



Lotterywest
Statement of Corporate Intent
(Annual Business Plan and Budget)
2013/14

June 2013

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Introduction

The Statement of Corporate Intent 2013/14 outlines the business plan of Lotterywest and its corporate objectives for the 2013/14 financial year. The document complies with the requirements of the *Lotteries Commission Act 1990* and represents an agreement between the Minister and Lotterywest regarding the expected level of performance from the Commission over the twelve month period from July 2013 to June 2014.

The document may be amended by agreement from both parties where there are unforeseen circumstances. Both parties will work collaboratively to address any significant issues that arise.

In accordance with the *Lotteries Commission Act 1990* and with the Treasurer's concurrence, the Minister and the Commission agree to the content of this Statement of Corporate Intent.

A handwritten signature in blue ink, appearing to read 'Colin Barnett'.

Colin Barnett MLA
Premier

A handwritten signature in blue ink, appearing to read 'John Atkins'.

John Atkins
Chairman

Background

Lotterywest, the trading name of the Lotteries Commission of Western Australia, has a long and proud history of serving the community of Western Australia since its establishment in 1932. Lotterywest operates the official state lottery in Western Australia but its primary objective and the reason for its establishment is through the lottery to raise and distribute funds which will contribute to the quality of life in the community.

Lotterywest is unique around the world in directly distributing a significant proportion of the proceeds from lotteries directly to community organisations and charities in Western Australia. Lotterywest is respected not simply for its grant making but also for its leadership within the community sector and for the innovative approach taken to grant making and community development.

Lotterywest is committed to the principles of responsible gaming. It balances its commercial interests including those of its retail distribution network with the needs of the community sector and the obligation to conduct the business under the principles of social responsibility to players and to the public generally. Lotterywest has achieved business sustainability with a modest growth rate while maintaining responsible play practices.

The Statement of Corporate Intent (SCI) reaffirms Lotterywest's continued commitment 'to be a leader in building a better Western Australia'. This document outlines Lotterywest's key operational and financial objectives for 2013/14.

Scope of Functions

Lotterywest is governed by the *Lotteries Commission Act 1990*. Section 6 of the Act defines the key functions of the Commission in conducting lotteries and the distribution of the proceeds from the sale of lottery products.

The Act (section 22) requires Lotterywest to distribute 'net subscriptions' to specified beneficiary groups. The value of the net subscriptions is the value of subscriptions received for a game less the prize liability or the value of the prize fund. The residual funds are paid to a range of beneficiaries based on the following formula (based on net subscriptions):

- 12.5% to 'eligible' organisations (not-for-profit organisations and local government authorities) for 'approved' purposes ('benevolent and charitable purposes');
- 40% to the Department of Health;
- 5% to the Department of Sport and Recreation;
- 5% to the Department of Culture and the Arts; and
- An amount not exceeding 5% to ScreenWest and the Festival of Perth.

Residual funds (i.e unclaimed prizes, interest earned on investments and other revenue not required for business purposes) may be distributed to eligible organisations with approval from the Minister. The payments to beneficiaries need to be a minimum of 25% of gross sales.

Lotterywest's Products

A significant portion (almost 87%) of Lotterywest's revenue is derived from products which it manages in partnership with the other lottery operators in Australia through a structure known as the 'Bloc'. This partnership is critical for the success of Lotterywest.

All the other Australian State Governments in recent years have taken the decision to licence a private provider to operate their state or territory lottery. Tatts Lotteries, a member of the Tattersalls Group, an ASX listed company, now holds the licences to operate all the lotteries in each state under various licensing and regulatory arrangements.

The Bloc now consists of Lotterywest, a statutory authority of the Western Australian Government and Tatts Lotteries holding the licences to operate all other state authorised lotteries in Australia.

The purpose for the creation of the Bloc, when it was first established in 1982, was to create a shared prize pool of a size which players would find attractive. The population of most states is not of a sufficient size to generate the kind of life changing win for which Lotto players are looking.

Over the years, the Bloc has introduced new products to respond to changes in the market. There are now five lotto games administered by the Bloc. These games are Saturday Lotto, Monday Lotto, Wednesday Lotto, Oz Lotto and Powerball. There are another two minor products that are managed by the Bloc - Soccer Pools and Super66.

