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REPORT OF PROCEEDINGS
(HANSARD)

SELECT STANDING COMMITTEE ON
CROWN CORPORATIONS

Victoria

Wednesday, September 4, 2002

Issue No. 8

KEN STEWART, MLA, CHAIR

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**SELECT STANDING COMMITTEE ON
CROWN CORPORATIONS**

Victoria
Wednesday, September 4, 2002

Chair: * Ken Stewart (Maple Ridge-Pitt Meadows L)

Deputy Chair: * Bill Bennett (East Kootenay L)

Members: * Pat Bell (Prince George North L)
* Ida Chong (Oak Bay-Gordon Head L)
* Dave Hayer (Surrey-Tynehead L)
* Daniel Jarvis (North Vancouver-Seymour L)
* Ken Johnston (Vancouver-Fraserview L)
* John Nuraney (Burnaby-Willingdon L)
John Wilson (Cariboo North L)
Tony Bhullar (Surrey-Newton Ind L)
Joy MacPhail (Vancouver-Hastings NDP)

** denotes member present*

Other MLAs Present: Richard Lee (Burnaby North L)

Clerk: Craig James

Committee Staff: Josie Schofield (Committee Research Analyst)
Audrey Chan (Assistant Researcher)

Witnesses: Doug Penrose (B.C. Lottery Corporation)
Vic Poleschuk (President and CEO, B.C. Lottery Corporation)
Rick Turner (Chair, B.C. Lottery Corporation)

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SELECT STANDING COMMITTEE ON CROWN CORPORATIONS



Wednesday, September 4, 2002
1 p.m.
Birch Committee Room
Parliament Buildings, Victoria

Present: Ken Stewart, MLA (Chair); Bill Bennett, MLA (Deputy Chair); Dave Hayer, MLA; Ida Chong, MLA; Pat Bell, MLA; Daniel Jarvis, MLA; John Nuraney, MLA; Ken Johnston, MLA

Unavoidably Absent: Joy MacPhail, MLA; Tony Bhullar, MLA; Dr. John Wilson, MLA

1. The Chair called the Committee to order at 1:06 p.m.
2. Pursuant to its terms of reference, the Committee examined the British Columbia Lottery Corporation.
Witnesses:
 - T. Richard Turner - Chair, Board of Directors
 - Vic Poleschuk - President
 - Doug Penrose - Vice President, Finance and Corporate Services
3. The Committee met in-camera to discuss its review of the BC Lottery Corporation, and its selection of Crown corporations for review at upcoming Committee meetings.
4. The Committee agreed to the following schedule of review of Crown Corporations:
 - Tourism BC (September 18)
 - BC Transit (October 2)
 - BC Securities Commission (October 23)
5. The Committee discussed issues related to the scheduling of upcoming Committee meetings.
6. The Committee adjourned at 3:51 p.m. to the Call of the Chair.

Ken Stewart, MLA
Chair

Craig James
Clerk Assistant and
Clerk of Committees

WEDNESDAY, SEPTEMBER 4, 2002

The committee met at 1:06 p.m.

[K. Stewart in the chair.]

K. Stewart (Chair): Good afternoon, everyone. We'll do introductions in a minute. I just want to have a very quick look at the agenda. Has everyone got a copy of the agenda?

We'll hold our other business to the end, so we can start right off with the review of the B.C. Lottery Corporation. To start off with, I would just like to introduce everyone here. If we can have our guests introduce themselves, I'll start on my right.

P. Bell: Pat Bell, MLA, Prince George North.

D. Penrose: I'm Doug Penrose, vice-president of the British Columbia Lottery Corporation.

V. Poleschuk: Vic Poleschuk, president of the British Columbia Lottery Corporation.

R. Turner: Rick Turner, chair, British Columbia Lottery Corporation.

D. Hayer: Dave Hayer, MLA for Surrey-Tynehead.

D. Jarvis: Daniel Jarvis of North Vancouver-Seymour. I've yet to win a lottery.

I. Chong: Ida Chong, Oak Bay-Gordon Head.

A. Chan: I'm Audrey Chan, researcher for the committee.

K. Stewart (Chair): In the vacant seat to my left is Craig James. He's got two other sessions going on now, so he'll be in and out with us. We also have two members, Ken Johnston and John Nuraney, who are down with the police commission, and hopefully, they will be up in approximately an hour. I'm Ken Stewart. I'm the Chair of the committee, from Maple Ridge-Pitt Meadows.

Vic, if you'd like to start off with your presentation, go ahead.

V. Poleschuk: Rick will start.

R. Turner: Thank you, Mr. Chairman. I would like to make a few introductory remarks, and then I'll ask Mr. Poleschuk and Mr. Penrose to make our presentation.

This committee was appointed to, among other things, enhance accountability and improve public performance reporting of Crown corporations. Perhaps because of this overriding mandate, we're pleased to be here before you to present and discuss the corporation's fiscal 2001-02 annual report and our current service plan. Our board believes in the same strong gov-

ernance model that you do. We believe that the corporation must ooze integrity in all that it does, because of the very nature of its business. Without fairness, strict accountability and transparency, we would not have the confidence of those adults who choose to buy our products, nor would the public have a positive point of view of the corporation.

We're also pleased to have the opportunity to discuss gaming in general and to answer any questions you might have. As we all may know, gaming is a high-profile and sometimes controversial issue. Governments all around the world have recognized that while there are significant benefits from government-controlled and -regulated gaming, there are also potential negative and social consequences which must be addressed.

Gaming in Canada is now a \$15 billion-a-year business. In B.C. we remain relatively conservative in gaming policy and now rank amongst the lowest per capita in spending on gaming in Canada. Indeed, B.C.'s per-capita spending on gaming is \$100 less than the Canadian average.

Gaming in British Columbia is a matter of balance. BCLC contributes to the province's economic well-being by providing regulated, high-quality gaming entertainment to adults while remaining ever mindful that the benefits derived from gaming must be balanced with the social impacts on individuals and on communities.

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Gaming generates significant funds for economic development and social benefits for British Columbia. The net income that BCLC generates for government flows back to communities through programs for the public good, including health and education, general revenue, grants to charities, revenue-sharing disbursements to host local governments where casinos are located, and problem gambling education and treatment.

Revenue from lotteries, casinos and bingo reached \$1.61 billion for the fiscal year just ended. This resulted in a net income of just over \$606 million, of which almost \$598 million was distributed to the government of B.C. and just over \$7 million to the government of Canada. Our service plan for the current year forecasts the net income to be \$660 million, under current government policy. In addition to generating income for vital public services, the gaming industry has created thousands of direct and indirect jobs in B.C. Eighty-five percent of our operating expenses are paid to our private sector partners.

During fiscal '01-02 the government restructured and redefined the gaming model for British Columbia. In September the five agencies responsible for gaming were consolidated into two. BCLC remained the operational agency to conduct, manage and operate the business of gaming, and the gaming policy and enforcement branch was formed as a regulatory agency. In January 2002 the government provided further direction in respect to gaming policy, and in March they

introduced a comprehensive gaming control act intended to strengthen and streamline the management of gaming in British Columbia.

As part of BCLC's strategic plan, a comprehensive business review of the corporation's mandate and operations was undertaken during the year. This review coincided with the government's core services review for all ministries and Crowns. The review identified opportunities where BCLC could be even more effective and cost-efficient in the delivery of our products and services to the marketplace. Initiatives identified through the plan and review are projected to result in significant operational savings and thus greater net income for vital public services. As a new board, the review was an excellent opportunity to work with our senior management and together review our mandate and our operating and service delivery models, with a view to determining how we can be the best we could possibly be.

As I've stated, the corporation is a significant generator of income for government, but unlike most other Crowns, our ability to generate that income is based upon the consumer choosing to spend their discretionary entertainment dollars on our products rather than on competing entertainment products. Thus, while we may have a monopoly for legal gaming in British Columbia, we do not have a monopoly over the consumers' decision as to whether or not they will buy our particular products. As such, B.C. Lottery Corporation must be able to compete for the consumers' entertainment dollars by offering competitive, high-quality gaming entertainment products that are fair in application and fit within the overall framework of government gaming policy and social responsibility.

As you will see later in our presentation, some of our existing products are mature in the marketplace, and we must constantly find new or different products for our customers. In short, we are in the gaming entertainment business and the consumer products business, and our customers vote every day as to whether or not they will spend some of their discretionary entertainment dollars on our products.

Over the next year the corporation will continue to operate within the gaming policy framework established by government and meet fiscal expectations by further developing its current lines of business, broadening its customer base and increasing the entertainment value of our products. Perhaps, unlike other Crowns, ours is principally a revenue-generating exercise done within the bounds of public policy given to us. There's far more opportunity to grow revenues than reduce costs.

The corporation has applied and will apply rigour and discipline to its business initiatives and will remain poised to take on new challenges and opportunities, all within government gaming policy. The corporation upholds the highest standards in its responsibilities to conduct and manage gaming in British Columbia and to balance social considerations through active participation in responsible gambling education, awareness and research programs and by supporting problem

gambling treatment programs and services. By sharing responsibility among BCLC, its service providers, government, community agencies and those adults who choose to participate in gaming activities, we will continue to ensure a healthy, balanced gaming industry in British Columbia.

Thank you for the opportunity to provide opening comments. I'd now like to ask Vic Poleschuk, our president, to take you through our presentation.

V. Poleschuk: I'll start by providing a brief overview of the corporation. Our mission for the corporation is to provide high-quality gaming entertainment in a socially responsible manner for the benefit of all British Columbians. We're responsible for conducting and managing lotteries, casinos and commercial bingo in the province. We also, under the new Gaming Control Act, have marketplace management responsibilities for horse racing.

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The corporation, as Rick has said, is a commercial, marketplace-driven organization that operates in a competitive environment where consumers decide each day how they will spend their discretionary entertainment dollars.

Gaming is illegal in Canada unless it is made legal under specific provisions of the Criminal Code. Those amendments to the Criminal Code were made in 1969. Pursuant to previous legislation here in the province, now superseded by the Gaming Control Act, it then takes the authority from the Criminal Code and invests it in the province or in its agents. The Criminal Code requires that gaming be conducted by a Crown agent, and BCLC has been designated as such by the province, as its agent to conduct gaming.

Rick talked a little bit about the growth of gaming in Canada, and what we want to do is just kind of set out for comparative purposes what's happening in the gaming industry in Canada. Gaming continues to grow very significantly throughout Canada. In 1992 total gaming revenues were around \$2 billion. They had grown to \$9 billion in 1999, and the projection for 2003 is that it will be a \$15 billion industry in Canada. The majority of that growth has come from casinos and VLTs in other provinces.

During that same period of time, we looked at tracking the acceptance of gaming. In a recent Canada West study that was done across Canada, there's a 72 percent participation rate of adults in some form of gaming in Canada. In British Columbia the participation rate of adults is 74 percent. The acceptance rate in Canada is measured at 63 percent for gaming, with a 58 percent acceptance rate in British Columbia.

As we previously noted, British Columbia continues to have a moderate level of gaming in comparison to most other provinces. That is consistent with the government gaming policy and has been consistent with government gaming policy over the last number of years. Here we show a comparative chart of per-capita gaming income by province. You'll see that British Columbia for March 31, 2001, is at just over \$200

per capita — that's per adult — with a Canadian average of just over \$300 and provinces such as Alberta, Saskatchewan and Newfoundland being closer to the top end of the revenue chart.

Our service delivery model. The corporation is responsible to conduct, manage and operate provincial gaming in the province. The gaming policy and enforcement branch is responsible for the policy standards, regulation, licensing and enforcement of all the gaming sectors. The actual delivery of most services from the corporation is contracted out to private sector partners. We have a decentralized provincewide network of employees. We have 560 FTE employees in the company today.

Our head office is in Kamloops. We have a sales and marketing office in Richmond, and we have sales, security and field support staff located all throughout the province. To give you an idea of the distribution channels, on the lottery side of our business we have 2,700 retail store locations that we contract with. Under contract, they sell our lottery products. As well, we have 1,300 private sector bars and pubs that are contracted to sell lottery products.

