



OFFICE OF THE
Auditor General
of British Columbia

**A Review of Government
Revenue and Expenditure
Programs Relating to
Alcohol, Tobacco,
and Gaming**

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LOCATION:

8 Bastion Square
Victoria, British Columbia
V8V 1X4

OFFICE HOURS:

Monday to Friday
8:30 a.m. – 4:30 p.m.

TELEPHONE: (250) 387-6803

Toll free through Enquiry BC at: 1-800-663-7867
In Vancouver dial 660-2421

FAX: (250) 387-1230

INTERNET:

bcauditor@oag.aud.gov.bc.ca

INTERNET HOMEPAGE:

Further information and reports at:
<http://www.aud.gov.bc.ca/>

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auditor general's comments



British Columbians spend almost \$5 billion every year on alcohol, tobacco, and gaming. As a direct result, the provincial government collects related revenues of \$1.4 billion—almost 7% of total provincial government revenue. This is clearly a significant amount of money, yet not a source that comes without risks.

Public opinion about what is socially acceptable in terms of drinking, smoking, and gambling has varied over the years and, along with it, the role of government. Today, forms of each of these activities are legal in British Columbia and considered by some people to be acceptable pastimes when not done to excess.

Revenues raised from alcohol, tobacco, and gaming support worthwhile purposes, such as activities of charitable organizations and a variety of government programs. Another benefit is job creation; for example, the horse racing industry involves well over 7,000 people, including horse owners, breeders, jockeys, and race track operators, with an estimated annual economic impact to the Province of half a billion dollars.

At the same time, there is a danger that promoting the benefits of such revenue sources can lead to conflicts between the desire to maximize revenues and the need to protect the public from the problems arising from the use of alcohol or tobacco, and from gaming activities. As Napoleon Bonaparte once said: “This vice brings in 100 million francs each year. I will certainly forbid it at once—as soon as you can name a virtue that brings in as much revenue.”