The Bloc members meet four times a year to oversee the management of the game and to plan and implement game improvements and new products. The Bloc operates on a shared five year rolling plan.

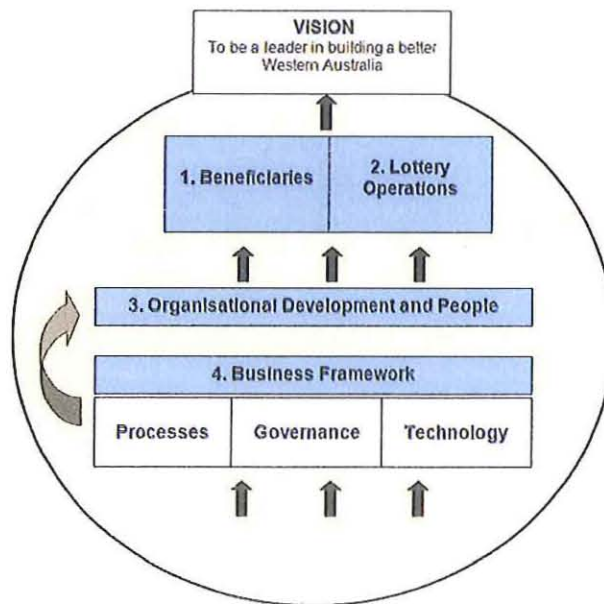
In addition to the Bloc products Lotterywest has two products which it operates independently – instant lotteries which are branded as Scratch 'n Win and a three digit numbers game branded as Cash 3.

Lotterywest's Objectives

Lotterywest's Strategic Plan 2010 – 2014 is a five year plan that specifies the corporate priorities and strategic activities of the organisation.

The vision and over-arching objective for Lotterywest is 'to be a leader in building a better Western Australia'. The vision is delivered through a range of activities in five core business areas. These corporate objectives are underpinned by Lotterywest's organisational values which are expressed in the words – 'Rewarding, Inspiring, Trusted and Engaging.'

The five priority areas in the Strategic Development Plan are beneficiaries, lottery operations, organisational development and people, business framework and reputation and values (as shown in the diagram below).

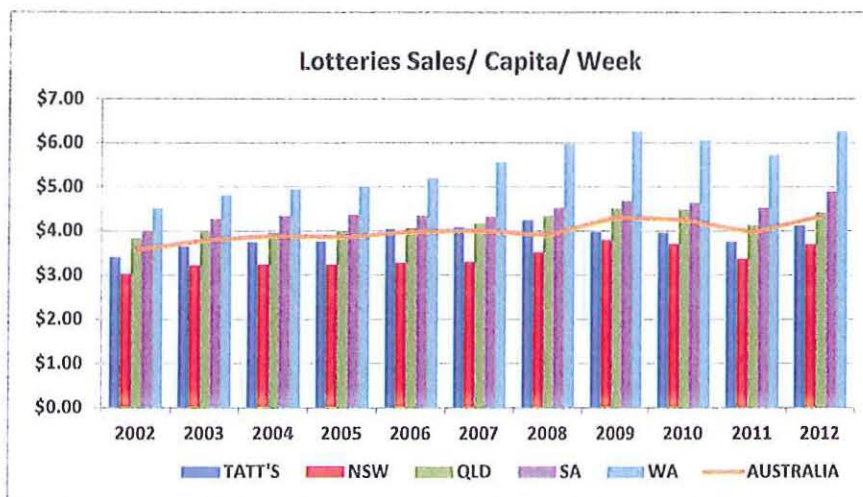


Business Environment

The average annual growth of lotteries turnover from 2001/02 to 2011/12 was a moderate rate of 5.4 per cent per annum – consistent with national growth trends and with global trends for lotteries in mature markets such as that of Western Australia. Over the same period, the market share of lotteries as a proportion of total gambling turnover has remained steady at 3 per cent.

