

BCLC Crown review

DRAFT #2

ADVICE AND RECOMMENDED RESPONSE:

- **Government's review of BCLC found the organization delivers programs effectively, and promotes fairness and game integrity.**
- **The review found:**
 - **BCLC has strong oversight tools to manage lottery operations;**
 - **Responsible gambling programs are being delivered effectively;**
 - **Management and regulation of the gaming industry promotes fairness and game integrity;**
 - **And overall, BCLC's operations are aligned with government's priorities.**
- **However, the Crown corporation needs better business-planning practices and service provider management to meet government's operational, revenue and accountability expectations.**
- **The review makes 25 recommendations to BCLC for improvement, including:**
 - **Several areas where the corporation can be better aligned with government's priority of cost containment; and**
 - **Improving strategic and business planning practices.**
- **BCLC has accepted all review recommendations and is moving quickly to implement them. Government will be working closely with BCLC's board and executive to ensure all recommendations are addressed.**
- **Government has accepted and is implementing two recommendations for B.C.'s gaming regulator, the Gaming Policy and Enforcement Branch. As well as one recommendation directed to government with respect to roles and responsibilities of Crown corporation board members.**
- **BCLC generates net win (total gaming revenue after prizes are paid) of approximately \$2.1 billion annually – about half of the revenue goes to support priority areas like health care, education and social programs.**

Secondary:

- **The BCLC Crown review was completed as part of government's commitment to review all major Crown corporations.**
- **Government wants to ensure Crowns are making every effort to keep controllable costs to a minimum, and the review process provides an external perspective that helps identify opportunities for improvement.**

KEY FACTS REGARDING THE ISSUE:

- BCLC is a Crown corporation that delivers lottery services through a network of approximately 3,800 locations and 42 gaming facilities operated by contracted service providers comprising of 17 casinos, 18 community gaming centres and seven commercial bingo halls.
- In 2011, government announced plans to review Crown corporations in the Speech from the Throne, to ensure taxpayers are protected and the interests of all British Columbians are well served.

ADVICE TO MINISTER

S13

Communications Contact: Jessica McLachlin 250 387-6591
Program Area Contact: Chris Brown, ADM, IAAS 250 387-8198
File Created: December 8, 2014
File Updated: December 11, 2014
File Location:

Program Area	Comm. Director	Deputy	Minister's Office
CB/PS			

NEWS RELEASE

For Immediate Release

Ministry of Finance

2014FIN0061-001905

December 17, 2014

Crown review makes recommendations to strengthen BCLC

VICTORIA – A government review of the B.C. Lottery Corporation finds it delivers programs effectively, and promotes fairness and game integrity, Finance Minister Michael de Jong announced today with the release of the review report.

But the Crown corporation needs better business-planning practices and service provider management to meet government's operational, revenue and accountability expectations. Government will be working closely with the board and executive of B.C. Lottery Corporation (BCLC) to ensure all recommendations are addressed.

The review found that BCLC has strong oversight tools to manage lottery operations, responsible gambling programs are being delivered effectively, and management and regulation of the gaming industry promotes fairness and game integrity. The corporation generates net win (total gaming revenue after prizes are paid) of approximately \$2.1 billion annually, with about half of the revenue going to support priority areas like health care, education and social programs. Overall, BCLC's operations are aligned with government's priorities.

The review makes 25 recommendations to BCLC for improvement, including several where the corporation can be better aligned with government's priority of cost containment, and strengthen BCLC strategic and business planning. Government has accepted and is implementing two recommendations for B.C.'s gaming regulator, the Gaming Policy and Enforcement Branch (GPEB), and one recommendation directed at government with respect to roles and responsibilities of Crown corporation board members.

GPEB regulates the gaming industry in B.C., including BCLC, casinos, lotteries, online, charitable gaming and horseracing. BCLC is a Crown corporation that delivers lottery services through a network of approximately 3,800 locations and 42 gaming facilities operated by contracted service providers comprising of 17 casinos, 18 community gaming centres and seven commercial bingo halls.

BCLC has accepted all review recommendations and is moving quickly to implement them.

The BCLC Crown review was completed as part of government's commitment to review all major Crown corporations. Government wants to ensure Crowns are making every effort to keep controllable costs to a minimum, and the review process provides an external perspective that helps identify opportunities for improvement.

Quote:

Minister of Finance Michael de Jong –

“This review shows BCLC is generating steady revenues that support public programs and services, community organizations, and local governments that host gaming operations. The recommendations from this review will help improve cost-management and business operations, to ensure the proceeds of gaming continue to benefit the citizens of B.C.”

Quick Facts:

- The Province receives more than \$1.1 billion annually (\$1.17 billion in 2013-14) in gaming revenue to support healthcare, local governments and thousands of community organizations.
- The Province shares gaming revenue with local governments that host casinos and community gaming centres in British Columbia.
- Since 2001, the Province has provided more than \$1.7 billion in gaming grants to community organizations. Of all provinces, B.C. distributed the most government gaming revenue to non-profit community organizations.
- Local governments that host a gaming facility receive 10% of the net gaming revenues from the facility, and have full authority to spend these revenues where there is public benefit to the community.
- In 2013-14 the Province distributed approximately \$87 million to host local governments.
- The Province’s Responsible Gambling Strategy creates public awareness of risks associated with gambling, delivers gambling in a manner that encourages responsible gambling and informed choice, and provides treatment and support to those impacted by problem gambling.
- This year, the Province and BCLC are providing approximately \$9.5 million for responsible gambling: \$6 million for the Provincial Responsible and Problem Gambling Program, \$3.5 million for BCLC’s responsible gambling initiatives.
- In addition, the government and BCLC are providing \$2 million over five years for the University of British Columbia Centre for Gambling Research.
- British Columbia Lottery Corporation (BCLC) is a Crown corporation reporting to the Minister of Finance.

