



**Lotterywest**  
**Statement of Corporate Intent**  
***(Annual Business Plan and Budget)***  
**2014/15**

April 2014

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## Introduction

The Statement of Corporate Intent 2014/15 (SCI) outlines the annual business plan and budget of the Lotteries Commission ('the Commission') for the 2014/15 financial year. The document complies with the requirements of the *Lotteries Commission Act 1990* ('the Act') 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 2014 to June 2015.

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 Act and with the Treasurer's concurrence, the Minister and the Commission agree to the content of this SCI.

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

**Colin Barnett, MLA**  
Premier

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

**John Atkins**  
Chairman

## Background

Lotterywest, the trading name of the Commission, has a long history of serving the community of Western Australia since its establishment in 1932. Lotterywest operates the official State lottery in Western Australia. Its primary objective and the reason for its original establishment is to raise and distribute funds which will contribute to the quality of life in the community through running the lottery business with excellence and integrity.

Lotterywest has a unique responsibility under the Act for distributing a significant proportion of the proceeds from lotteries directly to community organisations and charities in Western Australia as well as raising funds for other beneficiaries as named in the Act.

A recent evaluation study demonstrated that Lotterywest is respected not only for its grant making but also for its leadership within the community sector and for the innovative approach taken over the years to grant making and community development.

Lotterywest is committed to the principles of responsible gaming. Commercial interests including those of its retail distribution network and the needs of the community sector must be balanced with the principles of social responsibility to players and to the public generally. The conduct of the business must be based on the Act and other legislation and Government policy on gambling. Lotterywest has continued to achieve business sustainability with a modest growth rate while maintaining responsible play practices. That remains the object of this SCI.

The SCI reaffirms Lotterywest's vision of 'building a better Western Australia together' and outlines key operational and financial objectives and business strategies for 2014/15.

## Scope of Functions

Lotterywest is governed by the Act. Section 6 of the Act defines the key functions 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 according to the formula outlined in the Act. 'Net subscriptions' is the value of subscriptions (i.e. sales of lottery products) received from the games after prizes have been paid and including the current liability for prizes not yet paid.

The formula for distribution to beneficiaries is as outlined below:

- 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 support the commercial film industry in Western Australia and to the University of Western Australia for the funding of the Perth Festival.

The Act specifies that all residual funds (i.e. unclaimed prizes, interest earned on investments and other revenue not required for business purposes) 'shall' be distributed to eligible organisations for approved purposes. 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 managed 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.

In recent years all the other Australian State Governments 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 each of the lotteries in each state under various licensing and regulatory arrangements. The Bloc therefore now consists of Lotterywest and Tatts Lotteries.

The purpose for the creation of the Bloc, when it was first established in 1982 was to be able to offer lottery products (Lotto games) with a shared prize pool of a size which players would find attractive. This continues to be the primary objective of the Bloc. 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 hence the driver to create a shared prize pool for the games.

Over the years, the Bloc has introduced new products, essentially variations of Lotto games, to respond to changes in the market and to achieve increased returns to beneficiaries.

There are now five Lotto games managed collectively by the Bloc. These games are Saturday Lotto, Monday Lotto, Wednesday Lotto, OZ Lotto and Powerball. There are another two minor Bloc products - Soccer Pools and Super66.

The members of the Bloc meet four times a year to oversee the management of the games and to plan and implement game improvements to the current games and to develop new products. The Bloc operates on a five year rolling plan which is reviewed and extended each year.

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

## **Lotterywest's Objectives**

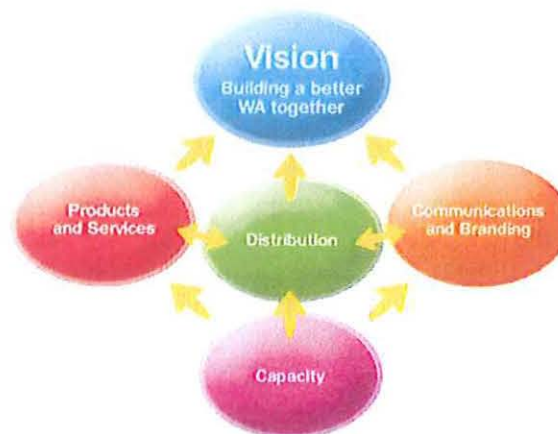
As part of the work of developing a new Strategic Plan to cover the period 2014-2018, the Lotterywest Board together with the senior management team undertook a review of all aspects of Lotterywest's business.