On the casino side of our business, we have 17 community casinos and four destination casinos, and we contract with private sector casino service companies to provide day-to-day operational services and facilities. In bingo, we have 37 commercial bingo halls. There are 40 independent bingo sites that also sell some of our products. Similarly, we contract with each of those as either private sector operators or charitable sector operators to provide services to us for bingo.

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Just having a quick look at the gaming dollar for this past year, the pie represents \$1.6 billion in revenues, and you'll see that the net income being returned to the province is 38 percent, or \$606 million. Our direct operating expenses, which include prizes and commissions to our private sector sellers, are 54 percent, or just over \$860 million. Our operating costs in all represent \$138 million, or roughly 8 cents out of every gaming dollar that the corporation takes in.

In terms of where the money comes from and where the money goes — the source of revenue — you'll see that lottery and casino are almost on par for contribution to net profit, with casinos at \$299.5 million, lottery at \$294 million and bingo contributing just under \$13 million.

Of the distribution of that amount — \$606.1 million — in the blue bar you'll see that consolidated revenue receives the largest portion of the revenues, at \$315 million, which in turn are distributed to support programs in health, education and other government services.

There is \$144 million which is dedicated to a health special account, which is used for health care purposes. The charity contribution of almost \$98 million is funds that flow from gaming over to charities through the direct access grant program and through bingo revenues.

The municipalities share in just roughly under \$33 million. That's for being host to community or destination casinos. Federal government receives \$7.6 million as part of a 1979 agreement which saw them vacate the lottery field.

Roughly \$6 million out of the \$606 million is associated with economic development purposes for destination casinos, and \$2.5 million was spent last year supporting the problem gambling program. I'll talk a little bit more about that. The commitment for this year is that that will be increased to \$4 million. That decision was made partway through the year, so the full impact of that wasn't felt last year.

From an overview of economic benefits, we're in the business of offering games of chance, and people play with the hope that they will have a chance to win a prize. Last year we paid prizes totalling \$575 million to approximately 20 million prize-winners in the province. Commissions and service fees paid to lottery retailers and casino and bingo service-providers totalled \$273 million. Through the course of the year we had payments to private sector suppliers of \$83 million and net income left at the end of the day of \$606 million for government purposes.

As Rick mentioned earlier, it's estimated that there are over 7,500 direct jobs in the gaming business in the province today and another 5,000 indirect jobs generated by gaming in the province.

Social responsibility is a key part of our mission statement, and the corporation takes our responsibilities for social responsibility very seriously. We believe social responsibility and responsible gaming are key priorities for the corporation. Of the total adult population, it's estimated that 96 percent do not have problems with gambling and that they choose to play in a very social, fun and recreational manner. Up to 4 percent of the adult population have varying degrees of problem gambling behaviour. The corporation, in conjunction with government, has developed public awareness, education and treatment programs, of which \$4 million from gaming revenues are now dedicated annually to government to support the problem gambling programs.

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From a strategic standpoint, our vision statement for the corporation is to be a world-class gaming corporation. That supports our mission of providing high-quality gaming entertainment, providing it in a socially responsible manner and providing it for the benefit of all British Columbians. Our organizational values, which are published as part of our strategic plan and service plan, are founded on four key values: integrity, social responsibility, excellence and respect.

When we look at an environmental scan of our marketplace, we would categorize our three main lines of business as lottery, casino and bingo — lottery being in a mature phase of its life cycle, casino being in a growth phase of its life cycle and bingo being in a decline phase of its life cycle. Each of those three segments presents specific marketing and operational

challenges for the particular point that the product is in, in its life cycle.

From a consumer standpoint, we see an aging and more diverse population in the province, and we're also seeing consumer buying patterns and expectations changing with consumers becoming much more sophisticated, much more demanding and much more knowledgeable today than in the past. We see increase in competition in our marketplace, and that competition comes either from other forms of adult entertainment or specifically from gaming competition either via the Internet or cross-border gaming opportunities.

From a human resources standpoint, as we move forward we see continued competition to attract and retain highly skilled and experienced employees. From a technology standpoint, we share the same challenges as any other business in terms of a rapidly changing technology landscape and continue to be in a position to apply technology to meet our business objectives.

A quick summary of the strategic issues that the corporation faces. On the lottery side of our business, as I said, we have a more mature lottery business. Our challenges are to develop new products to meet changing customer expectations — products that our customers will find attractive, will find value in and spend their few dollars a week on lottery products. Our second key challenge is developing our retail network, both from a growth and a development standpoint. Shopping patterns have changed. We've seen the advent of big-box stores coming into all corners of the consumer market, and people are not shopping in the same places today as they were shopping at ten years ago. With our lottery products, our particular challenge is to be where the people — the consumer — are actually doing their shopping. Given that we're an impulse buy, we need to be where people are doing their shopping and have the highest traffic levels.

Our challenges on the casino side of the business are in the repositioning and branding of casinos in British Columbia. We have a distinct casino model in the province which is set by government policy, which limits the size of community and destination casinos to 30 gaming tables and 300 slot machines. As we move forward, we are attempting to reposition the casinos that are currently in the market into newer, better, more comprehensive facilities that will provide greater value to our casino patrons but, at the same time, stay within the purview of government policy. That includes the relocation of some of the existing community casinos which.... By cabinet decision, we have four eligible casinos to be relocated.

On the bingo side of our business, similar challenges as the casinos. That is, there is a requirement to upgrade the facilities and upgrade the service standards, the challenge to reinvigorate a declining industry and to ensure that our bingo halls are positioned where consumers will attend. So there's a relocation of a number of existing bingo halls to better locations.

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From a corporate standpoint, the challenge — certainly the levels and types of gaming in B.C. — is to

maximize our opportunities within the purview of government policy. Social responsibility will be a key priority for the organization in moving forward. We believe that as an organization, it has always been a key part of our mandate, and that with our business continuing to grow, social responsibility and the programs associated with social responsibility will continue to grow as well.

Corporate image. We believe it's important as a provincial Crown agency in the gaming business that we are seen as a good corporate citizen in all parts of the province, that we've got strong community support and that we've got strong public support for the products we sell. What we've seen, certainly in other jurisdictions, is that there is a very strong linkage between that strength of public support and the public's understanding and awareness of who the beneficiaries are from gaming in the province.

Other challenges we see. Certainly, increasing competition in our marketplace, which I've touched on, and organizational change and just ensuring that we have the best organization to meet the challenges of the day.

When we presented to the core services committee, we presented a number of strategic shifts, and I'd like to just highlight some of those which were approved. From a gaming marketplace standpoint, we identified a required shift that would see us move from a policy regulatory focus in administering and managing the gaming marketplace in British Columbia to more of a customer and market focus. That would be where we're more responsive to what the customer and the market forces are demanding.

We also see a strategic shift in moving from having passive social responsibility programs to leading-edge social responsibility programs — that is, moving out ahead of the pack and not just doing what is needed but doing more than what is needed in terms of being proactive, and having stronger awareness programs, stronger education programs and stronger treatment programs.

We also see the strategic shift of moving provincially from a weak illegal-gambling strategy to a strong illegal-gambling strategy that will proactively address the issues of illegal gambling in our marketplace.

We also see the shift from low public awareness of benefits and beneficiaries of gaming to a high awareness of the beneficiaries of gaming. I think we have some of the best-kept secrets in the province in respect of community groups that benefit from gaming throughout this province, as well as the good works that lottery and gaming revenues do, be that through government programs, municipal programs or charitable programs. We believe there is a great opportunity to work together with government to communicate and tell people in the province about the wonderful things that are being supported from gaming revenues.

From a lottery standpoint, as I've said, it's a mature product. We see the strategic shift of having to move to innovative, new and competitive products, continuing to be able to bring fresh, new products into the lottery

marketplace. In terms of our retail outlets, we've had limited growth and penetration of retail outlets over the last number of years. We'll be moving to a strategic shift that will see us penetrate the market based on market demand and also to a strategic shift from where in the past having provided equal support for all retail outlets, we're moving to stratified service levels based upon the value of the retail account.

In our service plan we provide more detail on the six key objectives that we have for the corporation, our first objective being to provide high-quality gaming entertainment. We have four key objectives under the goal of high-quality gaming entertainment. That's growing all of our business segments through the development of new, innovative products and services; broadening the overall customer base by increasing the entertainment value of products; developing a casino model that has long-term sustainability and maximizes more the benefits associated with tourism; and repositioning bingo to attract a broader customer base and increase the entertainment value of products.

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We have listed three key strategies and have identified the performance measures from this year through the service plan time period through 2004-05. I'm not going to go through each of the columns, but we'll be able to answer any questions you have on any of the objectives, strategies or performance measures.

The second key goal we have is to be a socially responsible, trustworthy, community-oriented organization with a broadened base of public support. For us that really means being able to continue to have public support, both in terms of those people who participate in lotteries and also those who may not participate but recognize the benefits that provincial gaming has to offer.

Again, we list our four key objectives, we identify our strategies, and we identify our performance measures. The one I'd just like to talk about is the public support rating, which we measure on an ongoing basis. You'll see that from a public support rating in '99, 2000 and 2001, we were down in the high 40s. That was the result of a number of decisions around expansion of gaming that were made at the time, as well as some of the controversies. As you'll see, we're now starting to pull back up into the mid-50s range, and our target is to continue to grow that acceptance level over the course of the next two years, with the objective of getting back into 60 to 65 percent public acceptance for the corporation.

Our third goal is to be a responsive customer-focused organization, and that's making it easy for customers to be able to play our products as well as for our business partners to do business with us. We've outlined our three key strategies, and we measure, on an annual basis, our customer satisfaction and our business partner satisfaction in all three lines of our business: lottery, casino and bingo. Given that casinos and bingo are newer parts of our business, we have well-established customer and business partner satisfaction ratings for the lottery business, and we're just in

the midst now of establishing the baselines for the casino and bingo part of our business.

Our fourth main goal is to maintain a corporate culture that values innovation and excellence and is committed to employing the best possible people and realizing their potential. We've got two key objectives in terms of making sure we're making progress towards our values and preferred culture by encouraging innovation and openness to change and by attracting, developing and retaining the right people with the right skills. We are extremely proud of the workforce we have. We believe we've got a tremendously talented workforce — a workforce that is extremely committed to the success of the organization. I think our history of success over the last 25 years has shown that we've got a very strong, loyal and committed workforce who have the right skills and the right competencies to move the corporation forward. We track employee satisfaction, employee turnover rate and employee absenteeism as three key performance measures, and the results are listed here in the material we have presented.

Our next key goal is to be an efficient, effective business managing our resources well and delivering tangible results for British Columbians. We have three key objectives underlying the goal. Technology plays a very large part in the operational end of our business and will continue to play a very large part in the operation of our business. Many of our products are sold on line through point-of-sale terminals that are directly connected to our data centre in Kamloops. All the slot machines and, soon to be, all the table games are individually connected through to our main data centre in Kamloops, both for revenue control and for audit control purposes. We also look to applying technology in terms of how we can make our business better on a day-to-day basis.

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Our goal is to perform strategic and core activities better — or at least, average — than industry best practices. We're looking to maximize our operational effectiveness by re-engineering business processes and divesting non-core, non-strategic functions that we believe can be done more effectively and efficiently elsewhere.

Our performance measures are, first, administrative cost as a percentage of sales. Here you'll see that in '99-2000 we were running about 5.8 percent of total revenues as admin costs. In this past year we were down to 5.5 percent actual, coming out of core services. That number will come down to 5 percent this year and 4.7 percent over the course of the next two years. Our estimate is that we have completed, at this point, around 85 percent of our core services initiatives, with the balance of the 15 percent to be completed over the balance of this fiscal year and early into next fiscal year.

We also track the availability of our technologies, specifically our selling technologies out in the field. We believe that when a customer wants to buy a ticket, they need to have instant availability. Our on-line gam-

ing systems are tracking in and around 99.9 percent availability to the customer.

Our last goal is to generate gaming revenue and continue our contributions to the economic development of British Columbia communities. Our objective is to improve our operating results through continued development and introduction of innovative new products and distribution channels that meet market demand.

Our revenue targets for this year are \$1.8 billion. In respect to '01-02, our target was \$1.54 billion, and we exceeded the target by coming in at just over \$1.6 billion. We delivered \$606 million in profit to the provincial government, ahead of our \$585 million target. Based on the plans that we have over the next three years, as identified in the service plan and within government policy, we see our revenue and income targets growing from \$1.8 billion up to \$2 billion on the revenue side and from \$660 million to \$765 million on the profit-to-government side.

