none"> • Market research and new product development • Marketing planning and strategy • Content creation • Media buying • Delivery costs (payout and distribution) • Marketing spend per channel (such as online, TV, print, social media, NL website) • PR costs (proactive) including partnerships, influencers etc • PR costs (reactive & crisis management) • Brand monitoring and enforcement (monitoring of brand health and of Brand IP infringement) • Marketing performance management, audit and assurance • Costs associated with Promotional Prizes
Channels and Portfolio	11-12	<ul style="list-style-type: none"> • Consumables Costs (production, printing) • Distribution of physical products • Warehousing • Retailer commission costs, split by retailer type (e.g. supermarkets, independents)
	13	<ul style="list-style-type: none"> • Revenue projections per Game broken down by price point, channel type and player demographic • Game development costs • Game trialling and market testing costs • Quality assurance costs • IP-related costs
The National Lottery Operation including; people, processes and technology	14-17	<ul style="list-style-type: none"> • All Staff costs should be included in the Staff Costs line item of the Base Case Cover Sheet and then split out by department and geography (if office sites split across the UK), including all benefits for employees in Supporting Financials. If you expect to transfer employees from the incumbent operator under TUPE, then you must include the anticipated ongoing costs of the salaries and benefits (including pensions) of such employees from the start of the Licence onwards in Staff Costs and provide a clear breakdown in Supporting Financials. • HR costs such as training and development, recruitment, performance management • Contract spend broken down by appropriate categories that you are free to set out • Details of costs associated with Related Party Arrangements, demonstrating consistent treatment with the conditions of the Fourth Licence

Section of your Application	Relevant question(s)	Examples of Supporting Financials required
The National Lottery Operation including; people, processes and technology	14-17	<ul style="list-style-type: none"> Office and buildings costs such as lease costs, facilities management, maintenance costs. Please note that the Commission recognises that lease costs may be recorded differently according to different accounting standards. The inclusion of a category for lease costs should not be misinterpreted as a Commission proposal for the recording of certain costs, or the application of a particular accounting standard. The Commission is also aware that different treatment and/or allocation of costs may impact the calculation of Surplus. However, it is a matter for you to determine the appropriate recording of potential lease costs and the relevant accounting standard consistent with the Base Case Cover Sheet. You should provide details of the accounting standard you have used in your Supporting Narrative. All costs relating to technology (split by internal (i.e. Licensee) and retailer related cost) Terminal purchase and maintenance. Retail network connectivity – broken down by support for terminals, retailers, and back-office. Software costs – broken down by gaming software, back-office operational software, retail software, and technology support related software. Technology infrastructure and operations – broken down by centralised platform costs, retail and internal and local office and user-based costs. 3rd party outsourced IT service costs.
Transition	18-21	<ul style="list-style-type: none"> A breakdown of Estimated Recoverable Implementation Costs, including identifying which of those costs are Transition Costs and Transformation costs TUPE costs. Note that the ongoing costs of salaries and benefits throughout the Fourth Licence Term should be covered under resource costs (2.11 above).
Ancillary Activities	22-25	<ul style="list-style-type: none"> A breakdown of costs attributable to each Ancillary Activity, clearly identifying and separating the Ancillary Activity Direct Costs attributable to each Ancillary Activity. Revenues directly attributable to each Ancillary Activity; Incremental revenues attributable to each Ancillary Activity (for example, if the Ancillary Activity is projected to drive additional National Lottery sales).

Q28c.

Please provide Supporting Narrative to your Base Case

Your response should be no more than 150 pages.

The Supporting Narrative should be provided in Word/PowerPoint format and should clearly explain how the Financial Template links to the proposed approach set out in your ITA response. In your Supporting Narrative, you should clearly cross-reference the relevant area of your ITA response.

