



Lotterywest
Strategic Development Plan
(Strategic Plan)
2011/12 – 2015/16

April 2012

Approved by
(22 May 2012)

Jan Stewart
Chief Executive Officer

A handwritten signature in black ink that reads "Jan Stewart".

signed

TABLE OF CONTENTS

Introduction	3
Statement of Strategic Intent	5
<i>Our Vision</i>	5
<i>Our Purpose</i>	5
<i>Our Values</i>	5
Strategic Planning Framework	6
1. BENEFICIARIES	8
2. LOTTERY OPERATIONS.....	9
3. ORGANISATIONAL DEVELOPMENT AND PEOPLE	10
4. BUSINESS FRAMEWORK.....	11
5. REPUTATION AND STAKEHOLDER RELATIONS	12
Economic and Financial Objectives	13
Overview	13
5 Year Forecast Profit and Loss	15
Risk Evaluation	16
Capital Investment Plan	17
Note: Financial Approval Disclaimer.....	19
Reserves (Retained Earnings)	19
Pricing Policy.....	19
Government Policy	20

Introduction

Lotterywest has a long and proud history of serving the community of Western Australia. Established as the Lotteries Commission of Western Australia in 1932 and holding its first lottery “consultation” in March 1933, Lotterywest was established to provide a State authorised form of gambling, to control illegal lotteries and most importantly to raise and distribute money for the benefit of the community of Western Australia.

Today, Lotterywest continues to operate the official Western Australian state lottery and to provide the chance to dream to the many loyal players who enjoy our lotto products, instant lottery games, our daily numbers game, Cash 3 and Soccer Pools. It continues to have the responsibility to raise funds for specified purposes and to distribute grants directly to eligible community organisations.

This Strategic Development Plan affirms the continuation of our commitment to be a leader in building a better Western Australia.

Lotterywest is a values based organisation. Our values of Rewarding, Inspiring, Trusted and Engaging create the foundation for all aspects of our business.

Lotterywest under the Lotteries Commission Act of 1990 which replaced the original Lotteries [control] Act of 1954 not only operates the lottery but also distributes the proceeds directly to a wide range of community organisations and charities throughout Western Australia. This makes Lotterywest unique among the lotteries operating in other Australian states with only a very small number of other lotteries in the world sharing this direct grant making responsibility. Increasingly Lotterywest has taken a leadership role both in this state as well as nationally in our innovative grant making and community development practices.

In addition to the grants we distribute directly, Lotterywest’s charter is also to raise money for the State’s health services, sporting organisations and the arts. This money is distributed by the relevant Government agencies.

We operate our games of Lotto as a partnership with the other Lottery operators in Australia in a structure known as the ‘Bloc’, to create a shared prize pool of a size which players find attractive. The population of most states in Australia, Western Australia included, the population is not of a sufficient size to generate the big life changing win for which our players are looking. This means our partnership with our colleagues in other states and territories is a critical element of our planning for continued success in our business.

Our product distribution channels are another critical element of our success. Lotterywest’s Strategic Plan outlines our continued focus on the support and development of the 550 small retail businesses (mostly newsagencies and specialist kiosks with a smaller number of some other styles of retail business) throughout the state who sell Lotterywest products.

Managing a retail distribution network in a state the size of Western Australia is a particular challenge for us. In addition in response to modern consumer expectation we also have an online sales channel, launched in February 2011. There will be increasing emphasis on that channel in the future while we continue to support and to develop the retail channel which will still deliver the vast majority of our product sales.

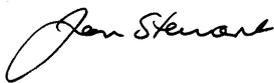
Lotterywest is committed to responsible gaming practice, recognising the need for balance between our commercial operations and the need to raise funds for our beneficiaries with our responsibilities to our players and to the public. This means our goal is to ensure business sustainability and achieve modest growth each year while observing our commitment to responsible play.

The environment in which we operate shapes our capacity to achieve our goals. As with all businesses, we operate in rapidly changing times. The overall economic climate will continue to be one that presents challenges for us in accurately forecasting future sales income and achieving the patterns of growth which our beneficiaries have experienced from us for more than a decade.

Changes in technology continue to add value and drive efficiencies and we will continue to invest in the business improvements which technology can offer.

In the five years covered by this Strategic Development Plan, we will continue to seek new opportunities for improved products and services to our players and retailers, to be partners of choice to the many providers of the goods and services we require to operate our lottery, to provide opportunities for the development of our staff and to provide community leadership and an innovative, flexible and responsive grants program to the community sector of Western Australia.