Learn More:

The BCLC Crown review is available at: http://www.fin.gov.bc.ca/ocg/ias/pdf_docs/Review%20of%20BCLC.pdf

BCLC’s response to the Crown review is available at: <http://corporate.bclc.com/media-centre/bclc-news/news-search.html>

A backgrounder follows.

Media Contact:

Jamie Edwardson
Ministry of Finance
250 356-2821

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BACKGROUND

For Immediate Release

2014FIN0061-001905

December 17, 2014

Ministry of Finance

Recommendations and implementation status

In total there are 28 recommendations. Government and BCLC have accepted all recommendations as applicable to their organization.

1. BCLC should establish critical success factors for its lottery retailers in order to evaluate performance and report on results.
2. BCLC should ensure that agreements with service providers include comprehensive performance standards.
3. BCLC and the Ministry of Finance should conduct a review of service provider commissions for gaming facilities to ensure an appropriate and effective structure.
4. BCLC should explore potential cost containment opportunities available through the reduction of vendors and platforms.
5. BCLC should evaluate options to improve inventory management systems.
6. BCLC should develop a clear set of criteria for gaming facility procurement.
7. BCLC should conduct a comprehensive post-implementation review of the GMS project that includes benefits realization.
8. BCLC should ensure a consistent approach to administering the VSE program across gaming facilities and eGaming.
9. BCLC should develop outcome based performance measures for responsible gambling.
10. GPEB should develop comprehensive policies and standards to support the integrity of gaming.
11. GPEB should implement a risk based approach to direct its activities in assessing compliance with gaming policies and standards.
12. BCLC's board and executive should ensure that sufficient, appropriate and timely information is communicated and that strategies are appropriately challenged.
13. Government should reinforce the roles and responsibilities for board members and executive within Crown corporations.
14. BCLC should establish performance measures linked to corporate goals for each business unit.
15. BCLC should establish an IT Steering Committee with representation from key functional areas across the organization.
16. BCLC should develop plans for the decommissioning and replacement of key legacy systems that are expected to be retired.
17. BCLC should ensure that BCP and DRP plans are developed, implemented and periodically tested.
18. BCLC should enhance its tracking and reporting of information security incidents, and communicate incident management policies to BCLC staff.
19. BCLC should ensure that security and privacy requirements for the protection of player information are implemented and followed by service providers.

20. BCLC should ensure that corporate data is classified and that data ownership is fully inventoried.
21. BCLC and the Ministry of Finance should develop a comprehensive cost containment framework.
22. BCLC should standardize its project portfolio management framework including key performance indicators.
23. BCLC should monitor project budget variance by comparing actual project cost to the baseline budget.
24. BCLC should ensure that the business case process is sufficiently rigorous to allow for fully informed decision making and accountability.
25. BCLC should ensure its procurement practices support the achievement of value for money.
26. BCLC should be able to demonstrate the effectiveness of its overall marketing expenditures.
27. BCLC should develop more challenging and comprehensive holdback measures.
28. BCLC should improve planning and oversight over staffing and compensation initiatives.

Media Contact:

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MINISTRY: Finance

PROPOSED ACTIVITY OR ANNOUNCEMENT:

Event: BCLC Crown review

- **Proposed Dates:** Wednesday, December 17, 2014
- **Time:** 2:00 p.m.
- **Time Constraints/Rationale:** N/A

COMMUNICATIONS OBJECTIVE:

To release results of BCLC Crown review and demonstrate actions already taken to address recommendations, actions underway and actions planned.

REQUESTED INVOLVEMENT FROM:

- **Premier:** No
- **Minister(s):** de Jong
- **MLA(s):** No
- **Other:** Bud Smith, BCLC Board Chair and Jim Lightbody, BCLC interim president/CEO

HEADLINE: Crown review makes recommendations to strengthen BCLC

LOCATION:

Kamloops (with video conference for Victoria press gallery)

Coast Hotel

1250 Rogers Way, Kamloops

Columbia Room

Proposed event rollout

Tuesday – 9:30AM – Media advisory issued.

Tuesday – 7PM - Minister meets with board to discuss report and next steps.

Wednesday Rollout:

- | | |
|---------|---|
| 2:00 PM | Media receive embargoed copy of BCLC report |
| 2:30 PM | Minister makes brief high level PowerPoint presentation in response to report |
| 2:50 PM | Minister takes media questions. Leaves room at conclusion of questions. |
| 3:15 PM | BCLC board chair Bud Smith presents BCLC's response |
| 3:30 PM | BCLC takes media questions (Bud Smith and Jim Lightbody) |
| 4:00PM | Event concludes – embargo lifted, release and report go provincewide |

As required Follow-up calls to media.