In respect to alignment with the government's strategic direction of being responsible, accountable management, our strategic plan is in alignment. We see that in our corporate values that focus on integrity and social responsibility, the strategic initiative that focuses on operational excellence in our people, practices and systems, and our strong corporate commitment to ongoing performance benchmarking and accountability to our shareholder — being government — and the public at large.

The strategic direction to have a thriving private sector economy and the fastest-growing technology industry in Canada. For a thriving private sector economy.... Excluding prizes, more than 85 percent of our operating expenditures are paid to private sector partners. Our main service delivery model is through contractual relationships with private sector service partners in all three lines of our business — being lottery, casino and bingo. The majority of our operating expenses are done through contracting with private sector suppliers.

In respect to the growing technology industry, we've been able to establish strategic partnerships with key British Columbia-based technology businesses, both on the lottery and on the bingo technology side. We're pleased that some of these companies, after having done business with us and worked with us on various startup programs, are now actually taking those technologies and marketing them outside the province.

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Under sound fiscal management, we believe, from our strategic plan, that we have net income projected at \$660 million — there's a typo; we didn't add in \$10 million — and that our reduction in operating costs over the last three years will continue to move down to under 4.7 percent over the next three years. There's a sound and prudent view and rigour in terms of how we're going to be managing the operating side of our business. Certainly, we want to be prudent, but at the same time, as Rick said, we have the ability to make more money on the revenue side than we have actually

to save on the cost side. It's a fine balance between prudence but investing in our product for revenue growth.

Focus on customer service. Our corporate goal is to provide exceptional service to customers and business partners, so we see a strong alignment in those particular goals: the government's strategic direction to stop the expansion of gaming, which has increased gambling addiction and put new strains on families, to alignment of the corporation's direction. We have a strong commitment to social responsibility and socially responsible gaming and the long-term stewardship of the gaming industry. That really means that from a corporation standpoint, we take the approach of making decisions that are best for the corporation and best for the province in the long term of the gaming business, not necessarily the short term.

Enhanced social responsibility programs. The strategic initiative to provide reliable and balanced information regarding gaming and related issues, limited casino relocations and limited slot machines and the strong working relationship with and the financial support for the Ministry of Health Services in the development of problem-gambling programs are all things we are doing that we believe are in alignment with the strategic direction of government on gaming.

We've laid out our sales and net-income forecasts for the next three years in our service plan. It shows we will be growing from our target of \$1.8 billion in revenues this year to just under \$2 billion in fiscal year 2004-05, with associated growth and net income from \$660 million to \$765 million.

Our forecast assumptions on which the service plan is based are that our mandate as directed by government will remain unchanged, that there will be no expansion of gaming beyond the approved government policy and that the community casino relocations will be limited by government policy as has been announced.

Our forecast risks. We see three key risks over the next little while. Some may be manageable, some less manageable.

A reduction in disposable income in respect to the overall economy. We have a product which is highly impulse-based. We find we do best when people are out in the shopping malls, out shopping and deciding to make impulse purchases. As we see the economy weaken, we also see our sales revenues weaken as well.

We also see competition from other jurisdictions, specifically Washington State, on the casino side of our business and, to the eastern part of the province, the Alberta gaming. But right within the province, we are starting to see more competition on the Internet side. As well, there is just generally a heightened competition for disposable income — for the disposable, discretionary entertainment dollars. There are more choices for the consumer today than ever in where they will be spending their discretionary dollars, and given that there may be fewer discretionary dollars around, that competition for the smaller pie will certainly continue to be strong.

The third item is the size and frequency of lottery jackpot rollovers. While it's a risk, it's more an inherent risk in our business. That is, if we are on the lucky side of Lady Luck and we have more frequent rollovers on our jackpots, then we'll find revenues will be higher. If we have a more consistent winning of our jackpots, then we find revenues stay more stable. That has always been so, since we've introduced lotto games, and it will always remain so, as long as we have lotto-style games. Just to give you an idea of the sensitivities, though, a 1 percent change in sales activity, either plus or minus, can negatively affect net income by \$7 million.

[1350]

In respect to major capital projects, we do not have significant major capital projects in terms of big investments in infrastructure. We are in the process of replacing our on-line gaming lottery system and terminals. The total capital costs of this over a multi-year project are estimated to be in the range of \$25 million to \$30 million. That will likely happen over the course of the next two fiscal years.

In summary, the corporation makes significant economic contributions to the province. Net income is projected to grow to \$765 million over the next three years, an increase of \$160 million, or an average annual growth rate of just over 8 percent. We are a commercially driven, market-driven organization that does operate in a competitive environment, and we feel it's very important that we must be able to respond to marketplace requirements and changing consumer expectations. Social responsibility and public approval are key to the continued success of gaming in British Columbia.

With that, Mr. Chair, that concludes our formal presentation. We are open to any questions the committee may have.

K. Stewart (Chair): Prior to the questions, maybe everyone would just like to take a quick stretch, grab a juice or a coffee and refill your glass. Then we can sit down and continue on. The way we're going to do our questions is that we'll start with Dan Jarvis's time, because he requested it anxiously and he had questions, and then we'll just go around the room one at a time until we complete. Thanks.

Just a quick point to our guests. These proceedings are recorded by Hansard, so within a day or so you can go to the Internet and see what you said — find out what you really said as compared to what you thought you might have said. If it's anything really, really out there, everyone in B.C. will be able to read along with you.

We've had one other member arrive: Bill Bennett from the Kootenays.

Okay, Dan, if you'd like to start.

D. Jarvis: Gentlemen, thank you very much. I have a few questions here, nothing of real inquiry other than more under the customer marketing end of what you were talking about.

Can you tell me if there's a specific reason — and I've had a lot of questions to me by different people — why we can't amortize the grand prizes over more people? Is there a specific reason for it? I can see it for them nationally, because we have no control. But for, say, BC/49, would that not increase the participation?

V. Poleschuk: It's a very good question in the sense that the consumer is sometimes a very difficult and challenging entity to figure out. We get lots of feedback from consumers, especially when the jackpot gets higher: "Why don't you take that and break that down into multiple million-dollar prizes?"

[1355]

We've listened to the consumer a number of times in that respect and offered a variety of bonus draws where, as opposed to offering one big \$10 million prize, we would offer 12 \$1 million prizes. The consumers have spoken with their dollars and have said: "Thanks, but that doesn't attract me to buy. I would much rather spend my dollars for the one chance at a bigger dollar amount."

We have tested that concept of breaking it down into multiple smaller prizes, and it doesn't draw the same number of consumers as a larger prize. On the other hand, recognizing that, that's why we actually design a variety or a portfolio of games that will have some games that will have larger jackpots and will attract those customers who are looking for the larger jackpots, but then design a game like BC/49, which has a maximum \$1 million top prize, for those people who are only interested in a smaller top prize but a better chance of getting a smaller top prize.

D. Jarvis: So the gamblers aren't really as smart as I think they are, are they?

V. Poleschuk: Well, typically, what we find is that there are two sets of opinions: one before the draw and then one after the draw.

D. Jarvis: On that same thing, I notice that the money put aside for problem gamblers, etc., has risen about \$1.5 million, \$3 million — to \$3 million. It's been projected to be around 4 percent, or \$4 million. You say that only 4 percent of gamblers.... Has it risen over these last few years and that is why you're putting more in it, or do you feel it's going to rise more?

V. Poleschuk: I think it's a proactive step. The decision to increase the allocation of gaming dollars to the problem-gambling program was made by Treasury Board about a year and a half ago, and it was based on a comparison of program spending in other jurisdictions. It also recognized at that time that there were some elements of responsible gaming programs that the province was not doing because of a shortfall in dollars. What the \$4 million now allows is a much broader, more comprehensive program to be offered in the province, of which some will now only be coming into place.

In respect of the second question, "Has there been an increase in the prevalence?" we conducted two previous prevalence studies, one in 1993 and one in 1996. The results were pretty consistent on those. We are currently working with the gaming policy enforcement branch on looking at undertaking another prevalence study, with which we will now be able to measure the change in prevalence or incidence from 1996, which was prior to most of the casino and slot machine introductions in the province, to the post results. We expect that those results will be available sometime in the next six months.

D. Jarvis: Thank you.

On the same subject in a way, I want to.... I assume that it's VLTs that are supposed to be the big question with regards to addiction. From what I've been informed before, the VLT end of it is the more.... At the same time, the double barrel I want to throw in.... Horse racing wants more VLTs, because that's how they make their money. At the same time, they're getting more customers — you know, a better marketing force. If we had a better horse-racing system in this province, would that not create more work into the horse industry, which is — you know — feed, horses, racing of horses, breeding, etc.? That's a secondary industry to the horse racing itself. It's added value.

V. Poleschuk: Rick, do you want to touch on horse racing?

R. Turner: I guess from a board perspective.... The betting on horse racing is federally regulated. It's not regulated by the province. We were asked to take over marketplace management for horse racing in February or March of this year. It was fairly recently. The people who are responsible for our horse racing at Exhibition Park are the Woodbine Group out of Toronto. I have toured Woodbine, by the Toronto airport, and I guess what you learn is that a lot of the purse that is won at a horse-racing event is supported by slot machine and other gaming revenue. Across the other provinces, where the provinces have allowed slot machine or other gambling at a horse-race track, they are able to have bigger purses than we are able to offer, because we are absent VLTs or slot machines or any other form of gaming.

[1400]

The problem, I guess, that there might possibly be with horse racing in British Columbia.... I'm not suggesting policy ought to be one way or another. It's just true that other provinces can offer larger prizes because of other gaming activity that occurs at the racetrack. We are unable to do that in British Columbia. As I say, I'm not commenting on whether we should or shouldn't; I'm just saying that it's true.

V. Poleschuk: I think the associated result of that is that you're seeing — and the horse-racing industry wouldn't be the first to say this — the leaving of the province of the jockeys and the horses, and the down-

stream benefits of training and so forth are being more attracted to points east in terms of Alberta and Ontario.

If I may make one comment on the VLT issue, in essence a video lottery terminal — VLTs as they're called — is a slot machine. The issue is less one of whether it is a slot machine with a handle or whether paper comes out of it. The key distinction between a VLT and a slot machine is where the VLTs are placed. In other provinces, other than Ontario, VLTs are placed in bars and pubs right within communities. We believe that the model we have in British Columbia, as well as the model that's in Ontario where you have designated locations where slot machines are offered, is a much more socially responsible model — a model that might not get quite as much revenue but that is, on balance, a better model.

D. Jarvis: So....

K. Stewart (Chair): Excuse me, Dan — unless you're continuing with the same question.

D. Jarvis: Yes, I am.

K. Stewart (Chair): Okay. One, and then we move on.

D. Jarvis: I had a couple of other quick questions, Mr. Chairman, after that.

K. Stewart (Chair): Okay. We'll go around. Once you complete this one, we'll do once around and then come back to it.

D. Jarvis: Okay.

Certainly, then, a designated place would be a horse-racing track.

V. Poleschuk: It could be, yes.

D. Jarvis: Was it discussed? I don't know if you're allowed to discuss what you discussed in core, but was it brought up to core about the added value of horse racing — that the whole horse industry is a diminishing asset to the province here?

V. Poleschuk: I think the horse-racing industry has made very strong representations to government. I think it would be fair to say that government is aware of the issues surrounding horse racing, but within the purview of government policy of no expansion of gaming, we have what we have in terms of the number of available slot machines. Currently, policy does not allow for slot machines to be located at horse-race tracks.

D. Jarvis: I have three more questions afterwards.

I. Chong: Thank you, gentlemen, for your presentation. I'd like to stick to the accountability issue. Firstly, I notice in your financial report that you don't list who your auditors are. Is there a reason for that? It's got

"chartered accountants, Kamloops, Canada." I just wondered who your auditors are — KPMG? Have you changed?

V. Poleschuk: It is KPMG. Above the signature line they actually have KPMG, LLP. It's on the signed audit reports. Our auditors are KPMG.