The Board and staff of Lotterywest are committed to service and excellence in all that we do.

A handwritten signature in black ink, reading "Jan Stewart". The signature is written in a cursive, flowing style.

Jan Stewart PSM
Chief Executive Officer Lotterywest

Statement of Strategic Intent

Our Vision

To be a leader in building a better Western Australia

Our Purpose

To enhance the quality of life and well being for all Western Australians through the funding and support we provide to our beneficiaries and by operating our lottery business with excellence and integrity.

Our Values

Lotterywest is an organisation committed to serving the community of Western Australia with excellence and integrity. Four core values underpin all that we do:

Rewarding We seek to ensure that the experience of all those with whom we come into contact – players, grant seekers, business partners and the community as a whole will be a valued and rewarding one and that all will be treated with courtesy and respect.

Inspiring We motivate, encourage and inspire ourselves and others to achieve greater things for the benefit of the community of Western Australia.

Trusted We are honest, reliable and trustworthy. We conduct ourselves professionally with the highest standards of integrity and excellence in all our business operations and in our relationships with all our stakeholders.

Engaging We actively seek relationships with all our stakeholders based on principles of mutual respect and strive to enhance the achievement of their goals and ours.

In enacting these values, we recognise the diversity of the interests of our stakeholders and seek to achieve a balance of approach which takes into account this diversity.

Strategic Planning Framework

Lotterywest's strategic framework provides the foundation that will guide the activities of our organisation over the next five years. This framework was developed following a series of extensive workshops with the Lotterywest Executive in consultation with the Lotterywest Leadership Group. The Lotterywest Board provided guidance and feedback throughout the planning process and have endorsed Lotterywest's Strategic Develop Plan (Strategic Plan) 2012 – 2016.

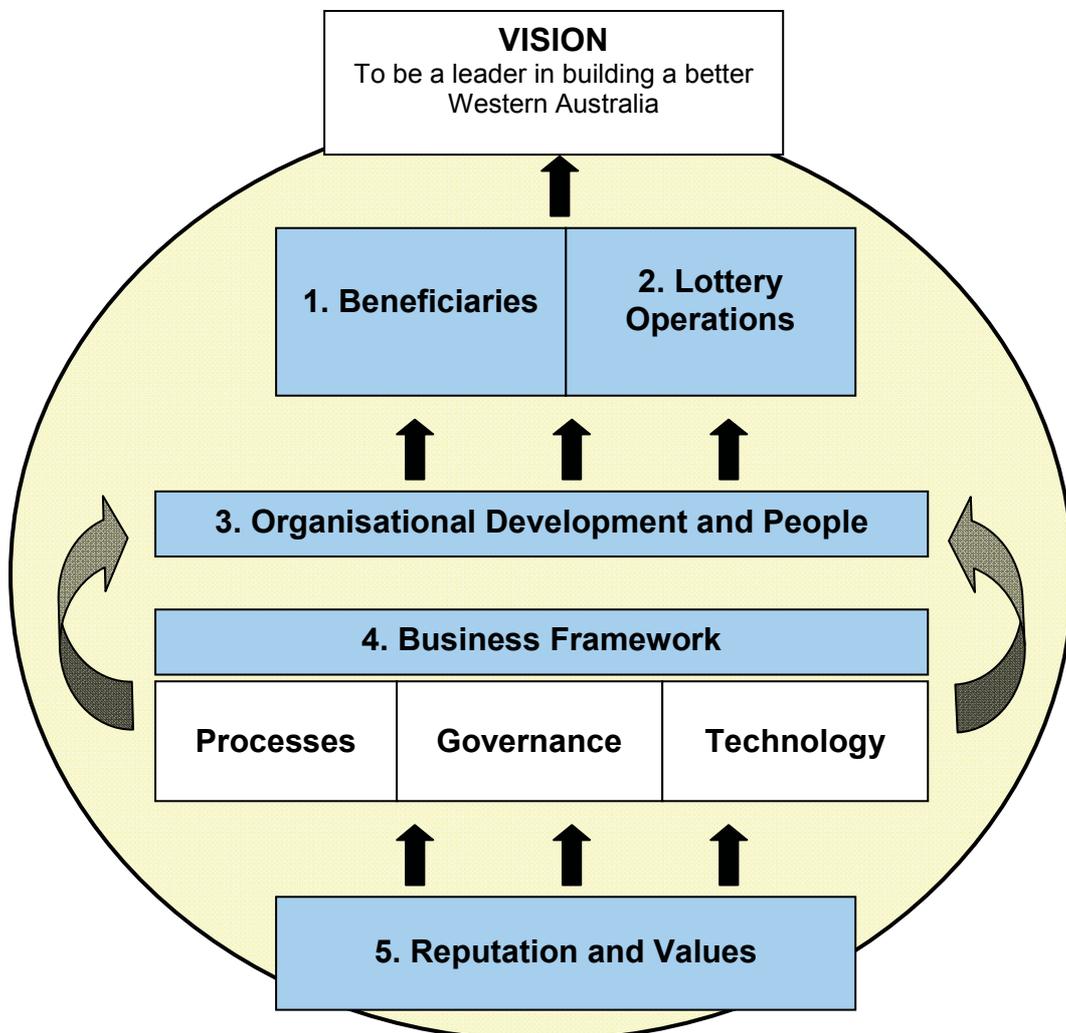
The strategic framework centres around five key business elements that provide an integrated and unified means of delivering our business objectives.