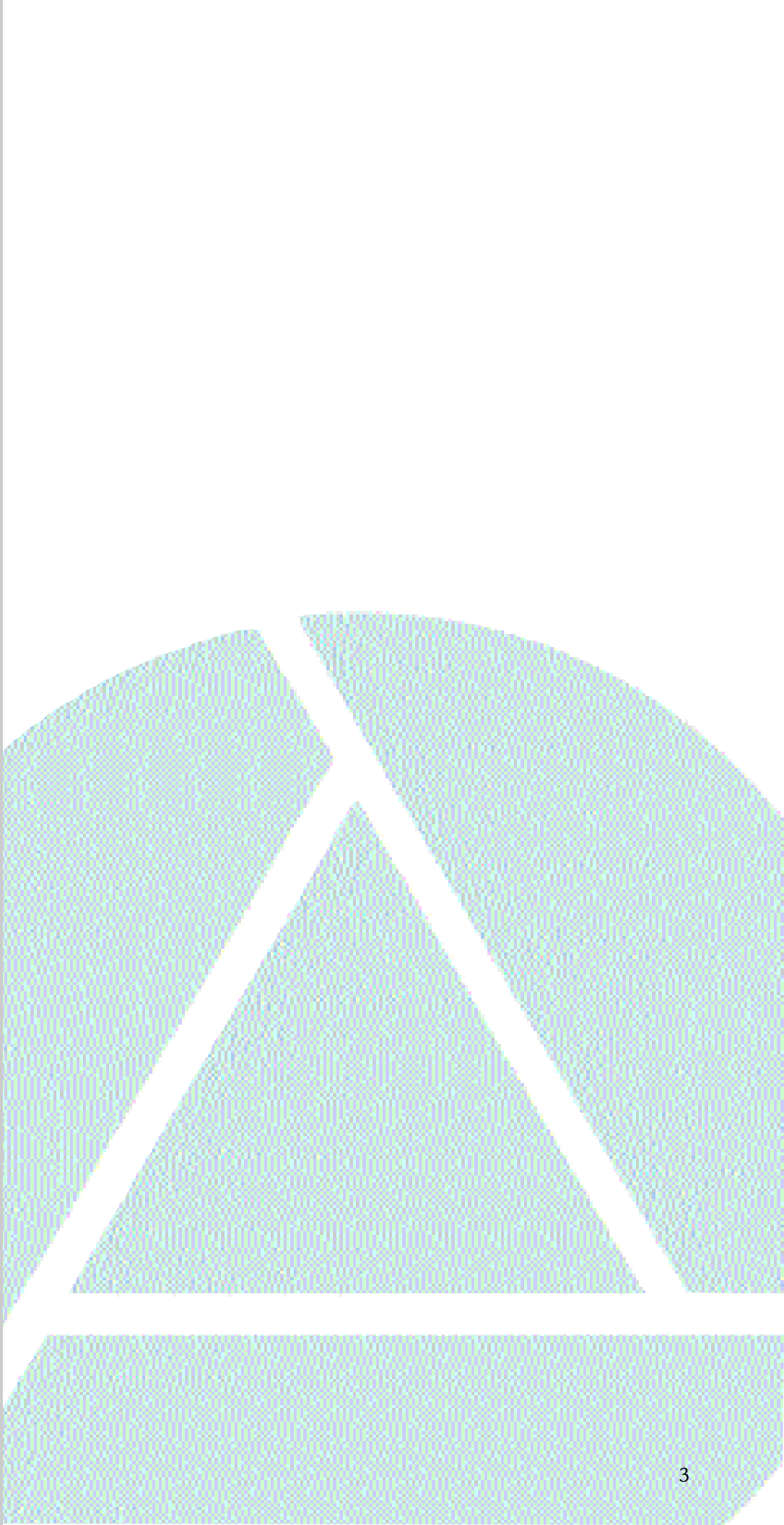
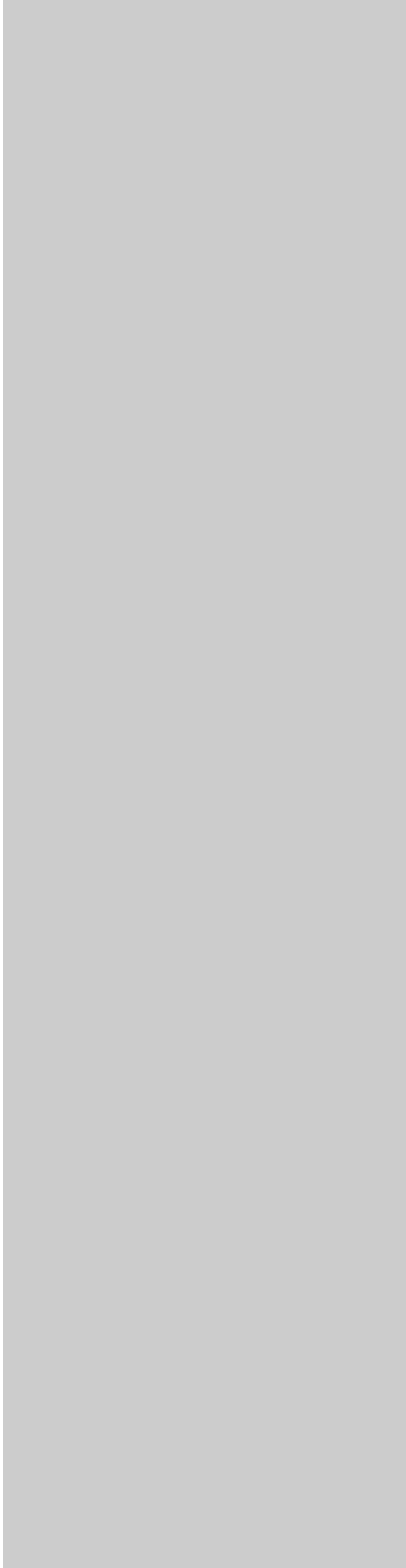
As part of my mandate to inform the public about important matters concerning government programs, I am providing this non-judgmental review of how government deals with the problems of balancing social responsibilities with opportunities to maximize revenues. In this report, I provide details of total revenue earned from alcohol, tobacco, and gaming—where it comes from and where it

goes. More importantly, I describe how critical it is for government programs to establish clear direction for managing alcohol and tobacco sales and gaming venues—a responsibility that involves setting program goals, controlling access, and minimizing health and social costs. I also describe how important it is for government to establish efficient systems for regulating sales and collecting revenues.