The profile of lottery players has also remained consistent over time. Lottery players tend to be broadly representative of the demographic of the broader community in respect of age, income, gender and level of education with a slight skew to an older demographic. There is evidence that the younger demographic is generally not regular players of lottery products and attracting this group is a challenge.

Overall participation rates have remained consistently high with 50 per cent of the Australian adult population having played a lottery game at least once a year in the 12 months prior to March 2011. In 2011/12, the average national spend per capita on lottery products was \$4.32 per week whereas for Western Australia the spend per capita was more than \$6.27. Lotterywest has the world's highest annual per capita spend on Lotto (\$266 in 2011).



The nature of the lottery market, the games played, the attributes of players and participation rates have been relatively static since 2001. The growth of online gambling presents a greater challenge for Lotterywest over the longer term, particularly competition from unauthorised sites and from more interactive games including online sports betting.

With the online channel now accounting for almost 3% of sales revenue (State and Federal legislation do not permit Australian lotteries to offer interactive games and sports products that are the growth areas for internet gaming), Lotterywest's retail distribution channel remains the primary sales channel. It will remain the priority for Lotterywest with focus on updating the retail image and providing the latest in technology for both the sales of product and electronic marketing technology.

Corporate Priorities 2013/14

This SCI outlines the financial and operational objectives and performance measures for 2013/14. Lotterywest reports against these indicators each year in its Annual Report.

Lotterywest's strategic activities to ensure achievement of its business goals are:

- product development and improvement;
- improved product marketing; and
- technological innovation and improvements to the retail distribution network – both in presentation and in performance.

Many of Lotterywest's strategic activities relate to product improvements and promotional activities which are managed in partnership with the Bloc.¹ The following details Lotterywest activities in a range of non-Bloc initiatives.

Product Development

Instant ticket games

Improvements will be made to the Scratch'n'Win product portfolio by improving the ticket design and prize structures, introducing new games at a higher price point and re-introducing games that have been popular in the past.

Powerball

Changes to Powerball were introduced in March 2013 by increasing the prize of a ticket by 10c and adding a Division 8 prize. This will lead to more frequent jackpots and increase a player's odds of winning a prize.

Network Syndicates

Network Syndicates were launched in October 2012. This is a service to the retail network whereby Lotterywest purchases high value tickets which are then divided into shares which are then offered to all members of the network for sale to the customers. The benefit of Network Syndicates is that Lotterywest bears the risk of unsold shares. This is a growth area of Lotterywest and further work will be done to expand the options offered to retailers and players in the year ahead.

¹ Details on the programs are not specified as the information is deemed to be commercial-in-confidence as it relates to the Bloc partner which is a publicly listed company.

Marketing

Play Online

A more targeted marketing campaign will be launched for the Play Online service.

Lotto branding (Saturday Lotto and Monday/Wednesday Lotto)

The Lotto branding strategy will be further refined for better targeting of potential players of this product and to encourage more regular play by current players.

OZ Lotto and Powerball

A new marketing strategy and advertising visuals will be introduced for OZ Lotto and Powerball.

Saturday Lotto

Additional marketing will promote Saturday Lotto between Superdraws and the annual New Year Megadraw by highlighting different methods of playing the game.

Technological Innovation

Online channel

Lotterywest launched its online sales channel in February 2011 in response to customer demand and to reduce the leakage of revenue to other online service providers. The channel contributes almost 3% of Lotterywest's sales turnover. Focus will be on online advertisements, a more effective search engine and targeted marketing activities.

The extension of mobile devices and mobile applications will facilitate customer access to Lotterywest's play online service and to the website.

Retail Distribution Network

The retail network is a critical part of Lotterywest's business and the source of sales of over 97% of Lotterywest's products. Lotterywest focuses on ensuring the network performs at its optimum through:

Business Intelligence

There are around 550 small retail businesses (mostly newsagencies and specialist kiosks) throughout the state who sell Lotterywest products. Lotterywest has a managed approach to identifying opportunities for the expansion of the network based on an analysis of areas of population growth and the establishment of new shopping centres.

Retailer Development

The retailer incentive program will be expanded together with an increased focus on training and development for both incoming retailers and for the longer serving members of the network.