These are:

1. Beneficiaries
2. Lottery Operations
3. Organisational Development and People
4. Business Framework
5. Reputation and Values

As illustrated in the diagram below, at the core of this framework is our vision to be a leader in building a better Western Australia. This vision is supported through our five key business elements and underpinned by our organisational values – Rewarding, Inspiring, Trusted and Engaging. Our values are inherent in all that we do.

Diagram: Strategic Planning Framework



This document details the outcomes for each key business element and the strategies that will achieve these outcomes. Measures have been identified for each outcome that will provide an ongoing means of evaluating strategies and monitoring progress. An internal reporting mechanism has been established to review progression and outcomes quarterly.

State Government Framework

Lotterywest, as part of its ongoing business practice, prepares various planning documents including a strategic plan and annual business plan. These documents are approved by the Lotterywest Board and submitted to the responsible Minister.

Lotterywest's planning requirements have now been legislated in the Lotteries Commission Act 1990 (as amended). This was part of a State Government initiative (under the Machinery of Government Bill), to improve consistency in planning and service delivery across Western Australian public sector organisations by legislating the requirement for all government trading enterprises to provide two planning documents:

1. Strategic Development Plan (SDP), providing a 5 year outlook; and
2. Statement of Corporate Intent (SCI), providing a 1 year outlook.

Lotterywest's Strategic Plan and Annual Business Plan comply with the requirements as detailed in the Regulations to the Act for the annual submission of an SDP and SCI. These documents are submitted to the Premier as the responsible Minister.

Lotterywest Reporting Framework

The following table details the key planning documents prepared and published by Lotterywest.

Internal Use Documents	Description	Use
Strategic Plan	Outlines key business outcome areas and high level strategies to achieve outcomes	Approved by the Lotterywest Board and used internally to focus work resources and effort and to monitor and evaluate organisational strategies in achieving outcomes
Annual Business Plan and Budget	Details organisational financial and operational objectives for the financial year and how these will be achieved	Approved by the Lotterywest Board and used internally to focus work resources and effort and to monitor and evaluate organisational performance against budget and targets
Business Unit Annual Operational Plans	Outlines Business Unit objectives, detailing specific initiatives and activities to achieve objectives	Approved by the Business Unit General Manager and used by Business Units to focus work resources and effort and to monitor and evaluate outcomes against plan

Legislated Required Documents	Description	Use
Lotterywest Strategic Development Plan (SDP)	This document is based on Lotterywest's Strategic Plan (see above) but also includes additional information as stipulated under section 8 of the Lotteries Commission Act 1990 (as amended). Additional information includes: economic and financial objectives, capital expenditure requirements, competitive and pricing strategies	Approved by the Lotterywest Board and submitted to the Premier as the responsible Minister, and to the Department of Treasury and Finance
Lotterywest Statement of Corporate Intent (SCI)	This document is based on Lotterywest's Annual Business Plan and Budget (see above) but also includes additional information as stipulated under section 8 of the Lotteries Commission Act 1990 (as amended). Additional information includes: accounting policies, and the type of information provided in an annual report	Approved by the Lotterywest Board and submitted to the Premier as the responsible Minister, and to the Department of Treasury and Finance. Document is subsequently tabled in Parliament