Thursday morning – Jim Lightbody on CHNL Jim Harrison show

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KEY MESSAGES:

- A government review of the B.C. Lottery Corporation finds it delivers programs effectively, and promotes fairness and game integrity
- However, the Crown corporation needs better business-planning practices and service provider management to meet government's operational, revenue and accountability expectations.
- Government will be working closely with the board and executive of B.C. Lottery Corporation (BCLC) to ensure all recommendations are addressed.
- BCLC has accepted all review recommendations and is moving quickly to implement them.
- The BCLC Crown review was completed as part of government's commitment to review all major Crown corporations. Government wants to ensure Crowns are making every effort to keep controllable costs to a minimum, and the review

Communications Materials Required:

- News release
- PowerPoints
- Issues note/Key messages
- Q&As

CONTACTS:

- 1) Communications contact:** Jamie Edwardson 250 387-6591
- 2) Program area contact:** Chris Brown, ADM, IAAS 250 387-8198
- 3) Stakeholders/Validators:** Jim Lightbody and Bud Smith

Appendix: Summary of BCLC Crown review recommendations

1. BCLC should establish critical success factors for its lottery retailers in order to evaluate performance and report on results.
2. BCLC should ensure that agreements with service providers include comprehensive performance standards.
3. BCLC and the Ministry of Finance should conduct a review of service provider commissions for gaming facilities to ensure an appropriate and effective structure.
4. BCLC should explore potential cost containment opportunities available through the reduction of vendors and platforms.
5. BCLC should evaluate options to improve inventory management systems.
6. BCLC should develop a clear set of criteria for gaming facility procurement.
7. BCLC should conduct a comprehensive post-implementation review of the GMS project that includes benefits realization.
8. BCLC should ensure a consistent approach to administering the VSE program across gaming facilities and eGaming.
9. BCLC should develop outcome based performance measures for responsible gambling.
10. GPEB should develop comprehensive policies and standards to support the integrity of gaming.
11. GPEB should implement a risk based approach to direct its activities in assessing compliance with gaming policies and standards.
12. BCLC's board and executive should ensure that sufficient, appropriate and timely information is communicated and that strategies are appropriately challenged.
13. Government should reinforce the roles and responsibilities for board members and executive within Crown corporations.
14. BCLC should establish performance measures linked to corporate goals for each business unit.
15. BCLC should establish an IT Steering Committee with representation from key functional areas across the organization.
16. BCLC should develop plans for the decommissioning and replacement of key legacy systems that are expected to be retired.
17. BCLC should ensure that BCP and DRP plans are developed, implemented and periodically tested.
18. BCLC should enhance its tracking and reporting of information security incidents, and communicate incident management policies to BCLC staff.
19. BCLC should ensure that security and privacy requirements for the protection of player information are implemented and followed by service providers.
20. BCLC should ensure that corporate data is classified and that data ownership is fully inventoried.
21. BCLC and the Ministry of Finance should develop a comprehensive cost containment framework.
22. BCLC should standardize its project portfolio management framework including key performance indicators.
23. BCLC should monitor project budget variance by comparing actual project cost to the baseline budget.
24. BCLC should ensure that the business case process is sufficiently rigorous to allow for fully informed decision making and accountability.

25. BCLC should ensure its procurement practices support the achievement of value for money.
26. BCLC should be able to demonstrate the effectiveness of its overall marketing expenditures.
27. BCLC should develop more challenging and comprehensive holdback measures.
28. BCLC should improve planning and oversight over staffing and compensation initiatives.

Dec. 16, 2014

MEDIA ADVISORY - Ministry of Finance

KAMLOOPS – Finance Minister Michael de Jong will release the results of government's Crown review of the B.C. Lottery Corporation at a news conference in Kamloops.

The B.C. Lottery Corporation will also respond to the findings and recommendations in the report and discuss the steps being taken to address them.

Documents provided at the news conference will be under embargo until the full event concludes.

There will be a video link to the legislature press theatre for press gallery media who want to participate in the news conference. Media can ask questions by microphone.

Event Date: Wednesday, Dec. 17, 2014

Time: Documents will be available at 2 p.m. Minister de Jong begins speaking at 2:30 p.m.
Expected conclusion: 3:45 p.m.

Location:

Columbia Room
Coast Hotel and Conference Centre
1250 Rogers Way
Kamloops

Alternate Location – audio-video link only:

Legislature Press Theatre
Parliament Buildings
Victoria

Contact:

Jamie Edwardson
Ministry of Finance
250 356-2821

BCLC Crown Review Q&A's
Ministry of Finance

December 8, 2014

Draft #3

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Staffing and compensation:

1. How does BCLC compensation compare to other similar organizations?

- The review found BCLC's compensation is generally comparable with other similarly sized Crown corporations.

2. Why did some non-executive employee's benefit from the new PSEC Crown Executive compensation policy when the point of the policy was to reduce costs?

- All BCLC staff used to be eligible for bonuses based on BCLC performance.
- BCLC rolled these bonus amounts in to employee base compensation.
- Rather than adding each employee's four year average bonus to the employee's base salary, BCLC used a standard percentage (of 100%) or their actual (which could be up to 150%), whichever was higher.

3. What was the financial cost of the constructive dismissal claims for the four senior employees?

- Approximately \$1.2 million by way of salary continuance for the 18 months of severance.

4. Why did BCLC give these four senior employees working notice AND 18 months' severance – is that consistent with PSEC direction?

- This is not how PSEC intended the new Crown executive compensation policy to be applied.

- The intent was that working notice would be used to transition to the new policy and no severance would be paid.
 - PSEC has since issued additional guidance for executive and excluded compensation to provide clarity on working notice and severance payments.
- 5. What was the original cost estimate for eliminating the 68 positions to save \$6.6 million?**
- BCLC did not have a cost estimate to eliminate the 68 positions.
- 6. How much did BCLC's downsizing exercise end up costing?**
- BCLC estimated that the program eventually would save \$6.6 million – but ended up costing them approximately \$25 million in fiscal 13/14, consisting of \$11.6 million in severance payments and \$13.5 million in pension and other costs.
- 7. Why was their cost estimates so out of line?**
- The review found BCLC underestimated the number of people who would want to take advantage of the early retirement option.
 - This is one of the reasons we have advised BCLC to improve planning and oversight over staffing and compensation initiatives.