Key Performance Indicators

The following Key Performance Indicators are the performance targets for Lotterywest for 2013/14. Progress towards these targets is monitored throughout the year. The indicators measure effectiveness and efficiency and are listed in the table below:

Indicator	2012/13 Forecast	2013/14 Budget
Sales per adult	\$431.77	\$411.19
Total returns to beneficiaries per capita	\$105.47	\$106.42
Total returns to beneficiaries as a % of sales	33.0%	32.5%
Lottery expenses as a % of sales	5.6%	6.1%
Grant operations expenses as a % of direct grants	10.8%	12.1%

Sales Budget 2013/14

It is never possible completely accurately to project sales revenue for any lottery due to the fundamental nature of lottery games as games of chance. Around 70% of Lotterywest's revenue (i.e. the revenue from Saturday and Monday/Wednesday Lotto and instant lotteries) can be forecast with a relatively high degree of accuracy. The remaining 30% of sales revenue comes through the jackpotting games of OZ Lotto and Powerball.

The sales forecasts for the jackpot games are estimated using well verified statistical models used by the Bloc on the frequency of jackpots and the sales uplift expected at each jackpot level based on past performance. The model estimates performance by also taking into account game enhancements, predictions on jackpot levels and the sales mix of games marketed to customers.

Using this model, Lotterywest estimates growth for these games of an annual average of 4% over a five year period. The other assumptions that underpin the growth forecasts are:

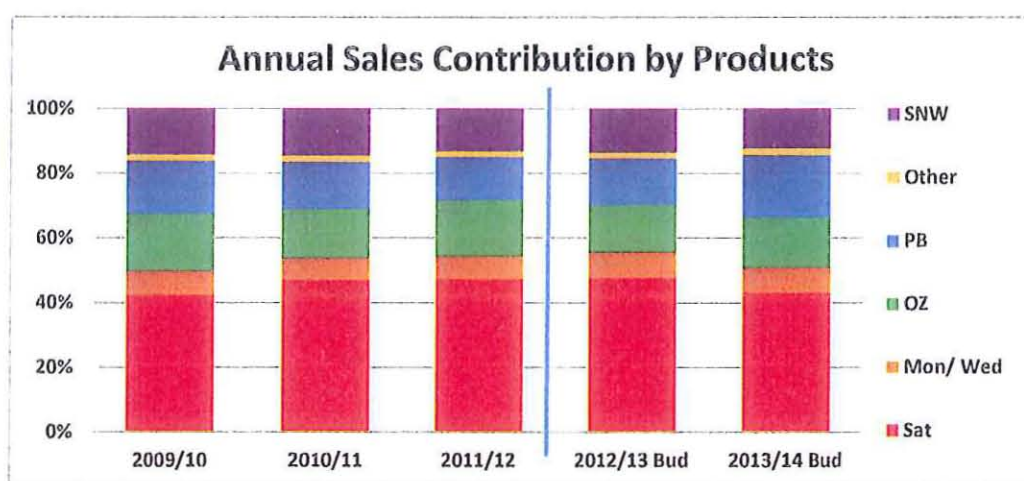
- Estimated annual population growth of 2.4%;
- Estimated Consumer Price Index of 3.0%;
- The impact of the recent changes to Powerball; and
- Product improvement and promotional strategies for national lottery games that are managed by the Bloc.

There is a direct relationship between sales performance and the quantum of funds allocated to the Departments responsible for Health, Arts, Sports, the Festival of Perth and ScreenWest due to the formula linked to sales in the Act. Lotterywest takes a conservative position on its estimates to ensure that there are no adverse impacts on programs funded by the Departments of Health, Culture and the Arts and Sport and Recreation, the Festival of Perth and ScreenWest.