I. Chong: I just wanted to make sure it wasn't something done internally.

Dan brought up the topic of problem gambling. I'd like to also ask you about the accountability on that issue. The \$4 million set aside, which previously was \$2.5 million, as I understand it....

V. Poleschuk: It's \$2 million.

I. Chong: So you've doubled it to \$4 million.

V. Poleschuk: Yes.

I. Chong: Because of what reason? Other than the fact of your obligation for social responsibility, why was it doubled? Your revenues weren't doubled. Was it because the \$2 million was short? Was it because you had done a study? Was it because the ministry, which used to be the Ministry for Children and Families, wanted more? Was it because addiction services were looked upon in a different way with Health Planning and Health Services? I'm just trying to understand the reason for the doubling. Why was it set at \$4 million? Why not \$8 million, for example?

V. Poleschuk: The proposal.... Just to clarify, the corporation is not responsible for the expenditure of the \$4 million. We do, through gaming revenues.... It's funded through gaming revenues.

[1405]

From the standpoint of operating the program, it's a ministry program. You're correct: it was the Ministry for Children and Families, and then it was moved to Health Services. Now it's actually been moved over to gaming policy and enforcement, under the Solicitor General.

The biggest rationale and reason for the increase was that when the ministry officials did a program-by-program comparison of what was being offered in British Columbia versus what was being offered as an industry standard across Canada, we came up short. The additional moneys were allocated to specifically allow for some pieces of the program to be expanded, which included additional counsellors throughout the province. We went from — and I'm going by memory — roughly the equivalent of 17 or 18 full-time-equivalent trained problem-gambling counsellors in the early stage of the program to now, where there are probably somewhere between 35 and 40 trained, available FTE counsellors located in communities all throughout the province. That was one big component.

The other big component was a stronger education and awareness program, which was not contemplated in the original funding program.

I. Chong: Thanks, Vic. Just to be clear, then, your \$4 million is a direct transfer over to the gaming policy secretariat now under the Solicitor General.

V. Poleschuk: That's correct.

I. Chong: You alluded to the fact that it had changed from Children and Families to Health and now to this. My concern, again, is about the accountability of the dollars being spent in problem gambling. I think we all recognize there is a problem that the moneys do not reach people. We are intent on saying that dollars reach students and dollars reach patients. Are the dollars reaching the people who need the help? Are the dollars in fact being spent on a number of administrative silos? In fact, when you say you've come up short compared to other standards across Canada, was the doubling of that amount sufficient to not come up as short or to put you in the ballpark? Are we still that much short? Why did you choose the \$4 million? I'm still not satisfied about that.

V. Poleschuk: I think the \$4 million was chosen as an intermediate step. On a per-capita spend, the \$4 million is still probably at the lower end of the averages when we compare ourselves to some of the other provinces in Canada, but it was looked at this way. We'd be better off to take an intermediate step and make sure we are spending those dollars wisely. If we find then that there is still an added requirement, then the proposal would come back to government to look at again with specific support to say: "Here's what we've been able to do, but there's more to be done."

I. Chong: As I say, the \$4 million is an interim measure. Very possibly next year or the year after you could be requested to double that again or....

V. Poleschuk: If there is a very strong supporting case that those dollars are needed to enhance programs, then certainly the industry would be bringing that back through the ministry to say that more should be done. We're comfortable at this point that the \$4 million is a sound number for the program that needs to be provided.

I. Chong: Who is going to audit or enforce or ensure that the \$4 million that is paid into the gaming policy secretariat provides the services? I get leery when we say "programs." People set up programs, and sometimes it's a wonderful program, but it actually doesn't provide any service. To ensure that services are provided — who is going to ensure that that in fact happens?

V. Poleschuk: That will be done through gaming policy, in their assessment of the program. We will also

be looking at, certainly, other measurements to measure the effectiveness of the program. In fact, the program is currently, right now, under a significant review to come up with a potentially different delivery model that will have stronger accountability in the model.

I just want to have Rick make a comment on that.

[1410]

R. Turner: If I may answer part of your question from a board perspective. You've asked a very good detail question. If I could raise it just for a moment, our governance committee at the board level includes social responsibility. You've asked good questions about why we spend \$2 million and not \$4 million and not \$1 million. They're good questions. From a board perspective, we're a new board, as all the Crowns are, and we believe we have a responsibility to make people aware that we sell a product that for 4 percent of adults could be addictive. We believe that for that small percentage, we have a duty to inform them and to help them if they need help. That's the program.

I've actually gone to other jurisdictions south of here where they have very large buildings and met with two different operators in the United States. My aim wasn't to come back and say it ought to be \$3 million or \$10 million. I was just trying to learn what part of the rise in expenditure has something to do what is done in other jurisdictions.

While we haven't done a detailed study by any means — and that still may come — the board asked that we begin to become aware of what other jurisdictions are doing, what they're spending, what problems happen. You learn about training, education, awareness and treatment in other jurisdictions and who pays and how you pay. From a board perspective, it's very important to us that we get it right. I'm not saying that today, we're telling you we have it absolutely right, but we're trying. We've gone a long way.

I. Chong: I appreciate that, and I know that's where we're all headed. Again, I want to be clear on the increase — on why the increase was chosen — as well as the criteria or the factors that may justify a change next year, if there should be an increase, and what your role as the Crown corporation will be with the gaming policy secretariat.

If they were to ask you next year and say, "We now need \$10 million a year," do you just write the cheque for \$10 million? Do you say: "We want to know what you're doing"? Who is going to provide the accountability for the line item that comes out of your financial statements and goes into this other one? Do we go to the Solicitor General, or do you do that for us so we don't? Therefore the criteria, I presume, are being developed. That's what I want some assurance on, if possible.

V. Poleschuk: Those criteria are being developed. Maybe the better assurance is that what we would be doing is working with the ministry to assess the validity of the program, but ultimately the approval of the

expenditure dollars is a Treasury Board approval from consolidated revenue.

I. Chong: Okay. Just quickly, one other. I have other questions on others, but I'll wait for my second round.

K. Stewart (Chair): On the same item, then?

I. Chong: Well, it has to do with problem gambling.

K. Stewart (Chair): Okay.

I. Chong: When I was in the opposition, we looked at a number of issues on problem gambling. There were also some reports that had been prepared or studies been done. To this day, I'm still not certain or clear on whether you received that information as a Crown corporation to also ascertain whether problem gambling was related to particular groups of people, whether they be disadvantaged or whether they be people of particular ethnic groups.

That, too, will be based on the criteria on how you're going to look at your problem gambling. If more people of the South Asian persuasion become more addicted to gambling, would your problem gambling rise in greater proportion to another particular segment of society, for example? Is that doubling enough? We are going to see the increase, perhaps, in reserve-based casinos. Will that create an increase or demand on that?

I guess with that, I'm just trying to determine whether or not in developing your criteria, you have been able to access the reports or studies that have been done, which I understand have been done, to ensure that those well-paid studies are going to be incorporated to help you with your criteria.

[1415]

V. Poleschuk: The answer is yes. In fact, the criteria that were set for the current research study that is being commissioned address a number of similar issues and specifically will mirror some of the other work that's been done in other provinces. I don't know specifically right now if the plan is to segment that research down to a player demographic level, but that is something I can raise with the people who have commissioned the study.

I. Chong: I think that was a concern. On my next round I'll just throw this on the table, and maybe Doug will have a chance to answer it when he gets a round. I was just reading a financial report. B.C. Lottotech International Inc. is a wholly owned subsidiary. I don't know anything about it, so on my second round maybe he'll be ready to answer that.

B. Bennett (Deputy Chair): I'd like to ask a question around the objectives you list in your presentation here today and ask you if you could provide to us the aspects of the corporation's activities that you think contribute most to the bottom line. I know you've iden-

tified in your last objective generating revenue and assisting in the provincial economic development. Specifically, if you were going to identify one or two of the objectives, whether they be financial or non-financial, what would you target as being most important to the bottom line — more revenue?

V. Poleschuk: That's a very good question. To answer that, as Rick said, gaming is always about finding the right balance, and it's the balance of our fiscal objectives with our social objectives. From a pure bottom-line standpoint, I guess I will answer that by saying, certainly, in terms of increasing availability of some of our lottery products, upgrading our casinos.... Quite frankly, the majority or many of our casinos that we have today were initially started many years ago as charity casinos. They currently do not meet the level of standards we believe casinos should operate at.

The whole upgrading of casino products, the repositioning of the products to offer greater entertainment options so they attract a broader base of customers, is probably one of the larger objectives. If we can accomplish that over the course of the next few years, it will both increase our revenue and actually enhance our social responsibility, because we will be repositioning those products to be something more than just casinos. They'll be more adult entertainment centres. It will broaden the customer base of people who will come to enjoy the product.

B. Bennett (Deputy Chair): Do I get a follow-up, Mr. Chair?

K. Stewart (Chair): Sure, as long as it's the same line.

B. Bennett (Deputy Chair): You've indicated in your presentation today that you intend to broaden the customer base around bingo, which you've just alluded to. How do you do that, and how do you have the private sector modernize casinos that they own and you don't?

V. Poleschuk: Do you mean casinos or bingos?

B. Bennett (Deputy Chair): Well, you could deal with both.

[1420]

V. Poleschuk: Okay. It actually applies to both under the model. The answer to that is there's a mutual benefit to both parties to look at upgrading and improving the facility. It's much more evident on the casino side, where it's more of a growth business. When you do a return on investment, you can justify the expenditure of \$10 million, \$15 million or \$20 million in relocating and positioning a casino. It's still within the purview of government policy. We believe getting the right product at the right place will generate a positive return for the service provider.

The decision is based purely on the ability to increase business and drive a bottom-line return, while actually delivering a better facility for customers to come to.

The bingo side of the business will be a bigger challenge for us because of the economics of the bingo model. What we're testing right now, for example, in Kelowna.... Over the last number of years there have been two smaller bingo halls, both of lower standard, operating in Kelowna. At the end of this month they will have merged into one brand-new hall which we believe will attract a much different customer, and a broader base of customers, to come to a new hall that has a multitude of different customer attractions than just going into an old bingo hall. It's going to come through a lot of hard marketing, some risk-based investment on the part of the service company and a lot of work to bring in those new customers.

B. Bennett (Deputy Chair): My final follow-up on this. The kinds of activities you describe are activities in the private sector. The private sector responds to the marketplace and decides whether or not it will modernize casinos, whether or not it'll develop new bingo halls and so forth. An important component of your business plan essentially is completely dependent on the private sector and the marketplace.

V. Poleschuk: That's correct.

P. Bell: In your overview, your mission statement, you describe the Lottery Corporation's mission as "to provide high-quality gaming entertainment...." That sounds very nice, but I guess I need some definition around what high-quality gaming entertainment is. I'm not sure I understand what that definition is about.

V. Poleschuk: As we define high-quality gaming entertainment, it's more than just putting out a base product. It's putting out a product that customers will see as being good value for their money that is being spent, from an entertainment standpoint. In the case of lotteries, it may be that they have a fun experience, the fun of playing the lottery, knowing that the odds are very long. If we're able to position the product so that it is fun to play, and attract people on the basis of fun-to-play, that would fit within the definition of providing high-quality gaming entertainment, as opposed to just putting the product out and saying: "Here, come play it."

In respect to casinos and bingos, it's probably a little easier to visualize what that would mean. As a follow-up, as opposed to having facilities that are strictly geared to "walk in and come to a table or a slot machine, and let's see how quickly we can take your money," it is looking at it and seeing that people are there for a period of time to be entertained. They're looking for a two- or three-hour value proposition for entertainment. That comes from how they're treated when they walk in the facility, the type of facility they're able to walk into and the amenities that are of-

ferred at that facility — including restaurants, potential show lounges, entertainment on stage and, in some of our destination casinos, the opportunity to sit and have a drink in an adjacent licensed lounge.

All of those things combined become a better value and entertainment experience for the customer. Our mission statement has us saying that's the type of gaming we want to offer in this province, as opposed to just slapping it out there and having the people playing our products come in and only having a singular focus on gambling.

P. Bell: What you've indicated is that you want to provide a complete entertainment experience to the participants in the activity. Would that not be a better definition than "quality gaming entertainment"? Unless you're expanding it....