As a minimum, your Supporting Narrative should include:

- Explanation of each line item in your Base Case Cover Sheet with a detailed explanation of your Supporting Financials;
- Any assumptions and exclusions, in addition to the general assumptions set out in Section 23.3 (General assumptions);
- Detailed justification for all expenditure projections, including capital expenditure and operating expenditure for both the Implementation Period and Fourth Licence Term;
- Justification, cost drivers (explanation/description of activities that cause changes in costs) and detail behind your Proposed Good Causes Contribution, Proportion of Surplus to Good Causes and Licensee's Proportion of Surplus and explanation of how these relate to your proposal using clear labelling/links to your forecasts provided in your Base Case Cover Sheet and all other responses to this ITA;
- Details related to any Related or Third-Party Arrangements or Lottery Subcontractors (including what the arrangements are, details about who the parties are etc);
- Details related to any proposed Ancillary Activities. If you are proposing Ancillary Activities which are material to your Application, you should detail the impact on costs, revenues and financing for:
 - Any one of those Ancillary Activities being approved;
 - Any combination of those Ancillary Activities being approved;
 - All of those Ancillary Activities being approved.

Table 29: Examples of Supporting Financials

23.5 BREAKEVEN CASE

Q29.

Please provide your Breakeven Case

Q29a.

Please complete the Breakeven Case Cover Sheet (provided by the Commission)

Breakeven Case Guidance

You should complete the Cover Sheet for the Breakeven Case for each of Licence Year 3 and Licence Year 7 with total values that reflect your financial forecast for each line item in a breakeven scenario (the point at which your net income / profit after tax, is £0). You should note that all general assumptions should remain as stated above.

You are required to provide a breakeven scenario whereby, absent any mitigating actions you, on the basis of your proposed financial and operating structure, make no profit after tax.

The Breakeven Case will be used to assess the Licensee's financial strength in the event of a shock event resulting in a breakeven scenario.

You are free to determine the factors that will cause a breakeven scenario and you should ensure these are clearly set out in your Supporting Narrative. You should use factors that you think are the most plausible.

Please note: You must complete the Breakeven Case on the assumption that any proposed Ancillary Activity or Activities will be approved.

Q29b.

Please provide Supporting Narrative to the Breakeven Case

Your response should be no more than 20 pages.

The Supporting Narrative should demonstrate how and why the financial information in your Breakeven Case varies from your Base Case. It should be noted that the Breakeven Case will be evaluated as part of Solution Risk Factor to evaluate the overall risk to your proposed solution.

As a minimum, your Supporting Narrative should include:

- Commentary on the most likely circumstances (including management decisions and external events) that could result in the Breakeven Case occurring and the risk management strategies to be adopted by the Licensee to prevent their occurrence;
- The financial impact of such event occurring in each of Licence Year 3 and Licence Year 7 of the Licence, including a line-by-line explanation of the impact revenue fall/cost increase has had on the cost base, investment requirements and constituent elements;
- Mitigating actions that may be taken to reduce the impact of decreased revenue and to protect the Licensee's financial strength;
- Any risks and mitigations to the operation of the National Lottery due to a breakeven scenario (e.g. impact on supply, Lottery Subcontractors, Lottery Staff etc);
- The financial impact of any mitigating actions

Please note: You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register and are appropriately categorised to ensure they are evaluated correctly.

23.6 UPSIDE CASE

Q30.

Please provide your Upside Case

Q30a.

Please complete the Upside Case Cover Sheet (provided by the Commission)

Upside Case Guidance

You should complete the Upside Case Cover Sheet to reflect your financial forecasts in an upside scenario complete with financial information for each line item representing the financial circumstances in an upside scenario.

You are requested to provide an Upside Case to allow the Commission to understand the extent to which your proposed Base Case may be outperformed, the circumstances under which this outperformance may occur and the extent to which an outperformance in sales impacts the Surplus generated under your planned cost structures.

This Upside Case will be used to analyse your Proposed Good Causes Contribution should such a scenario be achieved and, in particular, the impact of such sales out performance on the financial and operating cost structure you have proposed.

You are free to determine your own upside scenario and you should set out the factors which you think are most plausible. You should note that all general assumptions should remain as stated above.

Please note: You must complete the Upside Case on the assumption that any proposed Ancillary Activity or Activities will be approved.

Q30b.

Please provide your Supporting Narrative to the Upside Case

Your response should be no more than 20 pages.

The Supporting Narrative should demonstrate how and why the financial information in your Upside Case varies from your Base Case. It should be noted that the Upside Case will be evaluated as part of Solution Risk Factor to evaluate the overall risk to your proposed solution.