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Cost containment/financial management

11. Why have operating expenses increased by a greater percentage than net win since 2007/08?

- The majority of the increase in operating expenses is from salaries and benefits. Over the last five years compensation has increased by 43%, with FTEs accounting for 25% of this and merit increases in pay of 16%.
- BCLC advises that the growth in staffing levels was as a result of implementing

recommendations from the 2007 Ombudsman's report.

12. Are you confident BCLC will be able to reduce its costs by \$20 million?

- To date they are reporting to be on track with meeting this spending reduction.

Revenue

13. How much is the total gaming revenue before any prize payouts?

- Approximately \$6.6 billion was played in gaming facilities in 2013/14 but the total gaming revenue is unknown due to variation in prizes paid out. Net win for gaming facilities was over \$1.6 billion in 2013/14.
- Approximately \$1 billion is played per year in Lotteries, with prize payouts of approximately \$600 million resulting in net win of \$400 million.

14. If approximately 50% of net win is used primarily to support social programs, healthcare and education, what is the other half used for?

- Commissions and fees for service providers and retails (30%);
- BCLC operating costs (16%); and
- Payments to Host Local Government (4%).

15. Of the 50% of net win used to support social programs, healthcare and education how much is given to charities and community organizations and how has this changed over time?

- In 2013/14 \$135 million was provided in grants to charities and community organizations (being approximately 6% of net win).
- Over the last ten years this has remained relatively constant – in 2004/05 it was \$134.5 million (which represented 9.6% of net win).
- The highest amount provided in grants was \$160 million in 2009/10.

Gaming Facility Commissions:

16. What operating commissions are paid to service providers?

- Operating commissions include:
 - 25% of slot machine and electronic games net win.
 - 40% of the casino games net win.
 - 25% to 60% of bingo revenue (after prizes are paid) depending on the total revenue per week.

17. How much are the facility development commission rates?

- 3 to 5% of net win for capital projects and ongoing site development, up to the cost of the project or investment.

18. How many gaming facilities have received commissions prior to substantial completion?

- Accelerated FDCs of 2% are paid on projects at the time of substantial

completion.

- 31 facilities have qualified for the project-based commissions since 2006.
- BCLC's primary control for determining project progress was visual confirmation; given BCLC's systems in place prior to 2012, it is not possible to identify how many facilities received AFDCs prior to substantial completion.
- In 2012, BCLC improved their monitoring of projects which included employing a third party Professional Quantity Surveyors to assist in validating project costs and progress.

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19. Is the total commission the same, regardless of the timing of the payment?

- Yes.

20. When was the commission structure established and when was it last reviewed?

- The current operating commission structure for gaming facilities was established by government and BCLC assumed responsibility in 1997 (slot machines) and 1998 (table games).
- BCLC has not conducted any reviews since being given responsibility to conduct and manage casino gaming.

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GPEB

22. What does GPEB do?

- GPEB regulates the gaming industry in B.C., including BCLC and casinos, lotteries, online, charitable gaming, and horseracing.

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Responsible Gambling

24. What is the inconsistent application of the Voluntary Self-Exclusion program?

- Inconsistency in the implementation of VSE between gaming facilities and eGaming.
- If VSE registration done at a gaming facility:
 - registrant is prohibited from entering all facilities;
 - PlayNow.com account is also suspended; and
 - Jackpots are withheld.
- If VSE registration is initiated through PlayNow.com:
 - registrant is prohibited from accessing PlayNow.com;
 - registrant is permitted to enter any gaming facility to gamble; and
 - registrant collects any jackpots they win in a gaming facility.

25. When will the new study on gambling prevalence be released by GPEB?

- Sometime in the New Year.

26. What is government doing about problem gambling?

- Through the Responsible and Problem Gambling Program, the Province provides British Columbians with a number of support systems – for example:
 - The Problem Gambling Help Line - operates 24-hours a day, seven days a week in multiple languages.
 - Provincially contracted staff in casinos deliver information on myths and facts surrounding gambling.
 - BCLC's GameSense programming. These staff act as 'GameSense Advisors' to help players make healthy decisions about gambling, understand how gambling works, and offer strategies to keep gambling fun and safe. They also provide support and information to people who may need access to problem gambling services.
 - Free counselling and support services to both individuals and families throughout the province without wait lists.
 - Public education, in schools, communities, and online.
 - Specialized programming for First Nations, Metis and Inuit people living in BC - including a number of Indigenous prevention specialists and counsellors located throughout the province.

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28. What is the Centre for Gambling Research?

- In January 2013, Government and BCLC announced they have committed \$2 million over five years to support the establishment of the Centre (\$1 million in the first year and \$250,000 in each of the subsequent years).
- The Centre will conduct independent, innovative research on gambling to help improve responsible and problem gambling prevention and treatment programs in British Columbia and beyond.
- The Centre will focus on academic research on the cognitive, behavioral, clinical and neuroscience aspects of gambling to help inform and advance responsible and problem gambling policy in B.C., as well as in other regions of Canada and internationally.

Lotteries

29. How much is the Lottery Optimization project going to cost? Why is it on hold?

- The lottery optimization project had only just been initiated before being put on hold and no financial benefits have yet been identified.

- BCLC has advised that the project is currently on hold due to other corporate priorities.
- Although the current lottery operations are primarily supported by aging systems, it should be noted that the related technology is stable with minimal unscheduled system downtime.

30. What is BCLC doing about its declining lottery customer base?

- BCLC opened two Lotto Signature stores (one in 2012, with another in 2014) which have been designed to enhance the player experience and attract a younger generation. Results to date indicate minimal growth in sales over what these stores replaced.
- BCLC is also planning to develop a new mobile lottery application that will offer more attractive features than currently available.
- A lottery optimization project was initiated to provide a long term business strategy for lottery operations, which includes replacing aging technology in the most appropriate way to maximize the player experience. The project is currently on hold due to other corporate priorities.