V. Poleschuk: Well, high-quality gaming also goes beyond just the entertainment factor. It will go to the integrity factor — the highest quality or integrity in the products we offer, the highest customer service we can offer and, obviously, the best properties and the best products. It's a little bit broader than just the entertainment factor. The entertainment factor is one important component of it, but it goes further in terms of the highest quality, the integrity, of the products we offer.

[1425]

P. Bell: I have one other very brief question that has, I think, a relatively simple answer. On page 5, which is detailing out the gaming revenue and distribution for fiscal '01-02, on the bingo component, which I think is \$12-point-some million....

V. Poleschuk: Yeah, 12.8.

P. Bell: Does that include the bingo top-up to charities?

V. Poleschuk: No, it would not. This would be our net revenue that flows from the lottery into the consolidated revenue fund, and then the top-up comes from the consolidated revenue fund.

P. Bell: Do we know what that number is?

D. Penrose: I don't know the exact number, but the government is putting about \$97 million into charities, which includes direct access and top-up. My estimate is it's at \$30 million to \$40 million in top-up.

P. Bell: So we're net backwards by about \$18 million or so in bingo that we're actually going backwards annually. Is that an accurate assessment?

D. Penrose: First of all, when you say "going backwards," I think the top-up has been increasing every year.

P. Bell: If we're taking \$12 million out and we're putting \$30 million into charities....

V. Poleschuk: Bingo revenues are declining, and with the commitment to keep charities whole at the level they were at in 1997, more of the dollars in the guarantee are required to keep the bingo charities whole than there were two or three years ago.

P. Bell: Let me just ask the question in a little different way or come at it from a different angle. If Lotteries Corp was completely responsible for distributing those funds to bingo charities under the existing gaming policy, would there actually be a net loss as a result of bingo, then, in the province?

D. Penrose: That's correct.

P. Bell: Of about \$18 million, give or take.

D. Penrose: Yes.

P. Bell: Somewhere in that range. Okay. Thanks.

D. Hayer: The question I get asked most by my constituents is.... One is the problem of gambling and another one, latterly, is the funds going to charities — contributions. What's the definition of a problem gambler, and what is the treatment you're providing them?

V. Poleschuk: The definition of problem gambling is a difficult definition, but there is more of a definition of pathological gambling. If I had to put it this way, when we talk about problem gambling, it is for those people who can't stop when the fun is over. There are varying degrees of that behaviour. The most serious behaviour is what's called a pathological gambler. In both of the previous studies done here in British Columbia, the results indicate that about 1.1 percent of the adult population are pathological gamblers. That matches fairly consistently with other research studies that have been done across Canada. Pathological gambling would be defined as somebody who has a very serious problem, where the thrill of gambling has really taken over their life per se.

The probable problem gambler. You have varying degrees of people who may have varying incidents of excessive gambling but they're able to control that behaviour. Some of that is through treatment. They can actually access here in our province either help through a 1-800 telephone line which will arrange for counselling in communities.... I won't say in all communities but in multiple communities through current service delivery addiction counsellors, they can receive treatment for problem gambling. That treatment can be provided mainly through in-person counsel.

D. Hayer: Are the numbers of problem gamblers increasing as your gross is going up, or does the number of individuals stay about the same?

[1430]

V. Poleschuk: We don't know the answer to that here in British Columbia yet. We have a study that is

now being commissioned. We'll be able to compare the results of that study against our 1996 study, so we'll be able to tell that. In other provinces where that same work has been done, there are varying results. For example, in the most recent study in Ontario, which was released here within the last six months or so, they found that the incidence of problem gambling has remained relatively stable or consistent with the previous study they did a number of years ago, while at the same time they've had a fairly rapid expansion of gaming in Ontario.

D. Hayer: The other part of the same question that I started is with the funds given to charities. Looking at your 2001-02, it's at \$97.4 million. Are you looking at, over the next three years, that number going up or staying the same? Who decides on what number is given?

V. Poleschuk: That's a government policy decision. Right now the policy decision is with the minister responsible for gaming, and there is a commitment that has been made to the charities in respect to an agreement reached in 1998, where they guaranteed \$125 million to charities. The government has maintained that commitment to this time. The policy decision is that of government through the minister.

D. Hayer: Who decides which charity qualifies, when you receive application, to receive these funds? Is it the minister's department, or is it your department?

V. Poleschuk: It's actually the ministry, so the gaming policy enforcement branch, whose predecessor was the Gaming Commission, receives the applications and decides on which of the charities should receive the direct access grants.

D. Hayer: And the cheques are issued from the minister's office?

V. Poleschuk: Yes.

D. Hayer: I received some information on the funds that went to the local charities and PACS and other organizations. For my office I want to find out how many were in Surrey, so I can get more detailed information so our voters and constituents can understand where the funds are going. I was able to get some information but not to the extent that we were really looking for. With your computer system, it should be fairly easy to break them down city by city rather than giving lumps within the province.

V. Poleschuk: Again, the decision and the information are the responsibility of the gaming policy enforcement branch, not the corporation. We do have.... I've seen very detailed reports not from last year but from the year previous on every individual direct access grant and the recipient and the municipality that the recipient is located in.

K. Stewart (Chair): I suspect that you could probably get further information and detail on that one from the Solicitor General through their office, Dave. They should be able to get you that information.

D. Hayer: I have a question. The response was not very clear. I thought maybe, since Lotto B.C. was coming here, I'd ask them before I go to go back to them. Anyway, I'll pass the mike to the next person.

K. Stewart (Chair): Now, Ida has to leave for a few minutes, Dan, so if we could allow her to ask her next question next.

I. Chong: B.C. Lottotech International Inc. Can you explain what this wholly owned subsidiary is and why we have to have that? It's in your note 2 in your financial statements.

D. Penrose: We initially established B.C. Lottotech to do research and development. Specifically at that time it was for the bingo industry. At that time there was no vision for electronic bingo — the potential controls it offered the corporation and the potential play value it offered the players. There was nothing happening in that field, so the Lottery Corporation financed some research and development for that. That was the original intent.

We've now got the private sector — actually, a B.C. company — working on that and supplying that technology outside the province as well as within the province. When that initiative was over, we had the use of this company. When the GST came about, the Lottery Corporation was one of the lottery corporations that worked nationally with our sister organizations to develop a formula to GST, which essentially took out the profit component of our sales as well as the prize component and brought our GST rate down to the lowest of all products. It's about 1.8 percent.

[1435]

However, we are paying 14 percent GST on our capital purchases. What we've done now is use this as a tax-planning vehicle. Lottotech can buy the equipment and then lease it to the Lottery Corporation. In its essence, we don't pay the 14 percent up front. We now pay it over the useful life of the equipment. We're saving money to the province.

I. Chong: Does this subsidiary have an annual budget?

D. Penrose: Essentially, because it's consolidated.... The B.C. Lottery Corporation consolidated has an annual budget for capital purchases.

I. Chong: Are you saying it's just a shell company? You just run transactions through it, invoice paper. It doesn't hold any assets of its own, and it doesn't make any decisions. It's not mandated or obligated to.... It has no liabilities. Is that what you're saying?

D. Penrose: Yes, that's right. It's really a paper transaction. In fact, all of those things you said are exactly correct, except one. It does hold the asset, because it's charging British Columbia Lottery Corporation for that asset over the useful life of the asset.

I. Chong: Does it have its own bank account?

D. Penrose: No. Actually, we do have a bank account which is consolidated.

I. Chong: There's a difficulty with it. Being consolidated, I can't, in my mind or physically, see the reason for its existence. I'm wondering, in the amount of savings that you have in GST, whether in fact this subsidiary shelf or otherwise benefits. Your total GST expenditure, as I see it, is \$29 million. I have to presume that without this subsidiary, you would be paying substantially more than \$29 million.

D. Penrose: Yes.

I. Chong: But the cost of running it, whether it's department-wise or otherwise, is significantly less.

D. Penrose: The cost of running B.C. Lottotech is next to nothing. It's really a paper flow.

K. Stewart (Chair): John Manley knows all about this, does he?

I. Chong: As long as it's legal and won't be subject to any challenges....

D. Penrose: In fact, it's subject to our auditors. Our auditors do a review.

I. Chong: I'll just leave you with a quick, simple question, and I'll leave. If you're still having questions when I get back, I have some others.

Your \$1.6 billion of revenues is what you classify as your gaming spending dollars. Is that correct? That is the gaming spending that occurs — \$1.6 billion?

V. Poleschuk: Yes, it is — sales revenues.

I. Chong: That's the gaming spending that people purchase.

V. Poleschuk: Well....

I. Chong: I'm not trying to set you up. I'm having some difficulty with the division here. You've got \$1.6 billion. We have a population of four million; that includes babies and everyone, I guess. That would be \$400 per capita, not \$200. I'm wondering how that graph was calculated. I don't understand.

V. Poleschuk: The graph is calculated on per-capita profit.

I. Chong: It's not a per-capita gross. You were saying gaming spending, and that's what I picked up. Spending would be spending as opposed to profit.

V. Poleschuk: That's correct. That's based on the net profit to government.

I. Chong: So your \$600 million divided by....

V. Poleschuk: Actually, when you look at the chart, the chart says "per-capita gaming income." That's actually the bottom line. By rough calculation we've got three million adults in the province. It's calculated on per-capita adults times, roughly, the \$200, and that's our \$600 million in profit.

I. Chong: That calculation is consistent with all the other jurisdictions. That's how everyone calculates.

V. Poleschuk: It's as consistent as it can be made. This is actually independently put together by the *Canadian Gaming News*.

I. Chong: That net income is based strictly on your B.C. lottery dollars — your net income that you know. It doesn't include, I guess, private gaming, even though it's illegal. Should there be other private gaming, Internet gaming and things like that, those are just not measurable. Those are not tracked.

V. Poleschuk: No. We've asked if they'd send their financial statements in, but...

I. Chong: I don't blame them.

V. Poleschuk: ...they've chosen not to. [Laughter.]

I. Chong: Okay. I'll leave it at that, and I'll just wait for another round if possible.

J. Nuraney: Supplemental to that, when you say \$200, you're taking the figures that Ida just said — \$1.6 billion — and dividing that by three. That's \$400 per adult that is spent on lottery.

V. Poleschuk: That's on all gaming. That could be lotteries, casino or bingo — annually.

J. Nuraney: How does it compare with other provinces?

[1440]

K. Stewart (Chair): There's a chart in the material.

J. Nuraney: There is?

K. Stewart (Chair): Dan?

V. Poleschuk: Let me just answer. We would be at the lower end of expenditure and net income generation compared to other provinces.

D. Jarvis: You were mentioning that bingo is in a sort of declining cycle. I have always assumed that the dominant number of people that do go out and play bingo are middle-aged to senior, and that is now the largest growing segment of our population. Is it the sophistication of other gambling facilities that is causing that?

V. Poleschuk: I think it is. I think that to a large degree, even though we have an aging population, we have an aging consumer who is much wiser about the product they want to purchase. It's those who maybe have made trips outside of the province and have seen some of the types of gaming that are offered outside the province. Then on a comparative basis, they look at it and ask if they wish to attend in British Columbia, whether it's casinos or bingo, and they make a consumer decision as to whether or not that's where they wish to spend their dollars.

D. Jarvis: Just to add on top of that, and maybe I missed it when you were discussing with the other ladies and gentlemen who had the group here.... You're showing a sales increase over the next couple of years — over, we'll say, last year — of about \$382.5 million or approximately \$382 million. You say the lottery places are having problems because of the box stores. You can't put them in there. You can't seem to be able to increase them, and horse racing is on a decline. Bingo is a diminishing cycle, yet you show bingo with a 25 percent increase over the next two to three years. How and where are these sales going to increase by maybe 15 to 20 or 25 percent on average?

V. Poleschuk: I think we have to look at each business line individually. In respect to lottery, we're showing growth from this year from \$960 million over the next three years to just over a billion, so that's roughly \$40 million over the next three years. That will come from rejuvenating some of our products, looking to introduce specific new products into the market that will be targeted to different consumer groups and, overall, just being aggressive in our marketing and our promotion to freshen up the offering we provide to our consumers.