As a minimum, your Supporting Narrative should include:

- Commentary on the **most likely** circumstances which could result in out-performance, ensuring no negative impact on protecting participants' interests or propriety;
- Line-by-line commentary on the impact on the cost base, investment requirements and constituent elements resulting from the revenue or sales volume rise/cost decrease;
- Commentary on how you would be likely to adjust your Game plan, marketing plan, investment plan or other aspect of your Business Plan in this scenario;
- Any risks to the operation of the National Lottery due to an upside scenario.

Please note: You should also ensure all risks and mitigations associated with your response to this question are included in your consolidated Risk Register and are appropriately categorised to ensure they are evaluated correctly.

23.7 FINANCIAL STRENGTH SCENARIOS

Q31.

Please complete the Financial Strength Scenarios (provided by the Commission)

Your response should include completion of each of the six Financial Strength Scenario tabs in the Financial Template, to reflect the following scenarios:

- 1 All Games produce only 90% of the revenue projected in the Base Case
- 2 All Games produce only 75% of the revenue projected in the Base Case
- 3 All variable costs are 25% higher than those forecast in the Base Case
- 4 All non-variable costs are 10% higher than those forecast in the Base Case
- 5 Investment costs (Implementation Costs and forecast capital expenditure throughout the Fourth Licence Term) are 50% higher than those projected in the Base Case
- 6 A combination of tests 1 and 3

Financial Strength Scenarios Guidance

Please ensure that you have completed the Base Case Cover Sheet before completing the Financial Strength Scenarios.

The Financial Strength Scenarios are required in order to evidence that you will have sufficient funding in place throughout the Implementation Period and the Licence Term in the event that costs exceed forecasts, and/or revenues fall short of forecasts.

You are not required to provide any assumptions in this section as to what may cause such scenarios to occur.

Where a scenario specifies an increase in costs, you should assume that costs are uniformly higher throughout the specified period.

Where a scenario specifies a decrease in revenues, you should assume that revenues are uniformly lower throughout the Fourth Licence Term and Contingency Period.

All other assumptions should be consistent with your Base Case. You should assume that the Licensee would be required to finance the same plans and strategies, and maintain the same standards as outlined in your Application (across the Business Plan and the Pass/Fail requirements).

Your proposed Proportion of Surplus must be the same under the Financial Strength Scenarios as in the Base Case.

You should complete the Financial Strength Scenarios based on the assumption that any proposed Ancillary Activity or Activities will be approved.

Please note that the Commission retains the right to request additional scenarios from Applicants if required.

Note: Please ensure that you respond to the financial strength questions in Section 22.5 (Financial strength) of this document.

23.8 ADDITIONAL INFORMATION

Q32.

Please provide assurance in support of your Financial Template

To provide the Commission with a level of confidence and assurance, at Phase Two, your Financial Template must be accompanied by:

- a) an Assurance Statement certified as approved by the Board of the Applicant confirming that projections provided have been properly compiled on the basis of the assumptions stated and that the Financial Template and associated financing arrangements provide reasonable expectation that the Licensee will have, or will have available to it, sufficient financial and operational resources to operate the National Lottery in compliance with the Licence in a reasonable range of outcomes. Evidence of the assurances the Board has undertaken in satisfying itself as to this Assurance Statement should also be provided.
- b) AND a letter from an auditor who is eligible to be appointed as a company auditor in accordance with the Companies Act 2006. The letter shall be addressed to the Commission, providing an opinion that the projections provided have been properly compiled 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 prepared in conformity with International Financial Reporting Standards.

Q33.

Please provide guidance to the Commission on the structure of your Financial Template

Your response should be no more than 10 pages.

For the purposes of assisting the Commission in understanding the key drivers and underlying dynamics of the model, you are required to provide the Commission with guidance on how your Financial Template and supporting material has been structured in order to provide clarity for evaluators.

Your response should only include guidance as to the functionality and structure of your financial response.

Q34.

Please provide an Appointed Individual

You are required to nominate and make available an 'Appointed Individual' who is able to explain and interpret your Financial Template as and when requested by the Commission.