1. BENEFICIARIES

Outcomes		Strategies
<p>1.1 Optimise returns to the beneficiaries stated in our Act.</p> <p>1.2 Provide leadership in the community which best contributes and supports the quality of life for Western Australians.</p>		<p>i. Provide effective, efficient and equitable grant making that responds flexibly to community needs.</p> <p>ii. Provide our customers an exemplary experience that is underpinned by integrity and transparency in our work.</p> <p>iii. Contribute to the development of best practice grant making across the government, corporate, not for profit and philanthropic sectors.</p> <p>iv. Maintain positive working relationships with all our beneficiaries.</p> <p>v. Partner with not for profit organisations, government, corporate and philanthropic bodies in addressing community needs and aspirations.</p> <p>vi. Actively lead and encourage community and sector development to address community challenges and aspirations.</p> <p>vii. Enhance the understanding and participation of our staff, retailers and players in our grants program and community outcomes.</p>
Measures		
<p>Effectiveness</p> <p>1. Grants per Capita</p> <p>2. Grants as % of Sales</p> <p>3. Quality of Service to Grants Customers</p> <p>4. 10% increase in use of Grants Online</p>	<p>Efficiency</p> <p>5. Grants Expenses per \$ of Grants distributed</p> <p>6. RAP signed off and key action items implemented</p> <p>7. Grant program includes RAP principles in grants distribution</p>	

2. LOTTERY OPERATIONS

Outcomes		Strategies
<p>2.1 Develop and manage our business to achieve excellent business performance, including meeting our sales targets in a responsible manner.</p>		<ul style="list-style-type: none"> i. Participate in industry development through existing business partnerships and potential new alliances. ii. Develop and manage our portfolio of lottery products to achieve sales targets, including opportunities to introduce new products. iii. Communicate with players and other stakeholders to promote our games and the responsible purchase of our products. iv. Develop and manage our gaming business systems to provide a sustainable platform to support our lottery operations. v. Optimise the performance of our distribution network, including developing opportunities to introduce new channels. vi. Develop and manage programs to support the retail network in achieving sales targets and sustainable business development. vii. Provide customer services that enhance our customers' experience when interacting with us.
Measures		
<p>Effectiveness</p> <p>1. Sales per Adult</p>	<p>Efficiency</p> <p>2. Lottery Expenses as % of Sales</p> <p>3. 10% reduction (6 business days) in processing time of retail licenses</p>	

3. ORGANISATIONAL DEVELOPMENT AND PEOPLE

Outcomes		Strategies
<p>3.1 Ensure that we have talented leadership and that our staff are equipped with the skills, knowledge and motivation to lead and manage our business to achieve our business objectives.</p> <p>3.2 Ensure that we provide a safe and healthy work environment.</p>		<ul style="list-style-type: none"> i. Review selection and deployment processes to ensure that we attract and retain the most talented staff. ii. Develop performance based initiatives to align staff performance with business priorities. iii. Develop a leadership program which provides opportunities for developing and enhancing key capabilities. iv. Provide a culture that recognises diversity, encourages collaboration and promotes ongoing health & well being and enjoyment in what we do. v. Ensure ongoing integration of our values in all of our people and organisational development strategies.
Measures		
<p>Effectiveness</p> <ul style="list-style-type: none"> 1. Ratio of engaged to actively disengaged employees 2. Maintain staff retention levels within sector standards 3. 95% of staff trained in integrity and ethical decision making 4. Meet equity and diversity targets 	<p>Efficiency</p> <ul style="list-style-type: none"> 5. No. of workers compensation claims resolved 6. Lost time Injury Frequency 	

4. BUSINESS FRAMEWORK

Outcomes		Strategies
<p>4.1 Provide a business model to achieve organisational objectives through the alignment of technologies, processes, governance and social responsibility.</p>		<p>i. Technology Deliver systems to support our business.</p> <p>ii. Processes Use processes that are simple, robust and flexible to support our business.</p> <p>iii. Governance Provide governance structures to support our business.</p> <p>iv. Social Responsibility Operate our business in a socially and environmentally responsible manner.</p>
Measures		
<p>Effectiveness</p> <p>1. Selling System Downtime</p>	<p>Efficiency</p> <p>2. Sales per FTE</p>	

5. REPUTATION AND STAKEHOLDER RELATIONS

Outcomes		Strategies
<p>5.1 A positive relationship with all stakeholders and a reputation within the Western Australian community in which the role we play is undertaken and held in high esteem.</p>		<ul style="list-style-type: none"> i. Demonstrate support and enable Lotterywest staff and retailers to become advocates of Lotterywest. ii. Develop and maintain positive communication and engagement with all our stakeholders and the WA community. iii. Ensure all our business practices meet the highest standards of corporate social responsibility. iv. Develop positive relationships with national and international colleagues in the Lottery industry. v. Develop positive working relationships with the community sector of Western Australia and with others in the state and nationally working with the community sector.
Measures		
<p>Effectiveness</p> <ul style="list-style-type: none"> 1. Positive attitude to the Lotterywest brand 2. Positive experience of Stakeholder engagement with Lotterywest 		

Economic and Financial Objectives

Overview

As part of Lotterywest's strategic planning process a range of financial models were developed to analyse the potential outcomes of various environmental changes and events on Lotterywest's business.