This new Strategic Plan 2014-2018 is based on the position of the Government as confirmed early in 2014 by the Premier, the Hon Colin Barnett MLA that Lotterywest will continue to operate as a Government entity with all the responsibilities as outlined in the legislation under which it currently operates. This includes ensuring that the business is operated in the public interest according to the principles of corporate social responsibility and of responsible gambling standards.

The vision and over-arching objective for Lotterywest in this new Strategic Plan is 'building a better Western Australia together'.

The vision is delivered through a range of activities structured within four core strategic or critical result areas – products and services (lottery products and grants), distribution (the distribution of products and services), communication and branding, and the capacity (financial, technological and human) of Lotterywest to deliver in these three key product, service and communication areas.

The objectives of Lotterywest and the way they are to be achieved are underpinned by Lotterywest's organisational values, expressed as – 'Rewarding, Inspiring, Trusted and Engaging'.



## Business Environment

As part of the background and environmental research which underpinned the development of the most recent Strategic Plan, the following elements which impact on Lotterywest's business were analysed:

- Economy
- Social and Demographic environment including population growth
- Technology
- Changes in the Lottery and gaming industry generally
- Developments and changes in the retail environment
- Changes in the community sector and their increasing needs

In summary, the key factors driving this strategic plan and the business plans which underpin it are:

- WA's economy is predicted to lift now that consumers and businesses are showing a sustained level of optimism. The low interest rate environment is boosting housing construction, while rising wealth levels is supporting confidence and in turn spending.
- The growth of the population in WA including those coming from overseas and outside the State as well as the overall age composition of the population.



- Changing trends in retail including the increasing contribution of the internet to retail sales and the high smartphone adoption (94% of consumers use a device to support their purchasing decisions).
- New technological trends such as Near Field Communication and self-service kiosks transforming the shopping experience.
- New technological developments in the Lottery industry such as a new generation of gaming systems, gaming terminals and other digital point of sale equipment including touch screens and self-serve units.
- Significant changes in the community sector and increased need for financial and other less tangible forms of support. These changes and increased need are being driven by a multitude of factors including the actual increased growth of the community sector, increased demands for their services, changes in the way they are funded by State and Federal Governments, and the need by the sector to build their overall capacity in all aspects of their business to respond to the changed environment in which they are operating.

## **Corporate Priorities 2014/15**

This SCI outlines the financial and operational objectives and performance measures for 2014/15. Lotterywest reports against these indicators each year in the Annual Report.

The Strategic Plan seeks to build on the 80 year reputation of Lotterywest as a government entity operating an efficient lottery organisation offering products through retail and online channels which are relevant and accessible to a contemporary market and which distributes the proceeds to enhance the wellbeing of the community.

The plan sets sales growth targets and business improvement goals as well as goals to increase the revenue distributed to all beneficiaries and for a direct grants program which is flexible and responsive to changing community needs.

The achievement of these business growth and improvement goals require significant capital investment to provide the technology and capacity that underpin these goals. A successful lottery requires digital technology relevant to the contemporary market, connectivity and service efficiency, which gives the ability to connect directly with players, potential players and all customers including retailers and grant customers.

Business systems must be regularly upgraded and the integration within the Enterprise Resource Planning framework in which Lotterywest has already invested significantly must be continuously improved. Security in the lottery environment is critical and the capacity to manage security risk means continued investment in this aspect of the business systems.

A functional safe working environment is required for the staff of Lotterywest. Lotterywest's primary building is 23 years old now and requires significant maintenance and improvements to meet the needs of a contemporary workforce and the technology they are required to use.

Lotterywest's specific strategic activities to ensure achievement of its business goals fall within product, distribution and marketing elements of the Strategic Plan:



## **Product Strategy**

### *New Bloc Products*

It has been agreed by the Bloc members based on comprehensive market research demonstrating the potential for a new product that a new Bloc product will be launched during the life of this plan. Because of Tatt's Lotteries requirement that business initiatives specific information cannot be released prior to ASX being advised we can be no more specific than that in this document including the details of the timing of the changes planned for the other Bloc games. The sales expected from the new game and planned price increases for the other products as listed below are included in the sales budgets and are based on robust market research.

### *Saturday Lotto*

This game is scheduled for a price increase during the life of this plan.

### *OZ Lotto*

This game is scheduled for a price increase during the life of this plan.

### *Instant ticket games*

Improvements will be made to the Scratch'n'Win product portfolio by improving the ticket design and prize structures and overall marketing strategy for this product. There will be a number of new games chosen from the most successful games from the panel of (3) suppliers. There will also be a number of games at a higher price point and some popular games will be re-introduced.