You are required to provide the Appointed Individual's:

- Name
- Job title
- Phone number
- E-mail address

VOLUME — G

DECLARATION

24 Compliance and Document Submission 142

24 COMPLIANCE AND DOCUMENT SUBMISSION

Applications should be submitted through Jaggaer in accordance with the instructions contained in this document. Please note that it is incumbent on Applicants to ensure they have returned all relevant documentary evidence to accompany their Application and completed all templates with all required answers. Failure to do so may result in responses being deemed non-compliant and you may be excluded from the competition.

24.1 SUBMISSION CHECKLIST

Ref	Response Section	Question Number	Contents	Page limit	Phase One Submission requirement	Phase Two Submission requirement	Included in submission (Yes/No)
1	22.2 Propriety	1	SPE registration confirmation	1	✓	✓	
2		1	SPE evidence or organisational charts	N/A	✓	✓	
3		2	Corporate Governance overview	20	✓	✓	
4		3	Financial Crime, Anti-Money Laundering and Anti-Terrorist Financing response	15	✓	✓	
5	22.3 Protecting Participants' interests	4	Participant Protection Strategy	40	✓	✓	
6		5	Details of how you plan to implement, manage, monitor, and adapt your Participant Protection Strategy	10	✓	✓	
7	22.4 Protecting Participant Funds	6	Completed 4NL Trust Feedback Form	N/A	22 Jan 2021	X	
8		7	(4NL Trust) Required Responses (Phase One)	N/A	✓	X	
9		7	(4NL Trust) Required Responses (Phase Two)	N/A	X	✓	

Ref	Response Section	Question Number	Contents	Page limit	Phase One Submission requirement	Phase Two Submission requirement	Included in submission (Yes/No)
10	22.5 Financial Strength	8	Financing structure	30	✓	✓	
11		8	Financial Strength Supporting Evidence (Part 1)	N/A	✓	✓	
12		9	Completed Key Subcontractor Financial Strength Template	N/A	✓	✓	
13		9	Financial standing of supply chain	12	✓	✓	
14		9	Financial Strength Supporting Evidence (Part 2)	N/A	✓	✓	
15	22.6 Branding	10	Brand Management Plan	80	✓	✓	
16	22.7 Channels	11	Distribution and Portfolio Strategy (Distribution Channels element)	50	✓	✓	
17		12	Retailer Charter	4	✓	✓	
18	22.8 Portfolio	13	Distribution and Portfolio Strategy (Portfolio element)	130	✓	✓	
19	22.9 The National Lottery operation	14	Operating Model	80	✓	✓	
20		15	Technology and Data Architecture Strategy	90	✓	✓	
21		16	Security Strategy	25	✓	✓	
22		17	Technology Operation	25	✓	✓	
23		22.10 Implementation, Transition and Exit	18	Incoming Transition Plan	100	✓	✓
24	19		Exit Plan	30	✓	✓	
25	20		Implementation and Transition Documents Feedback Form	N/A	✓	X	
26	21		Executed Deed of Commitment	N/A	X	✓	
27	21		Form of Enabling Agreement	N/A	X	✓	
28	21		Form of Fourth Licence	N/A	X	✓	

Ref	Response Section	Question Number	Contents	Page limit	Phase One Submission requirement	Phase Two Submission requirement	Included in submission (Yes/No)
29	22.11 Ancillary Activities	22	Confirmation	N/A	✓	✓	
30		23	Details	15*	✓ (if applicable)	✓ (if applicable)	
31		24	Risk	10*	✓ (if applicable)	✓ (if applicable)	
32		25	Compliance	10*	✓ (if applicable)	✓ (if applicable)	
33	22.12 Additional information	26	Risk Register	N/A	✓	✓	
34		27	Form of Fourth Licence Feedback Form	N/A	✓	X	
35	23.4 Base Case	28a	Base Case Cover Sheet (using Financial Template)	N/A	✓	✓	
36		28b	Base Case Supporting Financials	N/A	✓	✓	
37		28c	Base Case Supporting Narrative	150	✓	✓	
38	23.5 Breakeven Case	29a	Breakeven Case (using Financial Template)	N/A	✓	✓	
39		29b	Breakeven Case Supporting Narrative	20	✓	✓	
40	23.6 Upside Case	30a	Upside Case (using Financial Template)	N/A	✓	✓	
41		30b	Upside Case Supporting Narrative	20	✓	✓	
42	23.7 Financial Strength Scenarios	31	Financial Strength Scenarios (using Financial Template)	N/A	✓	✓	
43	23.8 Additional information	32	Assurance Statement	N/A	X	✓	
44		32	Auditor's Letter	N/A	X	✓	
45		33	Financial Template Guidance	10	✓	✓	
46		34	Appointed Individual	N/A	✓	✓	
47	N/A	N/A	Applicant presentation supporting materials	N/A	✓	✓	
48	Declaration	N/A	Completed Submission Checklist	N/A	✓	✓	
49		N/A	Completed Declaration	N/A	✓	✓	