The Lotterywest Board and Executive group reviewed and discussed several models before agreement was reached on the financial forecasts that Lotterywest will deliver over the next five years.

In April this year, the Lotterywest Board endorsed the economic and financial objectives detailed in this paper. In summary, Lotterywest will target revenue growth of 4% per annum over the next five years and provide almost \$1.3 billion to the Western Australian community in statutory and direct grant funding.

Assumptions:

For Lotterywest to achieve these targets and deliver the stakeholder benefits being forecasted, a number of assumptions would need to be met.

Following is a summary of assumptions underpinning the five year financial forecast.

The five year forecast assumes that sales growth will be above 4% per annum. This will be achieved through a number of planned initiatives relating to two key areas:

- (a) product initiatives at a national level in partnership with the other members of the 'Bloc' which will account for the major part of the growth; and
- (b) Lotterywest initiatives relating to product development, marketing and distribution channel performance.

(a) Product Initiatives at the Bloc Level

The National Lotto Bloc, subject to State Government approval, is proposing changes which may include price increases for all major Lotto products in order that prizes and the games remain relevant to community expectations. An initial draft schedule is tabled below.

Product/ Estimated Date for implementation
Powerball - Mar 2013
Monday & Wednesday Lotto - Oct 2013
Saturday Lotto - May 2014
OZ Lotto - Oct 2014

These game changes account for most of the forecasted growth in sales. This growth will come directly from higher ticket prices and increased jackpots as a result of changes to some products.

The National Lottery Bloc has modelled annual sales growth levels of approximately 3.8% over the next 5 years based on the planned price and game changes.

(b) Lotterywest's Marketing Initiatives

Sales for each of the following initiatives are difficult to predict in isolation to other initiatives, but combined we estimate they will contribute additional sales of approx 0.7% to achieve an annual overall sales growth in excess of 4% per annum over the next 5 years. These initiatives are:

- ***Lotterywest Play Online (Internet based sales)***

A look at lotteries around the globe demonstrates that additional distribution channels generate additional sales. Play online was successfully launched in February 2011 and will continue to contribute to sales growth over the next 5 years with increased player awareness through integrated product marketing promoting all channels.

- ***Scratch'n'Win (Instant Ticket Product Portfolio)***

In June 2011 we introduced our new range of Scratch'n'Win products produced by our new ticket supplier, GTECH Printing Corporation. Following the successful launch of a new range of games and price points, we will continue to work with GTECH and other instant ticket suppliers to improve and further expand our overall product offer. In the context of the global industry (and per capita spend) this product shows great potential compared to lotto products. Improvements to product offer and variety and differentiation through price points will lead to an increase in Scratch'n'Win sales over the next few years. We have also reviewed our marketing strategy, with a refreshed approach introduced in 2011, and further research and creative development planned for 2013.

- ***Communications***

Working with our communications partners we are in the process of developing and implementing a range of new product marketing initiatives with the objective of improving communication effectiveness across all products and all channels. We have started to introduce a change in the style of our communications, and to broaden our use of communication channels, for a more sustained impact over time. The most significant of this new work will be launched in June 2012, providing ongoing brand support for our core Lotto product, and a platform for developing a full suite of retail communications to support our full range of lotto games and game events. Overall, this new marketing communications approach is intended to re-introduce and re-engage Western Australians with our products as well as with what we do, and to support our growth forecasts.

- ***Optimising Distribution Channel Performance***

We have relaunched our Retailer Development Program with an expanded program of incentives, rewards and events. The 'Lotteryworks' program clearly targets and supports overall improvement in retailer performance and is designed to do so through changing retail/commercial conditions. We will also explore opportunities for growth through retail distribution planning, improving our retail presence and using technology to support improved product sales and promotion strategies in the physical retail environment. We will continue to develop the Play Online channel as well as our capacity to provide the services, support and incentives that players expect via online channels.

In summary, the extensive work and analysis undertaken as part of the Bloc planning process was used as the foundation for determining Lotterywest's sales growth given that 85% of Lotterywest's revenue currently comes from the products we manage jointly with the other Bloc members.