31. The report says that BCLC lottery terminals are expected to reach the end of their useful life within the next three to five years. Will BCLC no longer be able to sell lottery tickets if new terminals are not implemented?

- End-of life does not mean that the terminals will stop working.
- BCLC will still be able to sell lottery tickets with the old terminals.
- BCLC has safeguards in place to keep them operating after their standard useful life.

32. Are lottery systems reliable, given they represent the majority of BCLC legacy systems?

- Yes, they are reliable and stable with minimal unscheduled system downtime.
- Also, lottery systems have periodically been reviewed by BCLC Internal Audit, as well as by independent parties such as GPEB and external auditors.

eGaming

33. Why is BCLC implementing additional controls for eGaming systems as a result of the Crown review? Were there problems with security and/or protection of privacy?

- The review found that BCLC has security controls and procedures in place to ensure confidentiality and integrity of gaming systems.
- Various automated tools are also used to monitor the IT environment for security issues.
- Opportunities were identified to implement additional controls to further strengthen the security of the systems.

34. Which other jurisdictions pay for the online gaming platform?

- Manitoba is currently the only client.

35. How much do BC residents spend on unregulated online gaming sites?

- In 2012, it was estimated that BC residents spent \$125 million on unregulated online gaming sites.

Information Technology

36. Why is BCLC investing \$119 million in a new gaming management system?

- BCLC conducted an assessment in 2008 and concluded that the casino systems were at their end of life due to their increasing maintenance costs, inability to expand their product portfolio and a lack of vendor support.
- The new system will help to sustain and expand gaming facilities net win while improving player experience.

37. The report says that BCLC does not have Business Continuity Plans (BCP) and Disaster Recovery Plans (DRP). Is BCLC unprepared to deal with business disruptions?

- BCLC has already implemented several initiatives to strengthen its Business Continuity Management (BCM) program, including the establishment of BCM policies, development of a 5-year roadmap to improve BCLC's response to business disruption, and implementation of emergency safety plans for the Vancouver and Kamloops office.
- BCLC has also tested the recovery of some IT systems.
- BCLC has ad-hoc recovery procedures in place and IT redundancy.
- The lack of plans may prevent BCLC to recovery its systems within the desired recovered time.
- BCLC will be developing BCP and DRP plans to strengthen its BCM program.

38. There is a recommendation to ensure that security and privacy requirements are implemented and followed by services providers. Is players' personal information not protected at these venues?

- Security controls and procedures are already in place within service providers.
- BCLC is strengthening security and privacy by implementing new requirements for the protection of the player information.

41. Which Crown reviews have been released to date?

- Partnerships BC December 16, 2014 (TBC – and insert link)
- ICBC completed August 2012 <http://www.newsroom.gov.bc.ca/2012/08/government-releases-results-of-icbc-review.html>
- Community Living BC completed January 2012 http://www.llbc.leg.bc.ca/public/pubdocs/bcdocs2012/516343/review_of_community_living_british_columbia_final.pdf
- BC Hydro completed June 2011 (prior to government's commitment to review all Crowns) <http://www.newsroom.gov.bc.ca/downloads/bchydroreview.pdf>

Non-Crown reviews completed recently:

- While not a Crown review, the IAAS review of the resignation of the former CEO of the British Columbia Lottery Corporation (BCLC) was released in July 2014 <http://www.newsroom.gov.bc.ca/downloads/BCLC%20CEO%20Review%20-%20Final%20Report.pdf>
- The IAAS review of TransLink was released in October 2012 http://www.fin.gov.bc.ca/ocg/ias/pdf_docs/Review_of_TransLink_2012.pdf

Crown Review of BC Lottery Corporation

Ministry of Finance
Dec. 17, 2014

- Commitment to Crown reviews announced in 2011 Throne Speech.
- Ensure costs are controlled.
- Ensure alignment with government priorities

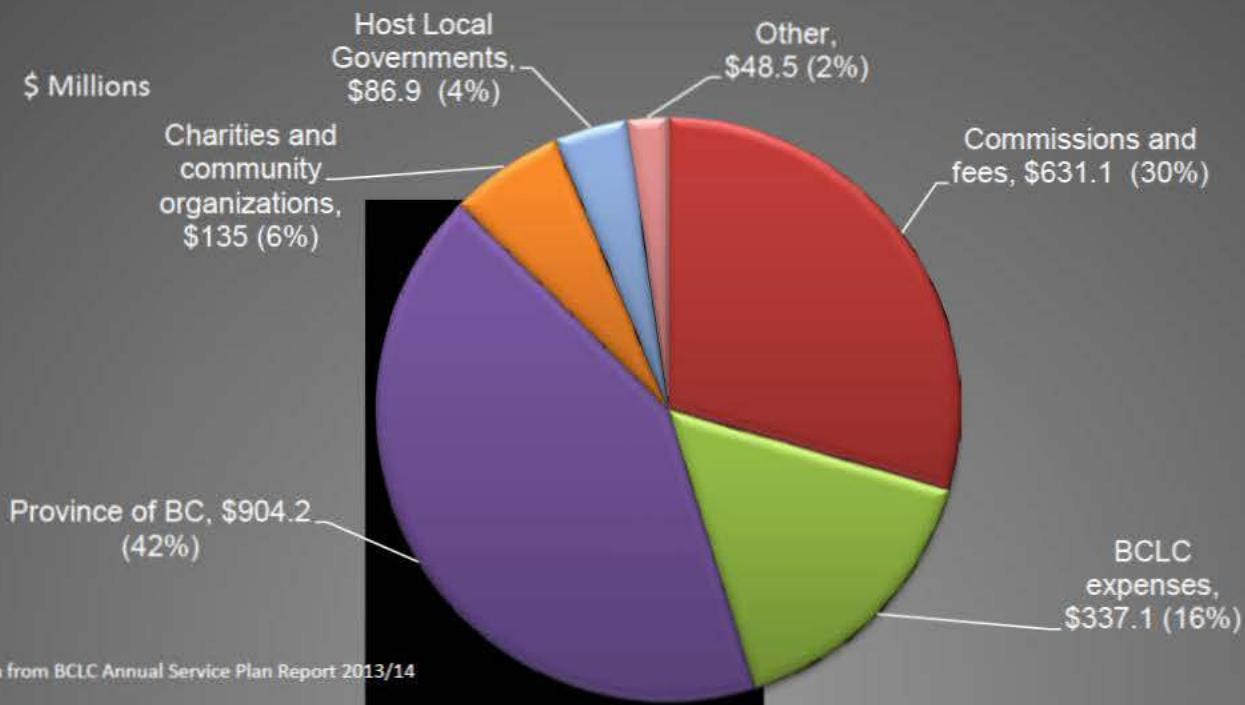
- **Governance framework** — including strategic direction and alignment with government priorities.
- **Operations** — including agreements and relationships with service providers and the regulator (Gaming Policy and Enforcement Branch).
- **Financial performance** — including costs, forecasts, mitigating strategies, revenue generation, capital asset management, IT and the Gaming Management System capital project.
- **Social responsibility** — including responsible gambling and development of gaming products.