## **Distribution Strategy**

### *Play Online*

It is anticipated that Lotterywest's Play Online channel will grow over the coming financial year. The aim is to continue to attract a market which is not currently buying through our retail network and unlikely to do so whatever marketing efforts are in place or whatever new products are offered. One of the ways this channel will grow and a new market of younger players be reached will be through a mobile application which is currently being developed.

### *Retail Distribution*

The retail network will continue to be the channel through which the vast majority of Lotterywest's products will be sold during the period of the Strategic Plan and hence is the focus of considerable investment at this time.

A program of projects collectively known as the Retail Transformation Program (RTP) is aimed at delivering new technology in retail together with a contemporary retail design. The objective of this strategy is to ensure the continued engagement of loyal players, to increase the participation of occasional players and to encourage new players into the retail channel as a result of its new and attractive features.

As well as this critical transformation program involving new technology and retail design, Lotterywest has a range of strategies to improve retailer performance through continued improvement of the training, education and incentive programs.

The retail distribution strategy includes the exploration of other business types which can deliver the foot traffic as well as appropriate brand positioning for the retail channel.



## Marketing Strategy

### *Branding and Communication*

Effective marketing and communication of the Lotterywest brand as well as of all Lotterywest products is another critical element of the Strategic Plan. It requires constant work to remain relevant and eye-catching and multiple communication channels are now required to reach the various elements of our market.

During this plan the corporate brand will be 'refreshed' as part of the Retail Transformation Project and this will permeate all aspects of our communication approach. It will include a new corporate campaign which will show the overall impact of Lotterywest on the community.

The Lotto branding specifically and the marketing strategy for those products will be reviewed and refreshed in the forthcoming year. Market research demonstrates that we need to constantly change product marketing to retain the interest of our players and potential players.

Overall the communication and marketing strategy will be further refined for better targeting of potential players of these products and to encourage more regular play by current players. An improved player registration service will help us target our messages more effectively and to offer improved services to registered players.

## Key Performance Indicators

Below are the Key Performance Indicators and the targets for Lotterywest for 2014/15. The indicators measure effectiveness and efficiency. Progress towards these targets is monitored throughout the year.

Indicator	2013/14 Budget	2014/15 Budget
Sales per adult	\$414.18	\$425.33
Total returns to beneficiaries per capita	\$110.47	\$113.15
Total returns to beneficiaries as a % of sales	33.4%	33.4%
Lottery expenses as a % of sales	6.0%	5.9%
Grant operations expenses as a % of direct grants	11.9%	11.8%

## Sales Budget 2014/15

87% of Lotterywest's sales revenue comes from the five (during the life of this plan it will be six) games of Lotto which are run in partnership with the Bloc (see above). The balance of sales comes from the WA State based instant lotteries (Scratch'n'Win), and the minor State based numbers game marketed as 'Cash 3' with a small contribution to sales coming from the other two minor games – Soccer Pools and Super66.

The Bloc's sales growth activities are outlined broadly above in the section related to products.

The sales forecast model includes a well-tested statistical model of the expected frequency of jackpots for OZ Lotto and Powerball and the sales uplift expected at each jackpot level based on extensive data on past performance of these products (from our own data and from the national data shared by the Bloc).

Apart from the described activities in section 'corporate priorities', the five year sales forecast is based on a number of assumptions in terms of the external environment:

- Performance of the economy – overall the State's economy is expected to grow by 2.5% in 2014/15.
- Population – a growth prediction of 1.9% is assumed for 2014/15 and the demographic make-up of the State's population will include a significant proportion of those not born in this State (which as our market research shows, represents an untapped potential for Lotterywest products).

Based on these assumptions and forecasting the performance of the products based on the various growth strategies together with our distribution strategies as outlined, estimates for sales growth is an average of 4.8% per annum over a five year period.

The table below details sales trend by product – showing a sales budget of \$840 million, for 2014/15, which reflects the targeted increase of 4.8% in 2013/14:

Product Sales	Actual 2010/11 (\$000)	Actual 2011/12 (\$000)	Actual 2012/13 (\$000)	Estimate Budget 2013/14 (\$000)	Budget 2014/15 (\$000)	2014/15 vs 2013/14	
						(\$000)	%
Monday/Wednesday	47,260	54,551	52,306	60,350	61,640	1,290	2.1%
OZ Lotto	104,147	132,820	173,289	122,500	134,300	11,800	9.6%
Powerball	99,274	101,178	156,036	154,100	142,000	-12,100	-7.9%
Saturday (and new game)	320,904	360,362	328,907	349,200	383,000	33,800	9.7%
Super66	2,800	2,948	3,925	3,480	3,880	400	11.5%
Cash3	8,851	9,351	9,996	10,400	10,400	0	0.0%
SNW	98,812	100,041	94,881	100,360	103,480	3,120	3.1%
Soccer Pools	1,295	1,431	1,421	1,300	1,300	0	0%
<b>Total Sales</b>	<b>683,344</b>	<b>762,681</b>	<b>820,761</b>	<b>801,690</b>	<b>840,000</b>	<b>38,310</b>	<b>4.8%</b>



## Return to Beneficiaries

There is a direct relationship between Lotterywest's sales performance and the quantum of funds allocated to the Department responsible for Health, the Department for Arts, the Department for Sports, the Festival of Perth and ScreenWest as the distribution is linked by the Act to sales.

Lotterywest takes a conservative position on its sales forecasts to ensure that there are no adverse impacts on programs funded by the Department of Health, the Department of Culture and the Arts and the Department of Sport and Recreation, the Perth International Arts Festival and ScreenWest through an overestimate of the likely sales performance.

By contrast, the direct grants budget contains elements which are not purely related to sales. That budget includes interest earned on investments which can vary each year and unclaimed prizes which to some extent are also variable but mostly average around \$5 million per annum. This is the figure for unclaimed prizes which is used in these forecasts.

By managing all elements contributing to the grants budget carefully including that of the prudent utilisation of cash balances not required for business purposes, it is possible to give a reasonably high level of certainty to this part of our budget.

This allows the Board and Grants team to plan effectively over an extended period and most importantly deliver a level of certainty to the community sector, some of which come to Lotterywest with projects which require several years of planning.

To ensure a consistent modest growth in the 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 2014/15 the return to beneficiaries is forecast to be:

- Total return to all beneficiaries of \$280.6 million (33.4% of sales revenue);
- Direct grants of \$110.5 million; and
- Perth Festival and ScreenWest of \$15.5 million.

## Operational Expenses

Lotterywest's estimated operating expenses for 2014/15 are \$64.9 million, maintaining the previous year's expenses/sales ratio of 7.7%.

<b>Lotterywest Operating Expenses</b>	<b>Budget 2013/14 \$000</b>	<b>Budget 2014/15 \$000</b>
Total Expenses (Excl. Depreciation)	57,021	59,386
Depreciation	5,000	5,500
<b>Total Expenses</b>	<b>62,021</b>	<b>64,886</b>

Lotterywest's costs are predominantly driven by salaries, marketing, communications, distribution and the maintenance and support of our information technology. The number of Full Time Equivalent (FTE) staff is forecast to increase slightly from 195 to 207 during 2014/15.

## Asset Investment Plan 2014/15

	2013-14 Estimated Expenditure \$'000	2014-15 Estimated Expenditure \$'000
<b>WORKS IN PROGRESS</b>		
Retail Transformation Project	4,250	7,958
<b>COMPLETED WORKS</b>		
Building Maintenance Work	1,500	-
Building Maintenance Work	150	-
Furniture and Fittings		
2013-14 Program	150	-
Land and Buildings		
2013-14 Program	130	-
New Gaming/Lotto Games		
2012-13 Program	80	-
Software - Corporate Services		
Electronic Document and Records Management System	680	-
<b>NEW WORKS</b>		
Business Transformation Project - Stage 2	-	656
<b>IT Projects</b>		
GOS Rationalisation - 2014-15 Program	-	300
GOS Rationalisation - 2016-17 Program	-	-
Mobile Access: Stage 2 - Mobile Apps	-	300
WAN End Routers - 2014-15 Program	-	1,100
Land and Buildings		
Building Works - 2014-15 Program	-	850
Building Works - 2015-16 Program	-	-
Building Works - 2016-17 Program	-	-
Building Works - 2017-18 Program	-	-
New Gaming/Lotto Games		
2014-15 Program	-	624
2015-16 Program	-	-
2016-17 Program	-	-
Plant and Equipment		
2014-15 Program	-	100
2015-16 Program	-	-
2016-17 Program	-	-
Telephone Systems Upgrade	-	-
Software - Corporate Services		
Electronic Document and Records Management System	-	-
Software Enhancements	-	-
<b>Total Cost of Asset Investment Program</b>	<b>6,940</b>	<b>11,888</b>
<b>FUNDED BY</b>		
Internal Funds and Balances	6,940	11,888
<b>Total Funding</b>	<b>6,940</b>	<b>11,888</b>



The major asset investments for 2014/15 are the following:

### **Retail Transformation Program (RTP)**

This consists of a number of separate but interconnected projects (see also section 'corporate priorities'). 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 and to support them to achieve their own business goals.