The additional sales growth required to achieve in excess of 4% is based on Lotterywest's planned marketing initiatives, the relatively favourable performance of the Western Australian economy and projected demographic changes expected over the next five years in comparison to the other jurisdictions.

5 Year Forecast Profit and Loss

PRODUCT / GAME	Actual	Budget	Forecast	Projections			
	2010/11	2011/12		2012/13 Bud	2013/14	2014/15	2015/16
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Total Sales (Gross)	683,344	715,819	728,521	762,147	796,009	828,870	862,616
<i>Play On-Line (Incl. in Total)</i>		<i>17,500</i>	<i>11,742</i>	<i>16,045</i>	<i>19,419</i>	<i>24,574</i>	<i>29,488</i>
Investment Income	18,801	16,000	17,000	14,000	14,000	13,500	13,500
Forfeited Prizes	7,293	5,727	5,828	6,115	6,368	6,631	6,901
Other Income	4,226	4,663	4,429	4,575	4,776	4,973	5,176
<i>Play On-Line</i>			<i>-54</i>	<i>-74</i>	<i>-89</i>	<i>-113</i>	<i>-135</i>
Total Revenue	713,664	742,208	755,725	786,763	821,064	853,861	888,058
Cost Of Sales							
Prizes	383,415	401,181	409,260	427,572	446,332	464,588	483,334
Retailer Commission	56,010	58,849	59,879	62,644	65,422	68,128	70,908
<i>Play On-Line</i>			<i>-969</i>	<i>-1,325</i>	<i>-1,603</i>	<i>-2,029</i>	<i>-2,435</i>
	439,425	460,030	468,169	488,891	510,151	530,687	551,807
Operating Expenses	49,731	55,120	55,120	60,266	61,500	63,000	66,000
Funding							
Hospitals , 40% of Net Subscription	101,013	106,009	107,378	112,479	117,485	122,328	127,302
Sport, 5% of Net Subscription	12,627	13,251	13,422	14,060	14,686	15,291	15,913
Arts, 5% of Net Subscription	12,627	13,251	13,422	14,060	14,686	15,291	15,913
Direct Grants	112,486	110,725	110,725	111,000	112,000	113,000	114,000
	238,753	243,237	244,947	251,599	258,857	265,911	273,128
Profit/ Loss	-14,245	-16,179	-12,511	-13,993	-9,443	-5,736	-2,877

Key Indicators:

Sales Growth	-2.6%	4.8%	6.6%	4.6%	4.4%	4.1%	4.1%
Expenses as % of Sales	7.3%	7.7%	7.6%	7.9%	7.7%	7.6%	7.7%
Total Funding Growth	1.7%	1.9%	2.6%	2.7%	2.9%	2.7%	2.7%
Total Funding as % of Sales	34.9%	34.0%	33.6%	33.0%	32.5%	32.1%	31.7%
Direct Funding Growth	7.1%	-1.6%	-1.6%	0.2%	0.9%	0.9%	0.9%
Direct Grants as % of Sales	16.5%	15.5%	15.2%	14.6%	14.1%	13.6%	13.2%

Forecast Outcomes:

- Sales will grow by \$134 million (18%) to **\$862.6 million** in 2015/16
- Operational expenses to sales ratio is expected to grow to **7.9%**
- Total statutory and direct grant funding will amount to **\$1.3 billion**
- Direct Grants will reach **\$114 million** by 2015/16
- Minimum reserve target level of **\$65m** will not be breached

Risk Evaluation

The projection of a 4.1% to 4.6% per annum sales growth needs to be understood in the context of the intrinsic unpredictability of the Lottery business which makes the accurate forecasting of sales growth a challenge. The most unpredictable element is the performance of the two jackpotting game – OZ Lotto and Powerball which make up approximately 30% of our sales revenue.

Since the game changes to Saturday Lotto in January 2011 forecasting the performance of that product can be done with reasonably high degree of accuracy. It is less easy to predict the performance of Monday/Wednesday Lotto as we still have only two months of sales results since the game changes introduced in mid February 2012.

Our sales forecasts for OZ Lotto and Powerball are based on a statistical model of frequency of jackpots used by all Bloc members. However the extent to which jackpot events occur is highly unpredictable (as evidenced by the pattern of very low jackpots over the past two years).

Scratch'n'Win has been relatively flat in its sales performance over a number of years. While we have had some success with new products and new price points and will continue to work on the product range together with new marketing, we need to be realistic in the sales targets set for this product.