Table 30: Submission Checklist

Notes: * Page counts for Section 22.11 (Ancillary Activities) are per Ancillary Activity

24.2 DECLARATION

I declare that to the best of my knowledge the answers submitted, and information contained in my Application are correct and accurate.

I declare that I have the authority to complete this declaration and submit an Application on behalf of the Applicant.

I understand that the information provided will be used by the Commission to evaluate this Application.

I understand that the Commission may reject this Application in its entirety if there is a failure to answer all the relevant questions fully, or if false/misleading information or content is provided in any section.

I am aware of the consequences of misrepresentation.

Applicant name

Contact name for the Applicant

**Nature of contact's authority
to sign on behalf of the Applicant**

Contact's job title

Contact's phone number

Contact's e-mail address

Contact's postal address

**Signature
(electronic is acceptable)**

Date

Table 31: Declaration

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Capitalised terms not defined in this Glossary shall have the meaning given to those terms in the Proposed Form of Fourth Licence.

4NL Trust	has the meaning given to that term in the 4NL Trust Explanatory Note
Account Bank	has the meaning given to that term in the Short Form Trust Deed
Account Bank Requirements	the requirements for the Account Bank as set out in the Short Form Trust Deed at Phase One and the Long Form Trust Deed at Phase Two
Ancillary Activities Direct Costs	costs that are directly related to the delivery of an Ancillary Activity. The goods or services received in return for such costs are provided for the sole purpose of conducting the Ancillary Activity. The removal of Ancillary Activities Direct Costs should have no detrimental effect on your ability to deliver the National Lottery operation or any of the Licensee's obligations under the Fourth Licence.
Ancillary Activities Indirect Costs	costs that are indirectly related to and/or not wholly attributable to the delivery of an Ancillary Activity, including administrative expenses and any incremental costs - incurred as a result of the Ancillary Activity, where such costs are over and above those that would otherwise be incurred in delivering against the Business Plan - for goods and services that are required in order to run the National Lottery operation or deliver the Licensee's obligations under the Fourth Licence.
Applicant	has the meaning given to that term in the Application Process Agreement
Application	any response to this ITA, or the process of submitting that response
Application Process Agreement (APA)	the agreement entered into between each Applicant and the Gambling Commission which sets out the rules governing an Applicant's participation in the Competition
Application Specific Condition	specific Conditions of the Proposed Form of Fourth Licence which need to reflect the particular approach which each Applicant proposes to take to fulfilling particular requirements specified by the Commission
Application Specific Provisions	specific provisions which need to reflect the particular approach which each Applicant proposes to take to fulfilling particular requirements specified by the Commission
Appointed Individual	the individual nominated by an Applicant who is able to explain and interpret their Financial Template
Associated Persons	has the meaning given to it in the Application Process Agreement (APA)
Assurance Statement	any assurance statement certified as approved by the board of Directors of the Licensee (or Incoming Licensee), that the Gambling Commission requires the Licensee (or Incoming Licensee) to provide, including any Annual Assurance Statement and any Ad Hoc Assurance Statement.
Award Notification	has the meaning given to that term in the Form of Deed of Commitment