- Commercial gaming in B.C. is a \$2.7-billion-a-year industry.
- Provides an estimated 37,000 direct and indirect jobs.
- BCLC employs approximately 860 people, including 385 in Kamloops.
- The Province receives more than \$1.1 billion annually in gaming revenue to support healthcare, local governments and thousands of community organizations.
- Since 2001, the Province has provided more than \$1.7 billion in gaming grants to community organizations.
- Local governments that host gaming facilities receive 10% of net gaming revenues from the facility: approximately \$87 million in 2013/14.

B.C. Lottery Corporation Overview

- BCLC's head office is in Kamloops, with a satellite office in Vancouver
- BCLC is a Crown corporation that delivers lottery services through a network of approximately 3,800 locations.
- BCLC also contracts with 42 gaming facilities operated by contracted service providers comprising of:
 - 17 casinos
 - 18 community gaming centres
 - 7 commercial bingo halls.

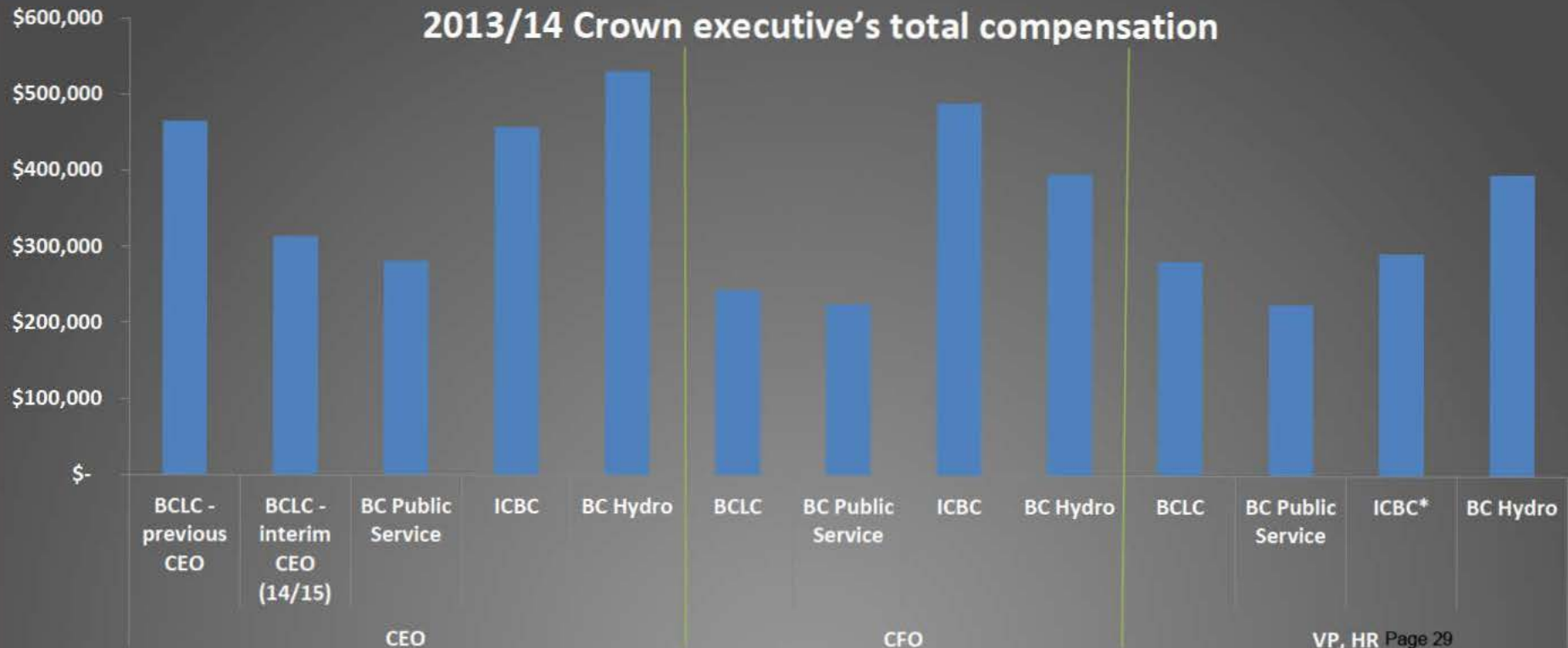
About 52% of BCLC's \$2.1 billion annual net win supports priority areas like health care, education, social programs, and local governments