Combined with the limited predictability of lottery product performance is the unpredictability of the performance of the retail market in this state in the context of the economic climate and changes in consumer behaviour. The last 12 months have demonstrated a significant change in retailing and consumer behaviour with economists and others predicting this to continue over the medium term.

Therefore, these sales figures represent our best estimate which is a cautiously optimistic one using all the information available to us about trends generally in mature lotteries such as ours and what we believe is achievable in the current Western Australian market.

Because of the direct relationship between our sales performance and the return to Hospitals, Arts and Sports according to the formula specified in the Act, we have always set a cautious sales target. A small variation downwards from the forecast to actual results can be significant particularly for Arts and Sports. This means that we take a conservative approach so that those departments can reasonably confidently plan on the revenue forecast from Lotterywest. If the result is a more positive one then they can use the extra revenue for the benefit of the organisations for programs supported by the Lotterywest generated revenue but not rely on it.

It should be noted that the funds available for the direct grants managed by Lotterywest comprise not only a prescribed proportion of sales turnover but also interest earned on investments [which can vary according to interest rates], unclaimed prizes [which can vary year to year] and careful draw down of reserves not needed for business purposes. The use of retained earnings is explained on page 19.

Capital Investment Plan

The following table details Lotterywest's proposed capital expenditure plan to the year 2015/16. Capital expenditure items need to be approved by Government. The next available timeframe for this to occur is the Publication of the 2012/13 process in April 2012.

Capital Investment Plan	Final Budget	Forward Estimates			
	2011/12 \$'000	2012/13 \$'000	2013/14 \$'000	2014/15 \$'000	2015/16 \$'000
Capital Expenditure Category					
Furniture and Fittings	250		150		
Land and Buildings	250	100	130		130
New Gaming/Lotto Games		594		624	566
Other Computer Equipment					
Computer Hardware	250				
Computer Software	1,415				
Plant and Equipment		100		100	200
Point of Sale					
Management Information Systems					
Lotteries History					
Business Enhancement Program				656	
Approved Capital Expenditure	2,165	794	280	1,380	896
New Capital Request					
Corporate Project Capital		3,710	4,300		
Operational Capital		2,006	4,020		
		5,716	8,320		
Total Capital Request for 2012/13 budget process	2,165	6,510	8,600	1,380	896

Proposed Capital Works

The following table provides a further breakdown of capital items and describes the key capital works to be undertaken over the next three year period. Capital expenditure items are reviewed regularly to ensure projects and resources are being managed effectively.

Corporate Project Capital Items

	2011/2012	2012/2013	2013/2014	Total
Retail / Player	\$'000	\$'000	\$'000	\$'000
Retail Image	200	2,500	1,300	4,000
Retail Terminal Upgrade			3,000	3,000
Customers	\$'000	\$'000	\$'000	\$'000
Mobile Access	185	420		605
Cyber Forums	100			100
Stakeholders / Beneficiaries	\$'000	\$'000	\$'000	\$'000
Corporate and Product Brand Communication	100	200		300
Business Intelligence	50	590		640
Merlin - Phase 1				0
Staff and Suppliers	\$'000	\$'000	\$'000	\$'000
	635	3,710	4,300	8,645

Operational Capital Items

	2011/2012	2012/2013	2013/2014	Total
Security & Business Continuity	\$'000	\$'000	\$'000	\$'000
Review of data centre fire protection system, located at head office / potential replacement with a more effective system (estimate only, subject to review)			250	250
Business continuity upgrade, replication of corporate information systems at LW backup centre	300			300
Improved network management and monitoring for gaming and information systems - this is critical to long term business efficiency and integrity		300		300
Communications	\$'000	\$'000	\$'000	\$'000
Replace PABX, current system is proving problematic to maintain and support and lacks key functionality			400	400
Identity and Access Management, to provide single electronic identity to LW employees which will govern all access to LW		300		300
Mobile computing - providing access to LW staff who work remotely to management information systems at LW head office		200		200
Refresh corporate portal - the new dynamic nature of the LW portal requires frequent refresh		100	200	300
Improved data connection between Lotterywest main building and adjacent LW corporate services building (72 Walters Drive) to enhance connectivity between LW's main operating centres			200	200
Enhance systems infrastructure			300	300
Gaming Infrastructure	\$'000	\$'000	\$'000	\$'000
Potential implementation of new styles of purchase (R&D)			750	750
Product development and enhancements - subject to review	200	200	200	600
Desktop and Infrastructure	\$'000	\$'000	\$'000	\$'000
Investigate the opportunities for efficiencies in data storage & services delivered (potential cloud environment R&D)		200		200
Routine upgrade of software	300			300
Buildings	\$'000	\$'000	\$'000	\$'000
Routine maintenance and improvements to LW buildings, to comply with disability access standards, and ensure that each building is used as efficiently as possible.	500	100	100	700
Business Development	\$'000	\$'000	\$'000	\$'000
Electronic Document and Records management, enhancements to customer relationship management, Gaming system upgrades and Grants management system Phase 2	230	1,400	1,900	3,530
	1,530	2,800	4,300	8,630
Total Corporate & Operational Capital Expenditure	2,165	6,510	8,600	17,275