*George L. Morfitt, FCA
Auditor General*

*Victoria, British Columbia
March 1997*





amounts of money involved

Where It Comes From

British Columbians spend close to \$5 billion every year on drinking, smoking, and gambling, from which the provincial government receives \$1.4 billion (Exhibit 1).

The government collects two-thirds of its revenues in the form of taxes, mostly from income and sales taxes. Alcohol, tobacco, and gaming revenues form a lesser but significant portion of total revenues. As can be seen in Exhibit 2, dollar amounts for the fiscal years 1991/92 to 1995/96 are generally increasing, but not at the same rate as total revenues. Reasons for this are complex and beyond the scope of this report—for example, the 1996 decrease in tobacco revenue could be due to an increase in illegal sales, a decrease in smoking, or both.

Exhibit 1

Alcohol, Tobacco, and Gambling Revenues

Total public spending compared to government receipts for fiscal 1995/96 (\$ Millions)

Type of Revenue	Public Spending	Provincial Government Revenues
Alcohol	2,041*	651
Tobacco	964	482
Lotteries	797	244
Charitable Gaming	668	15
Horse Racing	238	15**
Totals	4,708*	1,407**

* Includes estimates of markup on sales by the glass at restaurants and pubs, as well as federal Goods and Services Tax.

** Includes \$9 million not shown in government financial statements that is returned to B.C. Racing Commission for horse racing improvements under the *Horse Racing Tax Act*.

Sources: Liquor Distribution Branch, Consumer Taxation Branch, B.C. Lottery Corporation, B.C. Gaming Commission, B.C. Racing Commission, and Summary Financial Statements

Exhibit 2

Revenue Trend Over the Past Five Years

Dollars are increasing, percentages are decreasing (\$ Millions)

Revenue Type	1992 \$	1993 \$	1994 \$	1995 \$	1996 \$
Alcohol					
Liquor Distribution Branch net revenue	456	517	555	569	567
Related sales taxes	75	79	83	84	84
Total	531	596	638	653	651
Tobacco					
Tobacco taxes total	433	483	482	516	482
Gambling					
B.C. Lotteries net revenue	219	227	234	235	244
Charitable gaming receipts	11	12	13	14	15
B.C. Racing Commission net revenue*	14	14	12	16	15
Total	244	253	259	265	274
Total from alcohol, tobacco, and gaming	1,208	1,332	1,379	1,434	1,407
Total government revenues*	15,876	17,742	19,394	21,701	22,129**
Percentage of total revenues	(7.6%)	(7.5%)	(7.1%)	(6.6%)	(6.4%)
<p>* Revenues have been adjusted to include 4% of total horse racing income returned to the B.C. Racing Commission for horse racing improvements—varying from \$7 to \$9 million per year in this period.</p> <p>** For comparative purposes, the 1995/96 figures excludes \$1.5 billion from an expansion of the Summary Financial Statements to include revenues and expenditures from other provincial entities such as universities.</p>					

Source: B.C. Gaming Commission, B.C. Racing Commission, and Summary Financial Statements

Where It Goes

Money the public spends on drinking, smoking, and gambling is used for purchases, prize payouts, amounts paid to charities, and operating costs of agencies providing services. What is left is transferred to government coffers, and amounts not designated for a specific purpose are used to pay for general government expenditures (Exhibit 3).