It also comes with being able to open up some of those new distribution channels and being able to get, maybe, into some of those big-box stores or other areas where consumer traffic is evident. With the recent decision to allow a broader range of products into licensed retail operations, we'll be able to sell lottery products in beer and wine stores. We're looking at having greater penetration with some of corporate chains in British Columbia.

It's a combination of expanding our distribution and making sure that we've got the right products that our consumers want to play, on the lottery side. On the casino side, again, it will be a function of repositioning some of the casinos, being able to relocate the four eligible casinos that government has approved for relocation. Those relocations include the building of new

facilities and the adding of 300 slot machines for each of those facilities. That will increase revenues on the casino side.

Bingo is going to be a challenge for us, but we believe that by looking at how we're able to reposition bingo, improve the quality of the facilities and improve the quality of the products, improve the quality of the services, we'll be able to bring back some of the people we've lost as customers and attract new customers.

D. Jarvis: Very quickly, is there any estimate as to what we're losing by gamblers in B.C. going into either Alberta or the United States? Do you have full control of any gambling that's on reserve land?

[1445]

V. Poleschuk: I guess the two questions.... In terms of the estimate, we don't know at this point the estimate of the dollars that are travelling from the lower mainland to Washington, or eastern B.C. down to eastern Washington, but we know it is a significant amount.

On any particular day you can catch a shuttle bus in one of multiple stops in the lower mainland, jump on the bus for \$10 or sometimes for free and take a ride for an hour and a half down to one of numerous Indian casinos south of the border which offer very attractive and aggressive marketing programs. I'm told, and have seen it occasionally, that if you drive down on a Saturday afternoon or a Sunday, you'll see a predominance of cars with British Columbia licence plates in the Washington State casinos. Some of those may be people looking to have a different experience than what they would receive in British Columbia. Others have chosen to play there because of the products and facilities that are allowed in Washington State, as opposed to what is allowed here.

D. Jarvis: Do you have full control of any gambling on our reserves in British Columbia?

V. Poleschuk: Yes, we do. Again, the basis of the law set out in Canada is that the Criminal Code determines who is allowed to conduct gaming. The Criminal Code is deemed to apply to all forms of gaming. As the Crown agent responsible for government gaming, we would have responsibility and control for government-authorized gaming on reserve.

We will be opening our first destination casino with first nations involvement later this month in Cranbrook. It's a partnership of the five first nations bands, as part of the St. Mary's Indian band, and at St. Eugene's Mission it will be a Delta hotel-casino complex along with a championship golf course. All components of that will be open by October or November of this year.

K. Stewart (Chair): John, do you have a question at this time?

J. Nuraney: Sorry, I missed your presentation earlier on. I had a few questions in my mind. I don't know if they were discussed here before or not. You apparently have four casinos in the lower mainland that need relocation.

V. Poleschuk: We have more than that which require relocation. There are three that have been approved for relocation in the lower mainland.

J. Nuraney: The sites have been decided — where and how and what and who?

V. Poleschuk: No, we're just in the process right now of deciding the specific siting for the new locations.

J. Nuraney: Same ownership?

V. Poleschuk: It would be the same ownership, the same service companies that currently are operating the casinos.

J. Nuraney: I saw your administrative expenses: \$88 million a year. Are you also in the process of using a sharper pencil, like we all do?

V. Poleschuk: Doug, will you answer?

D. Penrose: Yeah, our expenses for 2002 were \$88 million, and we actually cut \$10 million off those expenses. That was offset by expenses for the additional responsibilities the government asked us to take on, such as managing and conducting the full bingo business, as well as the costs to open new casinos — actually, for a full year. For example, in Coquitlam last year we opened in about the middle of the year. This year we have a full year of operation of Coquitlam, plus we're working towards developing the new casinos this year as well.

J. Nuraney: Will the costs be a little lower next year around, we hope?

D. Penrose: Yes, they will continue to.... This year is the first year of implementation of core, and as Vic has said, we've got 85 percent of that done. Next year will be the first year where we get the full benefits of that. There will always be, as we expand our lottery network, communications costs or whatever for the expanded lottery network. As well, if we open new casinos, there are costs to provide the controls and compliance in the new casinos. As we're trying to grow those businesses as well, there are also marketing costs.

[1450]

J. Nuraney: Are the sponsorship costs included in that?

D. Penrose: Yes, they are.

J. Nuraney: What's your policy? Are you going to increase your sponsorship or cut back?

V. Poleschuk: That's a very good question. In this current fiscal year we have made some significant reductions in the amount of dollars available on sponsorship. We've just gone through a board strategy session, at which time the whole issue of community support and sponsorship has been looked at from a strategic standpoint. We'll be working with our board over the course of the next number of months to look at next year's budget and what level of sponsorship and community support the corporation will be providing.

J. Nuraney: Have you established any criteria as to what goes or what should not go?

V. Poleschuk: We did that early on in the year and established some broad criteria for the type of events the corporation would support. Those criteria will continually get reviewed and refined in moving forward.

K. Stewart (Chair): Bill, do you have any other questions? Okay, go ahead.

B. Bennett (Deputy Chair): I just need a clarification, and I'll ask another question if I have time. The clarification is on the funding for problem gambling. Ida and Dave have asked some good questions around that, and I just want a clarification with respect to the actual implementation of the programs, how you spend the money and where you spend the money. B.C. Lottery Corporation is not involved in that?

V. Poleschuk: We're not directly involved. We would be there to provide our input and opinion, but the actual decision on the program is a ministry decision.

B. Bennett (Deputy Chair): Well, I guess it's a parochial question on my part, then. With the new casino going into Cranbrook, will there be allowance made in this year's program to take into account that an area that previously didn't have a casino now has a casino and should have some money spent there, some counsellors there?

V. Poleschuk: Typically, that would be the type of input that we would provide to the program analysts, saying: "Here's what's changing on our side of the business, and we think you should have a look at what services are being provided." I know we have raised that issue with the people administering the program. I can't sit here today and answer what the result is, but I can get that for you.

B. Bennett (Deputy Chair): But B.C. Lottery Corporation has made that input to the Solicitor General's ministry.

V. Poleschuk: Yes.

B. Bennett (Deputy Chair): Okay. Thank you.

P. Bell: I have one shorter question and then one that will perhaps take a bit more time.

Can you give me an indication what percentage of lottery tickets are kind of draw-based tickets versus Scratch and Win tickets? How much of the business is on each side of that definition?

D. Penrose: Eleven percent of our total sales are Scratch and Win. The draw-based, essentially the 6/49, is 10 percent, and BC/49 is 3 percent, so that's 13. Super 7 is the other one, and that's 4 percent, so it's about 17 percent.

P. Bell: It's 17 versus 11.

D. Penrose: Yeah.

V. Poleschuk: That's of our total revenues.

D. Penrose: That's of total revenues.

P. Bell: Along those same lines, private lotteries. Maybe I just don't understand them. At the big hospital one down here, they sell tickets for \$75 or whatever it is. Does the Lottery Corporation play a role in that, or is that just the licences?

V. Poleschuk: No, the hospital lotteries are licensed through the gaming policy enforcement branch.

P. Bell: That really is a direct competitor, then, for your products. Or do you not see it as that?

V. Poleschuk: I guess one could look at it as a competitor. We'd probably look at it more as a different market segment than what we're aiming at. It's a higher-priced ticket, and it's more of a ticket that is sold to constituents who have an affinity with the particular hospital that's offering the product.

P. Bell: Do we have a sense of what kind of volume is sold in the province annually through those other licensed lotteries?

V. Poleschuk: I would be answering on behalf of gaming policy, but I believe the number is \$20 million to \$25 million per year total for the province.

[1455]

P. Bell: It's not significant then, really, relative to....

I guess my primary question.... I wanted to focus on your objective of creating or maintaining an effective corporate culture. It's on our page 11, second slide. You have established an objective of taking employee absenteeism from 1.7 percent in 2000-01 to less than 2.5 percent. Typically, objectives are an improvement. Yet I see, not just in this area, the employee turnover rate going from 3 percent to 5 percent. I've noted a couple of other areas in terms of when you've established spe-

cific objectives, and I just find that strange. What's the thinking behind that? Do you see a more complex marketplace being created? What's the reasoning?

V. Poleschuk: On the turnover rate, there would be two factors. One is stronger competition for highly qualified, experienced staff. As we look ahead, we see a trend that would indicate good people will be in much more demand, so we are expecting that we may lose more people over the next little while. The other factor is that having come through the core services review, we believe there may be some employees who may look to explore the job market over the next couple of years.

In terms of the absenteeism number, I don't have a good explanation for that one.

P. Bell: There was one other point. I think it was just when you went from on-line gaming system availability. You're going from 99.98 percent down to 99.9 percent — albeit probably an insignificant drop. Still, typically, objectives are utilized to improve results as opposed to....

V. Poleschuk: On that particular one, the reason we've done that is the aging of our technology. What we'll find is that through this period we're targeting a replacement of our technology. Once we've completed the replacement of the technology, then we would expect to be back up at the higher performance level.

K. Stewart (Chair): Ken, do you have a question?

K. Johnston: No.

D. Hayer: I have a question regarding some of the slides you have shown. One was with the customer satisfaction rating. It seems to start with "to provide high-quality gaming entertainment." That's the title of it.

V. Poleschuk: Yeah.

D. Hayer: When you look at it, your 1999-2000 shows 95 percent, and then in 2001-02 it really goes down, to 86 percent — fairly low. Afterward, you target yourself at 90 percent for 2003-04. Could those targets maybe be higher? Or is there some reason why they can't go back up faster than taking a few years? Why did customer satisfaction go down so much?

V. Poleschuk: The answer is that when we look at the 95 percent in 1999-2000, that was predominantly lottery. What we find is that lottery has a longer-term, more traditional customer that we've serviced for a longer period of time. The numbers for 2002-03 and beyond now take into account both our lottery, casino and bingo customer. We believe that when we merge all those together, given the quality of the facilities we have in casinos and bingo, it will take us a few years to build the same level of customer satisfaction on those

two new lines of business as we have on our more mature line of business.

[1500]

D. Hayer: So basically it was a mixture of putting three different games together.

I think the next one was where my colleague asked a question on employee satisfaction rating. In 1999-2000 it shows 74 percent, and then in 2001-02 it shows a 75 percent target and then after a little higher than 75 percent. Is that consistent with the other private sector organizations — the satisfaction rate for the employees? We are going through changes now, but it seems like some of the problems existed before. Or do you see that as a problem right now?

V. Poleschuk: We don't see that necessarily as a large problem. Some of our previous satisfaction ratings have been higher, but again, as we have brought in new lines of business, we've brought new employees into the organization as well. With that, it's going to take a little while for us to be able to build those satisfaction levels up. In respect to whether 75 percent is an industry standard, I don't know the answer to that, but I believe it's probably a reasonably good benchmark for assessing employee satisfaction.

D. Hayer: I have seen some organizations advertising that they have close to 90 percent satisfaction from the employees. To me, if my employees were 75 percent, I'd think there was something wrong with it, personally. Maybe you should really take a look at it and analyze and compare to other organizations to see if that is sufficient or not.

D. Jarvis: I just hope to see it all soon.

K. Stewart (Chair): Do you have a question, Dan?

D. Jarvis: No, I don't.

J. Nuraney: A couple more questions. Who is dealing with the direct access?

V. Poleschuk: That's the gaming policy and enforcement branch.

J. Nuraney: That's not you.

V. Poleschuk: No.

J. Nuraney: Second question. Rate of redemption — is it a predetermined percentage of how many tickets have a prize on them? Scratch and Win is apparently big — huge, from what you're saying to me. It's 11 percent of your total revenue. Did I hear that right?

V. Poleschuk: That would be correct.

J. Nuraney: It's quite comparable to the 6/49.

V. Poleschuk: In revenues, yes.

J. Nuraney: Is there a certain percentage of redemption that somebody decides?

V. Poleschuk: I'm not sure if you mean redemption or prizes. In the design of all of our games, we have a targeted return to our players. In the case of our scratch games, on average across all of our scratch games about 53 percent is returned to the player in prizes. That can vary by the type of game we offer. Some may be as low as 47 or 48 percent. Other games may be as high as 60 or 65 percent. Different games, again, are designed to fit with what the consumer would like to play. Some consumers like to play for a larger top prize and aren't concerned about whether they win some of the middle prizes or a low-end prize, and other games are designed to have more low-end prizes and middle prizes and a smaller top prize. On average we return, on our scratch product category, 53 percent to the players.