Note: Financial Approval Disclaimer

The figures provided in this report represent a true and accurate reflection at the time of compilation but have not yet been subject to the State Government's approval process.

The financial parameters within this document contain unapproved capital expenditure, net debt and net flows to/from government. State Government approval will be obtained prior to any commitments and/or actions being undertaken which will affect approved parameters. State Government approval will also be sought prior to commencing new projects not included within the State Government's approved financial parameters.

Reserves (Retained Earnings)

The draw down of Retained Earnings (Reserves) apart from the use for investment in business growth is part of the overall strategy to distribute surplus reserves back to the community through the direct grants program as provided for in the Lottery Commission Act (1990). The Board has taken the view that there should be a managed draw down on reserves over a number of years to allow the direct grants budget to remain at relatively stable levels with modest growth each year. Longer term financial forecasts indicate a levelling off of the reserves position once the surpluses have been distributed. We will continue to carefully monitor the need and expectations of the community sector to ensure that we do not create a level of expectation that cannot be met and will adjust the direct grant budgets as business requirements suggest is necessary.

Pricing Policy

Lotterywest has discretion to adjust the prices of its products, subject to Ministerial approval. For most products, price changes are also subject to agreement by Bloc partners. The Bloc, is a business consortium that comprises of all Australian lotteries (except for Intralot). It is through the Bloc that all games of Lotto, Super 66 and Soccer Pools are managed.

Pricing of Lotterywest's products falls into two different processes. These are instant scratchy games, labelled under our Scratch'n'Win brand and our online games (Lotto, Soccer Pool, Cash 3 and Super 66).

Scratch'n'Win (S'n'W)

Lotterywest offers a suite of SnW games at different price points. The details of each game are documented in a "Specification" report. This report details such elements as price point, prize structure, payout rates and the odds of winning. In accordance with our Business Rules, each specification report requires the approval of the responsible Minister before the game can be produced and launched.

Online Games (Lotto, Soccer Pool, Cash 3 and Super 66)

The price (or total cost of entry) for online games is made up of the subscription (entry fee to participate in a lottery) and the add-on commission. The add-on commission is payable to the retailers.

For national games (Saturday Lotto, Monday and Wednesday Lotto, OZ Lotto, Powerball, Soccer Pools and Super 66) the subscription price is agreed by the Bloc and is therefore the same for each lottery jurisdiction in the Bloc. In addition to the subscription price, each lottery sets its own add-on commission rate – which for

Lotterywest is set at 9%, with the exception of Super 66 and our state game, Cash 3 which pays 7% commission to retailers.

All changes in price for online games are endorsed by the Lotterywest Board before being forwarded to the responsible Minister for approval. Once approved, the price change is gazetted and legislated with stakeholders. Changes are communicated to players through various mediums and through the outlets.

Government Policy

One of the most significant developments in the Australian lottery industry has been the privatisation firstly of the Queensland Lottery (Golden Casket) in 2007 and more recently the New South Wales Lottery in March 2010. Tattersall's, which operates the lottery in Victoria, Tasmania and the Northern Territory, was the successful bidder for both these licenses.

In June 2011, the South Australian State Government announced that they plan to offer a license to operate the state lottery to a private operator. It is expected to be at least 12 to 18 months before any changes are implemented, therefore no immediate impact is expected on the Bloc working relationship and decision making process.

This situation will be monitored closely for developments that may impact on Lotterywest and the existing Bloc arrangements.

In Western Australia, both the current Government and the Opposition maintain a strongly conservative position on gambling. There are no plans at this stage to deregulate the lottery market in Western Australia or to allow for increased competition. Lotterywest continues to manage its operations efficiently whilst maintaining and building a sustainable business cognisant of our responsibilities to our beneficiaries to the public, to our players and to our retail network.