- Responsible gambling programs are being delivered effectively, promoting responsible gambling, fairness and game integrity
- IT systems are stable and appropriate security controls are in place
- BCLC has strong oversight tools to manage lottery operations
- Procurement policy and procedure generally align with government's
- BCLC's service plan has been consistently aligned with government's priorities

Evaluation: Compensation is comparable to other Crowns

2013/14 Crown executive's total compensation

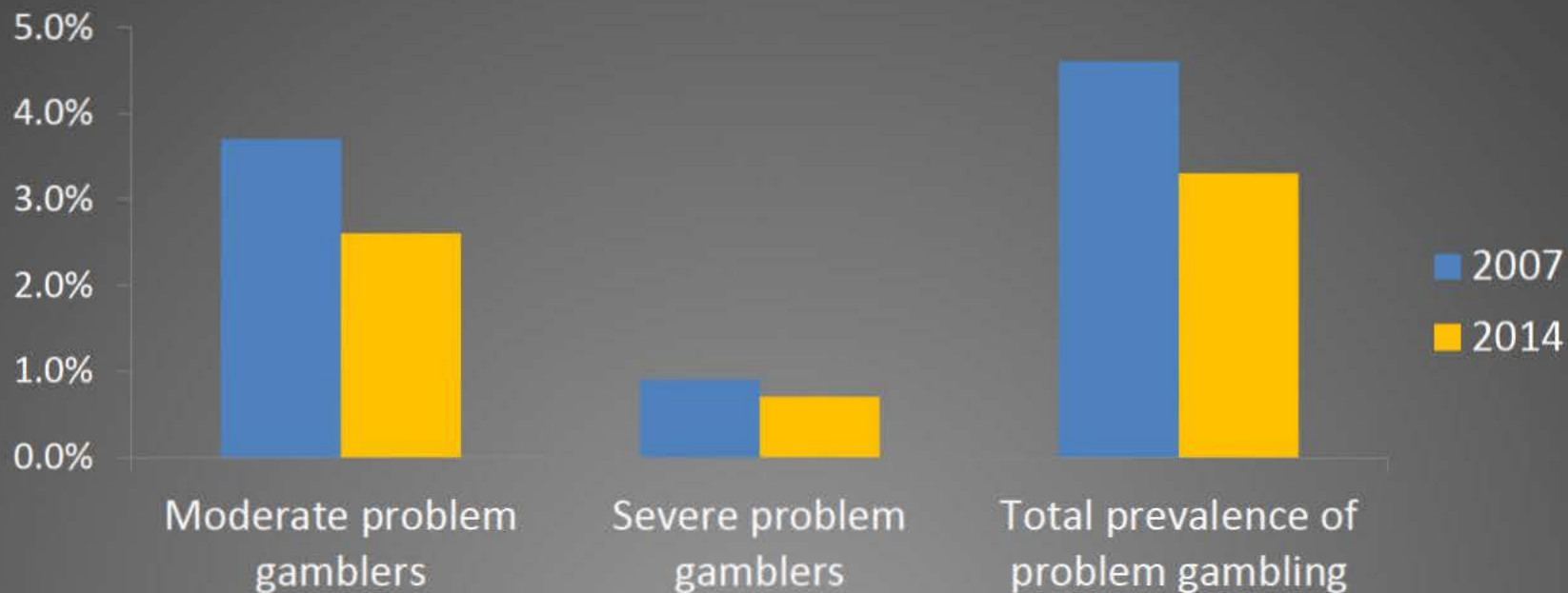


VP, HR Page 29
GCP-2014-00166

Source: Public Sector Executive Compensation Reporting Forms

* Breakdown of VP, HR of ICBC (Total Compensation for 2013 was \$292,025) is not available. Total Compensation was obtained from ICBC's Statements and Schedules of Financial Information, December 31, 2013.