Exhibit 3

Distribution of Sales Proceeds

As a percentage of total public spending in fiscal 1995/96

Types of Sales	Purchases and Operating Costs	Other Purposes	Net Funds Transferred to Government	Designated Uses
Alcohol	48%	12% municipal and federal taxes	40%	general
Tobacco	15%	35% federal taxes	50%*	general
Lotteries	17%	52% prize payouts	31%	1/2 health spending 1/2 general
Charitable gaming	12%	66% prize payouts 20% to charities**	2% ***	general
Horse racing	23% ****	70% prize payouts	7% *****	4/7 racing improvements ***** 3/7 general
<p>* Estimate based on average retail prices of tobacco.</p> <p>** Actual percentage of gross proceeds resulting from minimum percentages of proceeds required by B.C. Gaming Commission—50% of net for casinos, 25% of gross for bingos, and 30% of gross for raffles.</p> <p>*** Actual percentage of gross proceeds resulting from minimum percentage of proceeds required by B.C. Gaming Commission—10% of net for casinos and 2% of gross for bingos and raffles.</p> <p>**** Estimate of actual based on maximum allowed by federal regulations.</p> <p>***** Actuals based on varying minimums required by B.C. <i>Horse Racing Tax Act</i> for different types of racing.</p>				

Source: Liquor Distribution Branch, Consumer Taxation Branch, B.C. Lottery Corporation, B.C. Gaming Commission, B.C. Racing Commission, and Summary Financial Statements



establishing clear direction

With significant government revenues coming from sources that rely on the public continuing to drink, smoke, and gamble, the question arises as to whether maintaining levels of funding for government programs depends, to some extent, on maintaining or even encouraging increases in these activities.

In deciding which public behaviors are to be deemed legal or illegal under the *Criminal Code*, the federal government must consider the benefits and drawbacks of any increased usage associated with legalization. Provincial and federal governments must also determine the extent to which certain activities, when legal, may be made available. When public demand for access to an activity exceeds what is allowed, illicit participation can escalate. Governments then have to decide whether it makes sense to permit and regulate a certain level of that activity in order to discourage participation by criminal elements. For some illicit activities, such as those associated with prostitution and non-prescription drug use, the federal government reflects public opinion by maintaining the stance that these activities are illegal no matter what the circumstances.

When it comes to drinking, smoking, and gambling, it is generally recognized that there can be negative impacts to these activities. Nevertheless, it is argued by those in support that moderate participation can ease the stresses of modern day life. There are strongly held public opinions on both sides of the question concerning whether to support continued or increased alcohol and tobacco sales and gaming.

All of these factors make it important to have clear direction for balancing social responsibility with the opportunity to maximize revenues—for setting program goals, controlling access, and minimizing health and social costs.

Setting Program Goals

Government sets policies for the availability of alcohol, tobacco, and gaming as part of its role in safeguarding the public. These policies affect the levels of revenues collected by government from drinking, smoking, and gambling. Thus, a decision to limit access to any of these activities for the public good can conflict with a need to raise revenues. Due to this potential conflict, program goals must clearly recognize that while maximizing revenues is important, social responsibilities also have to be considered.

Alcohol

Government prohibited the sale and consumption of alcohol in 1916, following expressions of public concern about family breakdowns attributed to alcohol misuse. However, prohibition led to other problems, such as increasing numbers of people obtaining alcohol through doctor prescriptions, and increases in the illegal sale of alcohol and related criminal activities. Prohibition was lifted in 1920, following the outcome of a public plebiscite that called for government to take control of sales and distribution of alcohol, and the original *Government Liquor Act* was enacted.

Since then, various options have been considered for how government should be involved in managing alcohol sales and licensing, and several studies have been conducted, including:

- 1952 B.C. Liquor Inquiry Commission (Stevens)
- 1969 Royal Commission (Morrow)
- 1987 Liquor Policies for British Columbians (Jansen)
- 1987 Fairness in Decision Making (Ombudsman)

The result is that control of alcohol sales in British Columbia remains in the hands of government (Exhibit 4). The Liquor Distribution Branch (LDB), under the responsibility of the Minister of Attorney General, operates a business on behalf of government to sell alcohol directly to the public and to approved retail outlets such as beer and wine stores, pubs, and restaurants. These premises buy all types of alcohol from LDB, including beer and wine delivered directly from manufacturers.