The 2013/14 sales budget of \$795.9 million is a decrease of 2.8% (\$23.1 million) on the sales budget for 2012/13. The table below details sales trend by product:

PRODUCT SALES	Actual 2009/10	Actual 2010/11	Actual 2011/12	Forecast 2012/13	Budget 2013/14	2013/14 vs 2012/13	
	\$000	\$000	\$000	\$000	\$000	\$000	%
Saturday Lotto	298,229	320,904	360,362	332,000	342,670	10,670	3.2%
Monday/ Wednesday Lotto	50,487	47,260	54,551	53,040	61,850	8,810	16.6%
OZ Lotto	125,770	104,147	132,820	167,200	124,000	-43,200	-25.8%
Powerball	114,467	99,274	101,178	156,810	154,100	-2,710	-1.7%
Super 66	2,848	2,800	2,948	3,940	4,100	160	4.1%
Soccer Pools	1,785	1,295	1,431	1,430	1,560	130	9.1%
Cash 3	8,345	8,851	9,351	10,040	10,400	360	3.6%
Scratch'n'Win	99,552	98,812	100,041	94,540	97,240	2,700	2.9%
Total Sales	701,483	683,344	762,681	819,000	795,920	-23,080	-2.8%

Sat, Mon & Wed	348,716	368,164	414,912	385,040	404,520	19,480	5.1%
OZ & PB	240,237	203,421	233,998	324,010	278,100	-45,910	-14.2%



The direct grants budget comprises a percentage of 'net subscription' plus monies from surplus funds, unclaimed prizes from the previous year, interest earned on investments and reserve funds. The Act anticipates that the Board will expend all these funds in the year they become available.

However to ensure a consistent grants budget each year, Lotterywest sets the amount at a level based on the quantum of funds distributed the previous year with a small CPI increment. The budget may be adjusted towards the end of the year depending on the sales performance and a decision by the board to supplement the budget by a further draw-down on reserve funds.

In 2013/14 the return to beneficiaries is forecast to be:

- Total return to all beneficiaries of \$258.9 million (32.5% of sales revenue);
- Direct grants of \$97.3 million; and
- Perth International Arts Festival and ScreenWest of \$14.7 million.

Operational Expenses

Lotterywest's estimated operating expenses for 2013/14 are \$62.0 million, an increase in the previous year expenses/sales ratio from 7.2% to 7.8%.

Lotterywest Operating Expenses	Forecast 2012/13 \$000	Budget 2013/14 \$000
Total Expenses (Excl. Depreciation)	52,078	56,565
Depreciation	6,922	5,456
Total Expenses	59,000	62,021

The major costs are in salaries, marketing and information technology. The number of Full Time Equivalent staff is forecast to remain steady at 195.

There are additional expenses in the maintenance and support of software systems (\$850k), and to cover the costs of a review of grants for infrastructure (i.e for buildings and information technology which takes up over 50% of Lotterywest's grant budget) with some additional costs associated with a board meeting and visit to be held in the regions.

Capital Expenditure

Capital Investment Plan	Forecast 2012/13 \$000	Budget 2013/14 \$000
Capital Expenditure Category		
Land and Buildings	1,050	1,780
Business Systems (Development & Enhancement)	594	-
Management Information Systems/ Business Intelligence	1,440	-
Security and Business Continuity	-	-
Communications	-	-
Retail Project	-	4,250
Totals	3,084	6,030

Retail Transformation Project

The major capital works project for 2013/14 is the Retail Transformation Project. The objective of the project is to upgrade every aspect of the retail distribution network to ensure it can continue to deliver on Lotterywest's business objectives.

It comprises a number of elements – Retail Image, Retail Technology and Product Marketing [at Point of Sale] initiatives. Maintaining a contemporary retail image with new technology is one of the key risk management strategies for Lotterywest. There is a rolling program of capital investment in the distribution network.

The Retail Transformation Project will replace the retailer network's dated retail image and ageing technology with modern gaming equipment and a new approach to retail marketing. Modern electronic point of sale (POS) equipment will improve player experience. New product marketing at the point of sale will offer new ways to engage players. Interactive technology will improve services to players and attract a younger demographic who expects this style of service.

The Project will be rolled-out over the next three to five years and will be introduced in three phases. Phase 1 of the project will run throughout 2013/14.

The initiatives in this first phase include:

- concept and design of the new shop fit for retailers with a trial of a prototype;
- purchase of electronic marketing equipment (Horizon) to be installed in those sites that have the new shop fit and some existing outlets;
- redevelopment and expansion of the player registration system to improve customer experience; and
- concept design and pilot of interactive player devices.