K. Stewart (Chair): I have a question, and I'll ask it now. I went over the financial statements from 1994 up until the year 2000, and they were pretty consistent. There was one question that begs me to have answered, and it was under an employee by the name of G. Simonis. Was he a previous...?

V. Poleschuk: He was the previous CEO.

K. Stewart (Chair): There's a pay number here and salary bonuses for the year ending March 31, 2000, of \$405,000. Was that his buyout year or something?

V. Poleschuk: That was his retirement year, and I believe that a significant amount of that was accrued vacation.

K. Stewart (Chair): Okay. He went from about \$150,000 to \$405,000, and I thought that was a pretty nice raise. That's the situation there. That was the reason for that. That justifies that expense.

There were a couple of other questions I had. One was to Rick, with regards to the relationship of the board to the organization. Do you want to just comment on that — maybe give us a minute on that?

[1505]

R. Turner: Yup, you bet. Six of nine of us were appointed on September 26, and we had the good fortune of getting good people because they got promoted and moved, so we've had three people turn over on our board. There's nine of us on the board. There are four board committees. They are governance and social responsibility; audit, finance, budget; human resources; and marketing. Because we are a small board, directors do multiple duties. They're on one committee and perhaps on another. The committees meet roughly every six weeks or so. We have elected, I guess, at the BCLC to do a lot of the policy work in the committee. That

which is determined by the committee will be brought to the board for approval. It's not approved in committee, but the committee does the homework on behalf of all members.

We have, I would say, active and vocal board meetings, which I think is a positive thing. We're not horribly formal in the board. There's only nine of us. I prefer — and I think others do too — a good exchange of views. Whether or not you agree, it's a good thing.

The relationship among the committees, when we went through the core review and put together the service plan.... I'm not saying the board did it. Management did it. It was reviewed at all four committees. They're active not only in their own issues but between them and among them. I think there's good interaction. The committees meet frequently. The agendas, in our company, are available to all board members, not just committee members. Our agendas are available to all in advance, and the minutes are available to all after they're finished, so that everyone knows what the other committees have considered or done and so they can provide input if appropriate.

The board meets roughly every two months. The agenda is put together by Vic, myself and the vice-chair, who is Art Willms. I meet with Vic once a week, whether it's in person or by telephone or whatever. Vic is either at head office or in the Richmond office. My business happens to be in Richmond, so there's a good opportunity to get together.

We meet about once a week — it might be every ten days, but approximately that. We have an agenda for Art and myself. We know what is going to be discussed, and we add things to it. It's at a policy level, generally. Art and I get into a tiny bit of operations, but not much. I don't think it's appropriate for board members to start fooling around in management. Management should do that, and we should oversee that on behalf of the shareholder.

My relationship with the minister, which you didn't ask, is good, I think. I think we have a really good minister who is very supportive and with whom all of us get along really well. He provides direction. We have good chats. I talk to him roughly every three weeks by phone. He's in Langley, and I'm not — or he's here, I guess — so it's mostly done by phone.

The committees were actually really busy, as you can appreciate, from September 27 until we were finished with core review in mid-February and did our service plan and took that through as well. We are now focusing on.... Audit is an ongoing thing. Budget is an ongoing thing. Human resources, because of some of the things Vic has responded to with your questions.... Our HR committee is active.

The marketing committee. You can appreciate, based upon what you've heard, that we're constantly trying to refresh products. If you go into your friendly neighbourhood 7-Eleven or convenience store anywhere — if you look, because you may not — there's a sheet of glass. If you look there, they're constantly being refreshed with different products at different times of the year. They're got hearts on them in February. It's

mostly management, but the marketing committee plays a role.

Our governance manual for the company will be finished in about mid-October. What we have done is taken the time to look at other Crowns, look at the Toronto Stock Exchange and look at public companies. What we want to do is have the best of the best. We have a board meeting next week where we'll see a draft of a governance manual. It won't be finished until, I would think, mid-October or so. It'll have taken us a year. What we plan to do is have something that others can use. Hopefully, it's the best of the best.

Our relationship with management is best described or looked at through the audit committee and the response you get. I think it's the biggest opportunity to inquire of management things that are going on in the corporation. You can do it in all four committees, but audit is one where there's sort of absolutes in accounting.

[1510]

We find that management is forthcoming. It brings issues forward. We have no problem with what we're hearing. With responses to questions, if they don't know, they say they don't know. They'll get back to you, and they do.

The relationship between the board and management is good too, I think. Hopefully, that has answered your questions.

K. Stewart (Chair): One final question before I move on is that there is, I would say, a fairly difficult road ahead to meet the objectives of the revenue increases you've put here: a \$75 million increase and then a \$55 million followed by a \$50 million increase. Is the board comfortable and very positive that you can meet those goals? Obviously, the expectations of government over the next three years is looking for those revenues. I guess I'm just looking to you to assure us you're comfortable with those goals and you feel confident they can be met.

R. Turner: I'll answer the question first: yes. But I'll tell you why. The lottery revenue increase actually isn't all that much over three years. It's going from \$900 million-something up to \$1.6 billion or so. The casino gaming gets the most attention from everybody.

What we have forecast in the casino increases is actually the relocation of approved casinos. We're not looking for new casinos or more slot machines than government has already approved. We did the service plan before the policy on the casino relocations came out.

It's a good question, because the timing of our service plan was for us a bit more of an estimate than perhaps other Crowns. We didn't know what the policy concerning casino locations was going to be. We assumed something; what we assumed was not what the service plan reflects. But we have gone back to the service plan and are comfortable, as a board, that yes, those revenues will be met. When we went through core, our overhead costs — if you forget one-time costs

of severance or whatever as a consequence of core — were about \$92 million.

I would say the same to you as I said at core. We are in a business that's competitive, and we have to have a service machine behind it, because we sell a product that someone cannot buy, perhaps unlike other Crowns. We have to have the people in place not only to sell the product, but as I mentioned at the very outset, we have to ooze integrity. That comes to the people in the casinos who count the count, who look at the money — where is it going — look at the slot machines. We have to have people to make sure the integrity of our business is there, or we'll have no players.

We reduced expenses — I'm going from memory — from roughly \$92 million to the mid eighties or low eighties, and it was roughly 14 percent or 16 percent of overhead. I responded to the Premier when he asked the question, actually, and I said the board is satisfied we have cut as much as we can to maintain the business. Yes, we are comfortable with not only the top but the bottom.

K. Stewart (Chair): Okay. Do you have a question?

P. Bell: I do.

I think you kind of touched on this earlier, but maybe I didn't hear the whole answer. I just need a little more detail. The jump in bingo from \$92.3 million to \$205 million and then continued growth in bingo in what you've admittedly indicated is a mature product or an overmature product or a declining product. I'm kind of comfortable with all of the other growth expectations. I think they are all reasonable but that one, particularly the \$92 million to \$205 million.

V. Poleschuk: The \$92 million to \$205 million is, to a degree, a transitional year. The \$92 million does not reflect the full year in which we took over responsibility for paper bingo. So the \$205 million is really the base year, where it's kind of on a 12-month basis.

We're really talking about being able to go from roughly around \$200 million, which we're on target for, to \$205 million, \$210 million and \$215 million over the course of the next three years. We believe that's significant change, because the current trend is trending downward, so our first objective is to stabilize and then grow the business back up to those numbers.

[1515]

P. Bell: Just a secondary question, then. There were some questions earlier in terms of whether there are certain segments of the population who appear to be more vulnerable to problem gaming. I'd also expand on that by saying: is there any sort of geographic evidence that shows not necessarily problem gaming but per-capita spending on gaming in some parts of the province to be higher than in other parts? I'm just curious if you have anything that would indicate there are geographic discrepancies not in problem gaming but just in general spending.

V. Poleschuk: There are differences from a regional standpoint, but they're not significant differences. When you look at the lottery side, for example, you find that there are certain games that may sell more on a per-capita basis in the more rural areas than they will in the urban areas. Obviously, from a casino and bingo gaming standpoint, the availability of the product is key, because we don't have casinos or bingos in every community throughout the province. I would say, generally speaking, within a small degree of variance, it's pretty consistent across all sectors of the province.

K. Stewart (Chair): Richard, do you have a question? Richard Lee?

R. Lee: Yes. On page 10, the public support rating is projected to increase.

K. Stewart (Chair): Richard Lee has joined us. He's the MLA from Burnaby, and he has a question he'd like to ask the committee.

R. Lee: I have just one question. On page 10 of the presentation, it says the public support rating is projected to increase from 52 percent to 65 percent in three years. That's an increase of about 25 percent in three years. How confident are you that that target will be achieved?

V. Poleschuk: That target will be a stretch target for us, and it certainly will depend on a number of new programs initiatives. One of those key programs we've talked about is communicating to the public, the beneficiaries of gaming, so that they get a better awareness and a stronger appreciation of the good work that is done throughout the province in respect to gaming revenues. It also assumes that we will have the ability to continue to do strong community support, community relations work and good corporate citizenship work all throughout the province.

R. Lee: But the budget for those activities in terms of public awareness and community support.... You don't have a budget increase for that.

V. Poleschuk: No, that would be done through normal operating expenses.

R. Lee: In terms of raising the public support, you are talking about making those programs more effective and more efficient.

V. Poleschuk: I think it's making the programs more effective, concentrating on some of the communication vehicles that we already have but amending the message so that people become more aware of the beneficiaries of gaming in the province.

K. Stewart (Chair): We're now at 20 after the hour. We probably need about 20 minutes to close, and we're scheduled to close here at four. One of the things we

also allow is that if members have a question that comes up when they're reviewing the material, they can contact the agency through yourselves and get a written answer back. There's a lot of information here.

Interjection.

K. Stewart (Chair): Sorry. The Clerk just reminded me that if it goes to him, then it's easier to keep track of it. If any of the members have a written question, it goes back to the Clerk, and then we'll get the answers for you.

Now, does anyone have any other pressing questions at this time they'd like to ask?

I. Chong: Yes, I would like to ask just a couple of quick ones.

K. Stewart (Chair): Okay, but Dave's first, I see. Go ahead, Dave.

D. Hayer: My question is: do you still have the policy of accumulating your holiday time off? Sometimes the public has some concerns because when you retire, all of a sudden two or three times the salary is paid for the time accumulated over a long time. I know in the private sector sometimes if you don't take the holidays after one year or a year and a half, you lose them. Is the company still continuing with the same policy, or are you changing it?

V. Poleschuk: Right now we're continuing with the same policy of accrued vacation, but we encourage all of our employees to take as much of their annual vacation as they can. Depending on the operational requirements, in some cases some of our employees may not be able to take all of their allocated vacation in the year that it's earned.

D. Hayer: Is there going to be any limit over what period they can take it or how long they can carry their holidays or their vacation time — over three, four, five or six years? Do you expect to put some sort of limit?

V. Poleschuk: At this point we have not put any limits on the carryover.

K. Stewart (Chair): Ida?

I. Chong: Thank you, Mr. Chair. I'm sorry. I had to leave for a quick moment.

There's a number of issues, and I'll just put them on the table. If you need to take more time to clarify, then I would ask you to do that through the Clerk's office.

[1520]

I understand no one has asked any detailed questions on Internet gambling, and I would like to know what the B.C. Lottery Corporation is doing in regard to that. What measures or monitoring are you doing to ensure that that doesn't start to become another problem, where the dollars that you've set aside for prob-

lem gambling, which you expected to be related to the Lottery Corporation gambling, would be used for that? If the need for problem-gambling services increases as a result of Internet gambling, how are we going to monitor that or look at that? If you have any information on what you're doing with Internet gaming or gambling, I would like to know more about that.

I also notice on your month-by-month report that you do a lot of community events, your travelling stage going to a number of events. What kinds of costs are associated with that? Do you, as well, believe that to be in competition with private sector businesses that would otherwise provide for that travelling stage? I may have mentioned this to you before, because I had some constituents concerned that this was in direct competition with those who would otherwise have provided tents and a stage and things of that nature.