Business Plan	the element of an Application which is made up of five Business Plan Areas: Transition, Branding, Portfolio, Channels and Operations. As described in Section 8.6 (Business Plan)
Business Plan and Good Causes Contribution Score	the combined relative score for the Business Plan and Good Contribution areas of Evaluation, as shown in the worked example in Figure 7: Total Score Calculation
Business Plan and Good Causes Contribution Weighted Score	the Business Plan and Good Contribution Score following application of the area weighting, as shown in the worked example in Figure 7: Total Score Calculation
Business Plan Area	each of the areas of an Applicant's Business Plan described in Section 8.6 (Business Plan)
Business Plan Mark	the total combined mark for all five Business Plan Areas (/75)
Business Plan Score	the relative score derived from comparison of the Applicant's Business Plan Mark with the highest Business Plan Mark achieved by any Applicant, as shown in the worked example in Figure 7: Total Score Calculation
Change Proposal	has the meaning given to it in the Enabling Agreement.
Channels Business Plan Area	the part of the Business Plan that relates to Channels (of the National Lottery).
Commercial Vendor Due Diligence Report	the report produced by L.E.K. Consulting made available to Applicants via the VDR
Commission	the Gambling Commission
Competition or Fourth National Lottery Licence Competition "4NLC"	the competition process undertaken to award the Fourth Licence
Consumables Cost	includes costs associated with production of consumables, logistics, and other distribution costs
Contingency Period	period of up to 24 months by which the Fourth Licence Term can be extended in accordance with Condition 3.3 to 3.6 of the Form of Fourth Licence
Cooperation Agreement (CA)	an agreement, provided for in the Third Licence, between the Current Operator and the Commission and / or the Incoming Licensee
Cost Risk	any solution level risk related to overall costs to deploy or operate the National Lottery.
Credibility and Deliverability Business Plan Criteria	the criteria that will be used to evaluate Business Plans.
Current Operator	the licensee under the Third Licence, Camelot UK Lotteries Limited
Deed of Commitment (DoC)	a deed to be submitted by each Applicant as part of its Application pursuant to which that Applicant undertakes to ensure that their Proposed Licensee enters into the Enabling Agreement and adheres to the Cooperation Agreement if that Applicant receives an Award Notification
Department for Digital, Culture, Media and Sport (DCMS)	Department for Digital, Culture, Media and Sport
Directions	any directions issued by the Secretary of State for Digital, Culture, Media and Sport to the Commission

Discount Rate	the Discount Rate is commonly known as the rate at which society values the present compared to the future
Enabling Agreement (EA)	the agreement to be entered into by the Commission and the Preferred Applicant's Proposed Licensee setting out its responsibilities to implement its Application and cooperate with the Outgoing Licensee and confirming that, subject to this, they will be formally granted the Fourth Licence
Estimated Implementation Cost	estimated quantum of costs expected to be incurred during the Implementation Period, related to the implementation of the Application and the delivery of the Applicant's Incoming Transition Plan
Evaluation	the evaluation process to be undertaken by the Commission at the end of Phase Two, as described in Section 7 (Evaluation approach)
Fifth Licence	the fifth National Lottery Licence awarded under Section 5 of the Act
Final Reserve Balance	has the meaning given to that term in the Short Form Trust Deed
Financial Response	the financial element of an Application, as described in Section 23
Form of Deed of Commitment	the proposed form of the Deed of Commitment issued by the Commission with this ITA
Form of Enabling Agreement	the proposed form of the Enabling Agreement issued by the Commission with this ITA
Fourth Licence Term	the term of the Fourth Licence, being the period from (and including) the Start Date to (and including) the End Date
Funds Protection Policies	has the meaning given to that term in the 4NL Trust Explanatory Note
Funds Protection Outcome	has the meaning given to that term in the 4NL Trust Explanatory Note
Good Causes Contribution (in the context of Evaluation)	the Applicant's Proposed Good Causes Contribution following the application of the Discount Rate to the Surplus and subsequent calculations (please note that this definition is different to that of the Licence and only applies in the context of Evaluation)
Good Causes Contribution Score	the relative score derived from comparison of the Applicant's Good Causes Contribution with the highest Good Causes Contribution proposed by any Applicant, as shown in the worked example in Figure 7: Total Score Calculation
Implementation and Transition Documents	the proposed forms of the Deed of Commitment, Enabling Agreement and Cooperation Agreement issued by the Commission with this ITA
Implementation Period	the period of time from the date of the Enabling Agreement until the Start Date
Incentive Mechanism	the mechanism set out in Schedule 5 of the Form of Fourth Licence
Incoming Licensee	has the meaning given to that term in the Form of Enabling Agreement
Incoming Transition Plan	has the meaning given to that term in the Form of Enabling Agreement
Interactive Instant Win Games	a Game available to Participants online, whereby outcomes of the Game are generated instantly and by chance
ITA	the Invitation to Apply (this document)
ITA Stage	the second stage of the Competition