The program comprises the following elements:

- Retail Image redesign;
- New Retail Technology and Digital Product Marketing (Point of Sale) initiatives; and
- New Player Registration Service which will enhance the customer experience in both retail and the online channel.

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 and ultimately improve the quality of marketing and reduce costs by minimising paper based advertising material.

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 program also includes a project to create a new player registration service which will create one single database and which will improve both service to players and communication with them. This part of the program of works is fundamental to achieving best use of the new opportunities the new gaming technology can offer.

### **Gaming systems**

Business systems must be regularly upgraded to allow achievement of our business goals. This includes the capacity for Business Intelligence and more comprehensive Customer Relationship Management system to give a level of analysis to support business reporting and decision making. Investments will be made to replace gaming system servers (as they will no longer be compatible with required gaming software) as well as to replace gaming system core wide area network (WAN).

### **Land and Building**

This relates to a range of critical building maintenance works to ensure effective and safe accommodation for the staff of Lotterywest. Lotterywest's head office was constructed during 1991 and now requires a number of essential repairs. This includes major work to the roof (which leaks and is creating increasing problems throughout the building) and

replacement of the air conditioning which is old and unreliable. The building is also in need of urgent structural repair, with concrete cancer to the foundations and surrounding support structure resulting from environmental damage over a prolonged period of time, and as a consequence of the original building design.

## Budget 2014/15

### Financial Outcomes

		2014/15 Budget (\$m)
Sales		840.0
Operational expenses		64.9
Statutory grants	154.6	
Direct grants	<u>126.0</u>	
Total return to beneficiaries		280.6
<b>Total Comprehensive (Loss)</b>		<b>(14.3)</b>

### Financial Statements

#### Statement of Comprehensive Income

	Budget 2013/14 \$000	Budget 2014/15 \$000
<b>INCOME</b>		
Sales of Goods	801,690	840,000
Interest Revenue	13,000	12,500
Other Income	11,696	16,080
<b>Total Income</b>	<b>826,386</b>	<b>868,580</b>
<b>EXPENSES</b>		
Cost of Sales	512,614	537,441
Lotteries Operations	47,756	49,962
Grants and Community Development Operations	14,265	14,924
Returns to Beneficiaries	267,833	280,560
<b>Total Expenses</b>	<b>842,468</b>	<b>882,887</b>
<b>Total Comprehensive (Loss) for the Period</b>	<b>(16,082)</b>	<b>(14,307)</b>



## Statement of Financial Position

	Budget 2013/14 \$000	Budget 2014/15 \$000
Current Assets	268,181	250,146
Non-Current Assets	60,971	67,359
<b>Assets</b>	<b>329,152</b>	<b>317,505</b>
Current liabilities	221,213	224,140
Non-Current Liabilities	1,378	1,111
<b>Liabilities</b>	<b>222,591</b>	<b>225,251</b>
Reserves	9,870	9,870
Accumulated Surplus Adjusted for Negative Equity	96,691	82,384
<b>Equity</b>	<b>106,561</b>	<b>92,254</b>
<b>Statement of Financial Position</b>	<b>-</b>	<b>-</b>

## Cash Flow Statement

Statement of Cash Flows	Budget 2013/14 \$000	Budget 2014/15 \$000
Receipts	859,634	902,164
Payments	874,325	908,211
<b>Operating Activities</b>	<b>(14,691)</b>	<b>(6,047)</b>
Receipts	8,398	25,482
Payments	17,473	11,888
<b>Investing Activities</b>	<b>(9,075)</b>	<b>13,594</b>
Opening Cash Balance	26,327	2,561
<b>Balances and Adjustments</b>	<b>26,327</b>	<b>2,561</b>
<b>Cash at the end of the period</b>	<b>2,561</b>	<b>10,108</b>

## **Reserves (Retained Earnings)**

The Board, as the accountable authority for Lotterywest is responsible for the oversight of the management of the business. This includes making decisions on capital investments to ensure the long term sustainability of the business while ensuring the retention of a prudent level of reserves to cover all foreseeable business contingencies.

The Board also has the responsibility of making recommendations to the Minister on grants to 'eligible organisations' for 'approved purposes'.

The Act is specific that funds not required for Lotterywest's business purposes should be used to supplement the direct grants budget. The forward estimates in this document include the managed draw down of reserves for both business investment and for 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.