I would also like to know about the sponsorships that are being provided. Again, we see month-by-month sponsorship. It's very difficult. The financial statements are not detailed enough to show sponsorships and how they're determined — their criteria. Four or five years ago, when I first asked the question, Crown corporations were supposed to have gone through a corporate donation policy or sponsorship policy so that we could see what decisions were made. B.C. Hydro, for example, chose a number of environmental programs and sponsorship of first nations initiatives and educational initiatives.

Every Crown corporation chooses whatever projects they wish to fund or sponsor. I'd like to know why B.C. Lottery chooses those that they sponsor, how that is and whether there are some directly related, for example, to amateur sports.

The last area that maybe you could answer today has to do with comments you made in your presentation. You indicated that in a weak economy, there could be some concerns about gaming and spending. A lot has to do with impulse buying, disposable income and things of that nature. I gather from the presentation.... We went through a period of weak economy for the last ten years, yet the gaming trends show that spending actually has increased substantially. In '92 it was \$2 billion; '99 was \$9 billion. That seems to contradict what you're saying.

I'm wondering whether a weak economy does in fact have an impact, what study you looked at and with what criteria — other than perhaps some sort of standard they were using in other parts of the country. I'm wondering whether that is the same here in B.C. We were the only province that went through the decade of decline; other provinces didn't. It would make sense. Our province did go through that, so how does that affect it?

Also, again on the accountability side, the relationship of the cost of advertising. When there are big jackpots with the commercials — the "big-big-big-big-big" — how does advertising relate to increasing that? If you spend \$200,000 on three or four spots, do you notice an immediate impact in the increase in the aware-

ness of those jackpots, or would those jackpots or increased spending occur regardless of that advertising?

As well, on your financial statements, again without the detail. As a Crown corporation, do you pay property taxes, or do you pay a grant in lieu of the three, I think, properties you own? I've asked this of other Crowns, as well, simply because the Premier has stated that we would like to see our Crowns be able to pay full property taxes in the communities and municipalities they reside in. Have your service plans, etc., taken that into consideration? How might it impact your bottom line and the return to the Crown, if you have to factor that in when you prepare your financial statements in the future?

A number of questions. I've put them all on the record. If there's any time and you wish to answer one or two of those now, fine. If not, then I'm prepared to see those come back in written form. Thank you.

[1525]

V. Poleschuk: If I may, I'll try and do as many as we can right now.

A Voice: Okay, let's give it about ten minutes then.

V. Poleschuk: Okay, that will be fine.

Maybe I'll start backward to front. I think I may have gotten them all. In terms of grant-in-lieu, the corporation currently pays grant in lieu of taxes on our Kamloops facility, which we own. The amount we pay is equivalent to the property tax.

D. Penrose: Actually, it's not. We don't pay the school tax portion, but we pay the rest.

I. Chong: Do you know the differential impact that would be, then?

D. Penrose: I couldn't tell you offhand. We've been doing that for a number of years.

V. Poleschuk: In terms of cost of advertising, there is a direct correlation, and we can prove the correlation for advertising our products to an increase in sales in the product. That's based on creating more general awareness of either a bonus or that a new product is out on market, which stimulates the consumer to go and look for that product and purchase. In times of high jackpots, where we advertise our high jackpot alerts — other jurisdictions around Canada do not specifically have that program — we can measure an immediate and larger jump in market share than our colleagues in other parts of Canada.

In respect to the economic issue, it is a difficult issue to measure, because at no one point in time do you have the same things happening in the economy or in the marketplace. For example, as you referenced, in the last ten years, while there were parts of British Columbia that may not have been in economic growth, there were parts that were in economic growth over the nineties.

What we also find is that there is a supply and demand issue, and in the early part of the nineties there would have been virtually no supply of casino gaming in the province, whereas starting in 1997 we started to introduce slot machines into the province. In essence there was a pent-up demand in the marketplace for consumers who were familiar with casino gambling and who partook of casino gambling in other jurisdictions to now partake in that activity at home as opposed to going elsewhere. That's an example where the supply and demand of what you offer in the marketplace is more of a determining factor of your growth than the economic conditions.

I. Chong: Can I just interject very quickly then? Is it possible for you to provide us with the demographics — where parts of the region's contributing amount is to the total gaming spending pie, shall we say?

V. Poleschuk: I'm not sure I understand the question.

I. Chong: Well, for example, could you show that of the \$1.6 billion, \$300 million, for example, comes from the lower mainland and \$100 million comes from the north? Are you able to do that?

V. Poleschuk: Yeah, we are.

I. Chong: If you could, maybe you could provide that.

V. Poleschuk: We could regionalize that.

I. Chong: Thank you. That's all I was after, as a result of your response.

K. Stewart (Chair): How are we doing there for questions?

V. Poleschuk: I think I'm working myself up the list. Let me do a couple of the easy ones. Community stage. The community stage program was a program we ran for four years. It was a summer festival program. We provided sponsorship to a number of communities — 25 or 26 a year. It was a contract with a private sector company to provide those services, so we went out to bid and selected a private sector company to provide those services to us, which we then in turn made available to community festivals all around the province.

K. Stewart (Chair): Was that the Hey Wagon thing?

V. Poleschuk: That was the Hey Wagon, and that was a full performance sound stage with lighting. Through core services we made the decision, in reducing our level of sponsorship, that that program would no longer be available, so this is the first year the program is not available. I think we've just finished writing back to all the letters that we received from mu-

municipalities and event organizers as to why it wasn't available.

[1530]

In terms of sponsorships and how much is spent and where it's spent, as I said earlier, the area of community support and sponsorship, we believe, is an important one for the organization, but we have in essence through core services reduced our expenditures in that area significantly over the past year. We have a set of criteria that all requests are evaluated against. Principally, it's community-based events that we typically look at supporting. In this fiscal year we probably spent somewhere just under a million dollars on community events, in comparison to probably three times that amount the previous year.

On sponsorships in amateur sport, we don't specifically target amateur sport as one of the beneficiaries of sponsorship. It does not necessarily mean we don't sponsor amateur sport, because there are a number of provincial and national championships that take place in the province that we will either support from a community support standpoint or from a marketing support standpoint.

In respect to the Internet, it's a very good question. We are monitoring the issue of Internet gambling. Internet gambling is an issue that is important not just to British Columbia but, as you can imagine, to every government-licensed or government-operated lottery gaming organization in the world. For those that have a defined jurisdiction of operation, the Internet is an issue because the Internet doesn't respect the social policy of a particular government; nor does it respect the boundaries or the borders of any jurisdiction.

We're working with our colleagues both at the national level in Canada and at the international level to monitor the growth of Internet gambling. It is by no means a small business today. If you turn on your computers at home and do a search on the Web for casinos or gaming, you're likely going to find somewhere between 1,000 and 2,000 websites that you can actively gamble on if you're prepared to give them your credit card. Current estimates are that there's probably around a billion dollars wagered annually — not from British Columbia but worldwide — much of that related to the bookies who used to run telephone operations, who found enabling technology to do it in a much more effective way.

In general, what you'll find is that most of the sites on the Internet today are non-regulated sites. There are some sites that are regulated coming out of Australia. The government of England has just moved forward with a proposal to set up a regulatory scheme in England for Internet gambling. Many of our colleagues in Europe.... Their governments have provided approval to the state-owned-and-operated lottery companies to offer their products on the Internet only to residents of their jurisdiction.

There is a lot of activity going on. We believe that currently there's probably less than 1 percent of the population in British Columbia who have gamed for dollars on the Internet. It's not a large percentage at this

point in time, but it is an issue that is not going away. Every government who is in the gaming business will need to make policy decisions with respect to how they are going to deal with the issue of the Internet and looking at it as what can be done from a competitive threat standpoint or what can be done from a competitive opportunity standpoint.

I. Chong: I just want to quickly state that three or four years ago, when I asked the Minister of Employment and Investment, I think — which was Ms. MacPhail — she indicated that British Columbia was working with other jurisdictions across Canada on this Internet gambling issue. There was a committee formed. I don't know where we are with that, if you are able to possibly provide an update. If it's not through the B.C. Lottery Corp, then I guess I'll find it through a ministry. I do recall that she had indicated, when I brought this issue up three or four years ago, that there was a committee struck nationally and that B.C. was leading or trying to lead in dealing with the problem of Internet gambling. As I say, it's been three or four years now. I would like to know where we are with that or whether B.C. has stepped back and another province has taken the lead. If you could provide that.

[1535]

V. Poleschuk: We have a national committee at the interprovincial lottery level that is monitoring Internet activity. As well, many of the provinces in Canada have now started to form their policy position on Internet gambling. As such, some provinces are being a little bit more cautious than others, and some are being more aggressive in moving forward to positioning themselves to at least be able to address the competitive threat.

I. Chong: Thank you.

Thank you, Mr. Chair, for indulging me.

K. Stewart (Chair): We'll have one final question. Pat's got a question he'd like to ask, and then that should wrap up the question period.

P. Bell: I'm just wondering why your receivables have taken a pretty significant jump. Does that relate to the bingo issue — taking that on board as well? Is that why that's jumped?

D. Penrose: It's really the growth in business, the casino growth, and also taking on the bingo.

P. Bell: You've gone from \$32 million to \$43 million.

D. Penrose: Forty-one new locations.

K. Stewart (Chair): Thank you very much. We appreciate your presentation. Again, if there are any questions that arise from today's session, we'll send them through the Clerk and look forward to your re-

sponse. Thank you very much for your participation today and for the good presentation.

Just to the rest of the committee, we have a couple of issues. I will certainly endeavour to get us all out of here by four. As soon as our guests clear the room, we will be discussing some issues surrounding the reporting-out. We will go in camera for that. If there are any other guests, which I don't believe there are, they can head out. Thank you.

We're now moving in camera so we can talk about our report. Could I have everyone back to the table.

The committee continued in camera from 3:37 p.m. to 3:47 p.m.

[K. Stewart in the chair.]

I. Chong: Has the Clerk any idea of what our tentative scheduling will be for future meetings? Has that been drafted by yourself and the Clerk or the Deputy Chair?

K. Stewart (Chair): We're scheduled through till Christmas. I suspect that when we come to that meeting — I believe it's November 20 — we will at that time decide the future course of the meetings. It's really up to us to schedule. We haven't scheduled beyond Christmas.

I. Chong: Is there anticipation to be scheduling meetings while we're in session? I know that's been problematic with the opposition members and with other committees. I wondered whether we have time restrictions once we get back into session.

K. Stewart (Chair): Well, it was my expectation last session that we would be meeting regularly, because we're all here. We're on a regular schedule. It was my belief and intent that that would have been a good format for us to follow, because we were all here.

Now, the reason we didn't get to meet is because of when the committee was enacted through the legislation. It's my hope that we will have that opportunity this time. It's really up to the House as to when they're going to set our committee down in the legislative agenda.

Is "setting it down" the correct term?

Some Voices: Strike.

K. Stewart (Chair): Striking our committee.

We report out. I believe our committee goes right through this session, the fall session, and then when we come back in February, we're no longer there. Hopefully, we'll be struck down and struck out with less of a gap in between.

P. Bell: I don't think this committee should neglect its duties to examine as many Crown corporations as we can find time for, whether in or out of session, just because the NDP were only able to elect two members.

K. Stewart (Chair): I appreciate the fact, and it's certainly my intent to schedule through the session. Unless there's some serious opposition from this committee, that's my intent.

[1550]

D. Hayer: When we're in session, maybe we can have the meetings when the House is not sitting, once we get the schedule of the House sittings. We can meet after the House is sitting or before the House is sitting, if the House starts later in the day on certain days.

K. Stewart (Chair): The other speculation is as to whether we'll be sitting in the evenings or not in this session. We don't have our schedule for the spring session. Once that's laid out, then we can talk about scheduling.

C. James: Any further issues?

Just for the information of members, the sessional order that's in place governing the sitting hours of the House continues when we sit in October. It's assumed that the House will be sitting in the evening, subject to there being sufficient business in the House.

Just to let members know, as well, the Chair and I were also looking at arranging these meetings on a Wednesday morning, which might work for members — bearing in mind, of course, that there are all kinds of other activities going around in this place too.

The committee adjourned at 3:51 p.m.