Licence, Fourth Licence or Fourth National Lottery Licence	means the licence to be granted by the Commission under Section 5 of the Act to run the National Lottery following the expiry of the Current Licence
Licensee	the licensee under the Fourth Licence
Licensee's Proportion of Surplus Weighted Score	the Licensee's Proportion of Surplus Score following application of the area weighting, as shown in the worked example in Figure 7: Total Score Calculation
Licensee's Proportion of Surplus	the percentage share of the Surplus that will cover the Licensee's costs, (subject to specified adjustments)
Licensee's Proportion of Surplus Score	the relative score derived from comparison of the Applicant's proposed Licensee's Proportion of Surplus with the lowest Licensee's Proportion of Surplus proposed by any Applicant, as shown in the worked example in Figure 7: Total Score Calculation
Mandatory and Discretionary Exclusion Criteria	has the meaning given to that term in the Selection Questionnaire (SQ)
NLDF	the National Lottery Distribution Fund
Operational Committee Forum	has the meaning given to that term in the Enabling Agreement
Outcome Notification	the point at which all Applicants are notified of the outcome of Evaluation, and the Preferred Applicant and the Reserve Applicant are appointed. Standstill Period commences
Outgoing Licensee	means the Current Operator
Outgoing Transition Plan	has the meaning given to that term in the Form of Cooperation Agreement
Pass/Fail Criteria	the criteria that will be used to evaluate propriety, protecting Participants' interests, protecting Participant funds and financial strength, as set out in Sections 8.1-8.3
Person Needing to be Checked	has the meaning given to it in the Information for Applicants on Fit and Proper Checks
Person Relevant to the Application	any person who, at the Start of the Fourth Licence, will be: a) a Qualifying Direct Shareholder of the Proposed Licensee; b) a Connected Party of a Qualifying Direct Shareholder of the Proposed Licensee; c) a Key Subcontractor of the Proposed Licensee; or d) a Connected Party of a Key Subcontractor of the Proposed Licensee.
Phase One Application	the Application to be submitted to the Commission for feedback (and not evaluation) as described in Section 5.3
Phase Two Application	the Application to be submitted to the Commission for Evaluation as described in Section 5.4
Phase Two Trust Addendum	has the meaning given to that term in the 4NL Trust Explanatory Note
Portfolio Volatility	a scenario occurring in which available funds are exhausted so liabilities to Participants cannot be met, for example where there are multiple prize winnings simultaneously or in quick succession
Preferred Applicant	the Applicant placed first after Evaluation, with whom the Commission intends to finalise the Form of Fourth Licence
Proposed Form of Fourth Licence	means the form of the Fourth National Lottery Licence released with the ITA (as may be updated by the Commission from time to time during the Competition)