Evaluation: Overall problem gambling down 28% — 2007 to 2014



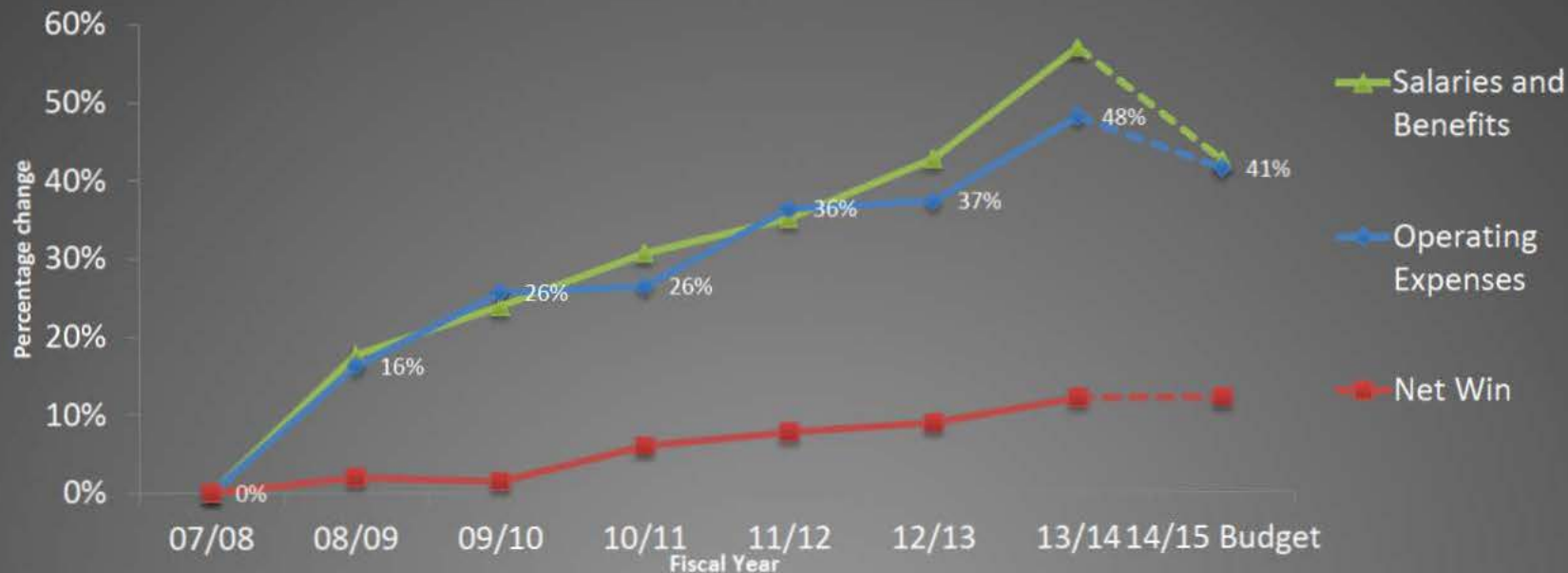
Challenges

- Declining customer base due to an aging demographic and younger generation less interested in playing lottery games
- Net win has been relatively stable since 2008/09
- eGaming net win has increased from \$14.7 million to \$58.8 million in the last five years, but BCLC has consistently been unable to accurately forecast revenue growth
- BCLC operating expenses have increased faster than net win

Evaluation: Operational expenses have outpaced net win

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Growth in costs vs. net win compared to 2007/08



Overview and Recommendations

- BCLC delivers programs effectively, and promotes fairness and game integrity.
- Needs better business-planning practices and service provider management to meet government's operational, revenue and accountability expectations.
- Specific areas of concern:
 - BCLC should improve planning and oversight over staffing and compensation initiatives.
 - BCLC board and executive should ensure sufficient, appropriate and timely information is communicated and strategies are challenged.

Opportunities for improvement at BCLC - 25 recommendations:

- Greater focus on cost containment and gaining value for money
- Increased planning and oversight in staffing and compensation initiatives
- Strengthen strategic and business planning
- Sufficient, appropriate and timely information communicated between BCLC's board and executive leadership

Opportunities for improvement

- Gaming Policy and Enforcement Branch (GPEB) is taking a more risk-based approach to compliance activities
- GPEB strengthening policies and standards to support the integrity of gaming
- Government is reinforcing roles and responsibilities for board members and executive within Crown Corporations
 - Taxpayer Accountability Policy introduced in June 2014
 - Standards of Conduct introduced in July 2014.

- Ministerial letter to board of directors setting direction and next steps.
- Follow-up ministerial meeting with board in 60 days
- Quarterly meetings on implementation of recommendations – board and ministry
- BCLC 2015/16 Mandate Letter will reflect the requirement to implement the review recommendations and to report on progress.

CONFIDENTIAL
DRAFT GCPE-FIN ISSUE NOTE

Ministry of Finance
Date: December 11, 2014

Minister Responsible: Michael de Jong

**Facility Development
Commission payments –**

S17

DRAFT #3

ADVICE AND RECOMMENDED RESPONSE:

- **The BCLC Crown review found that the corporation has not consistently followed its own policy in the administration of Accelerated Facility Development Commissions.**
- **According to BCLC's policy, these commissions are paid to a service provider on substantial completion of a project, but this is not always the case.**
- **However, the review did find that in all instances the total commission paid would have been the same regardless of the timing.**
- **The Ministry of Finance will be working with BCLC to review service provider commissions for gaming facilities to ensure an appropriate and effective structure.**
- **The Service Provider Commission structure has been in place since BCLC was given the mandate to oversee and manage casinos in British Columbia in 1997.**

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S17

KEY FACTS REGARDING THE ISSUE:

- In 1997, government introduced the service provider payment and operating framework, currently administered by BCLC. Operator Service Agreements outline the commission entitlement.
- Project-based commissions are payable to the service provider upon substantial completion of the project up to the lesser of the amount earned, or the cost of the project.
- In addition to operating commissions, service providers can also earn commissions of 3% to 5% of net win for capital projects and ongoing site development through Facility Development Commissions (FDCs).
- FDC is earned based on 3% of net win (revenue after prizes) for casino games and based on 5% of bingo revenue net of prizes.
- Accelerated FDC's of 2% of net win are paid on projects at the time of substantial completion.
- FDCs are intended to encourage capital investment that results in higher quality facilities which attract a broader player base.
- Eligible expenditures include land, building and improvements. Non-gaming related expenses such as planning submission costs, staff facilities and equipment are excluded.
- The BCLC Crown review found BCLC has not consistently followed its policy in the administration of these commissions.
- It has been nearly 20 years since the commission structure in BC was implemented. The report recommends BCLC and the Ministry of Finance conduct a review of service provider commissions for gaming facilities to ensure an appropriate and effective structure.
- One facility S17 has a negotiated agreement (within their OSA) for an additional accelerated FDC payment to accrue commissions at an earlier stage than usual for construction of an underground parkade.
- The service provider will receive these commissions when construction begins, rather than upon substantial completion.

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ADVICE TO MINISTER

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File Created: November 27, 2014
File Updated: December 11, 2014
File Location:

Program Area	Comm. Director	Deputy	Minister's Office
PS/CB			