Electronic Document and Records Management System

Electronic Document and Records Management System (EDRMS): An organization-wide EDRMS solution will streamline Lotterywest's customer services to grantees, players, retailers and the public. It will automate the processing and storing of information with key stakeholders and ensure compliance with the State Records Management Act.

Budget 2013/14

Financial Outcomes

	2013/14 Budget (\$m)
Sales	\$795.9m
Operational expenses	\$62.0m
Statutory grants (payments to Government)	\$146.9m
Direct grants	\$112.0m
Total return to beneficiaries	\$258.9m
Total Comprehensive (Loss)	(\$9.96m)

Financial Statements

- Statement of Comprehensive Income

PROFIT And LOSS	Forecast 2012/13	Budget 2013/14	Variance	
	\$'000	\$'000	\$'000	%
INCOME				
Sales of Goods	819,000	795,920	(23,080)	-2.8%
Interest Revenue	14,000	14,000	-	0.0%
Other Income	10,690	11,144	454	4.2%
Total Income	843,690	821,064	(22,626)	-2.7%
EXPENSES				
Cost of Sales	554,577	541,919	(12,658)	-2.3%
Lotteries Operations	46,020	48,376	2,356	5.1%
Grants and Community Development Operations	12,980	13,645	665	5.1%
Return to Beneficiaries	272,548	258,857	(13,691)	-5.0%
Total Expenses	886,125	862,797	(23,328)	-2.6%
Grants from State Government	30,417	31,768	1,351	4.4%
Loss for the Period	(12,018)	(9,965)		
Total Comprehensive (Loss) for the Period	(12,018)	(9,965)		

- Balance Sheet

Statement of Financial Position	Forecast 2012/13 \$000	Budget 2013/14 \$000	Variance	
			\$000	%
Current Assets	250,491	235,243	(15,248)	-6.1%
Non-Current Assets	76,411	76,985	574	0.8%
Assets	326,902	312,228	(14,674)	-4.5%
Current Liabilities	213,558	208,990	(4,568)	-2.1%
Non-Current Liabilities	1,193	1,052	(141)	-11.8%
Liabilities	214,751	210,042	(4,709)	-2.2%
Reserves	8,373	8,373	-	0.0%
Accumulated Surplus Adjusted for Negative Equity	103,778	93,813	(9,965)	-9.6%
Equity	112,151	102,186	(9,965)	-8.9%
Statement of Financial Position	-	-		

- Cash Flow Statement

Statement of Cash Flows	Forecast 2012/13 \$000	Budget 2013/14 \$000	Variance	
			\$000	%
Receipts	872,389	854,312	(18,077)	-2.1%
Payments	879,442	862,430	(17,012)	-1.9%
Operating Activities	(7,053)	(8,118)	(1,065)	15.1%
Receipts	10,685	8,398	(2,287)	-21.4%
Payments	3,084	6,030	2,946	95.5%
Investing Activities	7,601	2,368	(5,233)	-68.8%
Opening Cash Balance	17,346	17,894	548	3.2%
Balances and Adjustments	17,346	17,894	548	3.2%
Cash at the end of the period	17,894	12,144		

Reserves (Retained Earnings)

The Board, as the accountable authority for Lotterywest, makes recommendations to the Minister on grants to 'eligible organisations' for 'approved purposes'. The Act does not contemplate that the Commission will hold significant amounts of retained earnings. In order to fulfil its responsibilities under the Act, the Board has taken the view that retained earnings should be managed for investment in business growth strategies and with some of the reserves distributed through the direct grants budget.

Accounting Policies

Details of significant accounting policies can be found in the notes accompanying the Financial Statements in the Annual Report.

The annual Financial Statements are general purpose financial statements which have been prepared in accordance with the Australian Accounting Standards, the Framework, Statements of Accounting Concepts and announcements made by the Australian Accounting Standards as required by the Treasurer's Instructions. The Financial Statements are prepared on an accrual accounting basis in accordance with historical cost convention except for certain financial assets and liabilities which are stated at fair value.