Proposed Good Causes Contribution	the value of Good Causes Contribution proposed by an Applicant as part of their Application
Proposed Licensee	in respect of any Application, the entity (whether or not in existence at the time of this ITA) which the Applicant intends will be the Licensee under the Fourth Licence
Proposed Trustee	the Trustee proposed by an Applicant as part of their Application
Qualitative Response	the qualitative element to be submitted as part of an Application, as described in Section 23
Regulations (or National Lottery Regulations)	the National Lottery Regulations 1994
Representatives	has the meaning given to that term in the Application Process Agreement
Required Third-Party Approvals	has the meaning given to that term in the Enabling Agreement
(4NL Trust) Required Responses	the responses required as per Appendix G of the 4NL Trust Explanatory Note
Reserve Applicant	the Applicant who receives a Reserve Applicant Notice pursuant to the Form of Deed of Commitment
Reserve Applicant Notice	has the meaning given to that term in the Form of Deed of Commitment
Resource Availability Assurance Statement	has the meaning given to it in the Enabling Agreement
Resource Availability Commitments	has the meaning given to it in the Enabling Agreement
Restrictive Agreements	agreements used by one party to restrict the actions of another party as explained in Section 6.8 of this ITA
Secretary of State	the Secretary of State for Digital, Culture, Media and Sport
Section 6 Licence	a Licence awarded under section 6 of the Act, which is required in order to promote a Game
Selection Questionnaire (SQ) Stage	the first stage of the Competition. Applicants must have passed this stage in order to be invited to respond to this ITA
Solution Risk Factor (SRF)	the risk factor determined and applied as described in Section 8.6.2 (Solution Risk Factor)
Special Purpose Entity (SPE)	an entity established for the sole purpose of operating the National Lottery (which undertakes no other activities without the prior consent of the Commission in accordance with the Fourth Licence)
SQ	the Selection Questionnaire
Statutory Duties	the Commission's statutory duties as set out in section 4 of the Act
Supporting Financials	additional quantitative information and calculations to be provided by an Applicant in support of the Base Case Cover Sheet
Supplier Directory	the list of providers of Trustee services that expressed an interest in becoming the Proposed Trustee for 4NL Trust
Supporting Narrative	additional qualitative information and calculations to be provided by an Applicant in support of the Base Case, Upside Case and Breakeven Case Cover Sheets

Technology Solution	all computer hardware, software, data, gaming technology, terminals, telecommunications, interfaces, data centre(s) and other facilities associated with the Lottery operation whether operated by the Applicant or a third party
The Act	the National Lottery etc. Act 1993, as amended from time to time
Third Licence	the Section 5 Licence to run the National Lottery granted to the Current Operator in February 2009 and scheduled to expire on 31 July 2023
Total Business Plan Mark	the Business Plan Mark following application of the Applicant's Solution Risk Factor (SRF), as shown in the worked example in Figure 7: Total Score Calculation
Total Score	the score derived from the Licensee's Proportion of Surplus Weighted Score (15% of the Total Score) and the combined Business Plan and Good Causes Contribution Weighted Score (85% of the Total Score) which will be used
Transformation Costs	<p>any costs associated, or incurred in connection with, any change to the manner of the operation of the National Lottery, including, without limitation:</p> <ul style="list-style-type: none"> a) the costs of disposing of any assets or of making any persons redundant; b) the costs of investing in or acquiring any asset or of recruiting any person except in each case where such asset or person directly replaces any asset or person which is an Item to Transfer (as defined in the Cooperation Agreement) but does not Transfer to the Licensee
Transition	the process of the handover of control of the National Lottery from the Current Operator to the Licensee
Transition Costs	<p>anticipated costs and expenses specified by the Applicant in its Financial Template to be Transition Costs and which the Applicant demonstrates to the Commission's reasonable satisfaction would be reasonably incurred by the Incoming Licensee pursuant to the Receipt Obligations in the Cooperation Agreement or by way of professional advisory fees necessary for the Incoming Licensee to assess, enter into and implement the Receipt Obligations in the Cooperation Agreement but excludes for the avoidance doubt:</p> <ul style="list-style-type: none"> a) any and all costs incurred in the ordinary course of the operation of the National Lottery except to the extent of any amount which is: <ul style="list-style-type: none"> (i) payable under a contract which is a replacement of a contract which was an Item to Transfer (as defined in the Cooperation Agreement) but does not Transfer to the Licensee; and (ii) exceeds the amount which would have been payable under that contract which was an Item to Transfer; and b) any Transformation Costs; c) any Continuing Obligations (as defined in the Cooperation Agreement); and d) any costs associated, or incurred in connection with, the preparation of the Application.
Trust	refers to the trust arrangements for protecting Participant Funds
Trustee	is the name given to the Trust Provider during the Licence Term
Trustee Fees	fees related to the Trustee
Trustee Organisational Requirements	requirements for the Trustee set out in the Short/Long Form Trust Deed
Unamendable Condition	Conditions of the Proposed Form of Fourth Licence which will not be open to proposed amendment by Applicants
Virtual Data Room (VDR)	the electronic site established by the Commission in which information relating to the Competition will be stored and made available for inspection by Applicants

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