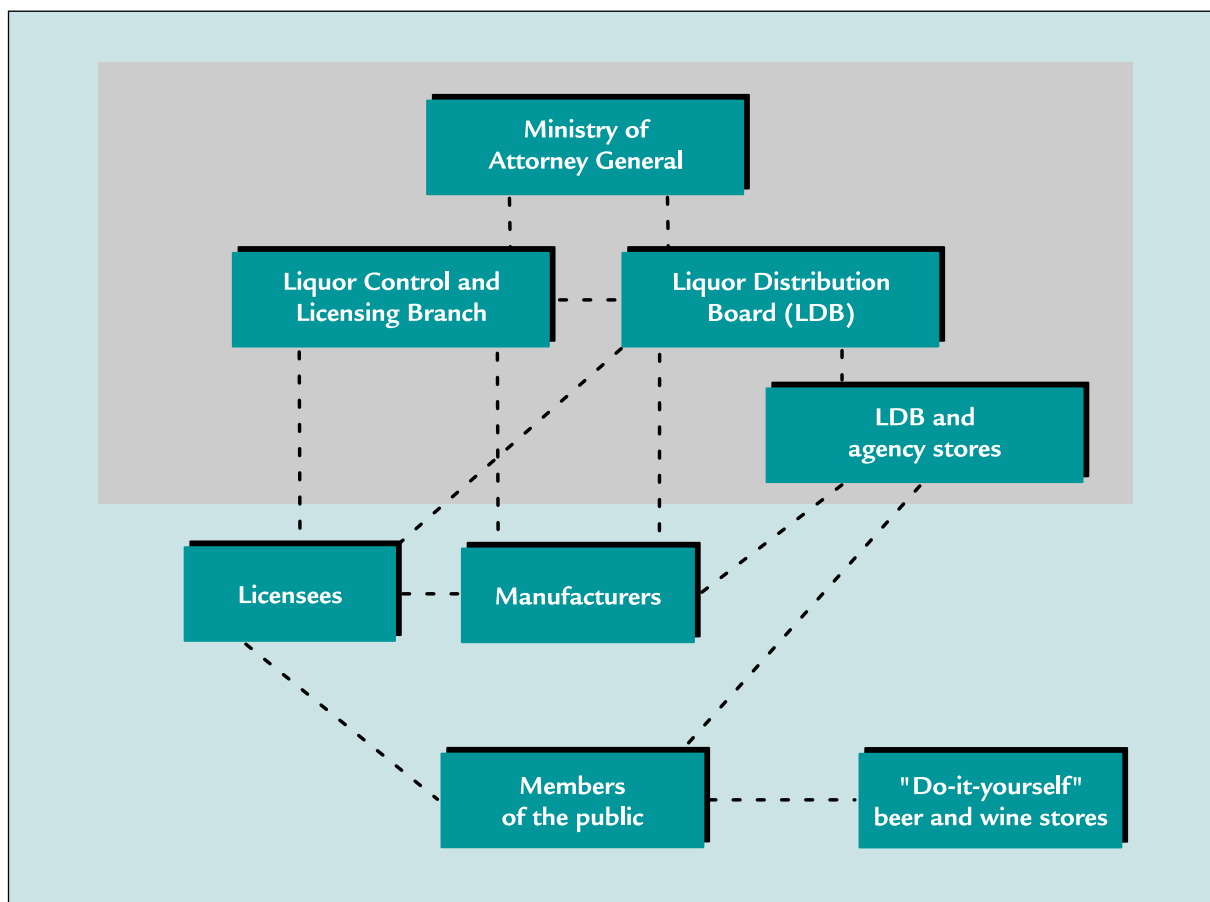
As a business, LDB has as its goal to “combine social responsibility...and...generate maximum revenues for tax-funded government programs that benefit the people of B.C.” To do this, it strives to operate efficiently and provide good customer service rather than to promote increased consumption of alcohol. To encourage the moderate and responsible use of alcohol, it supports several provincially-funded initiatives aimed at responsible drinking—such as Drinking-Driving CounterAttack and fetal alcohol syndrome warnings—by distributing resource material and referring to these issues on bags and signs in liquor stores. All of its outlets also carry a selection of dealcoholized products.

In 1976, in recognition that sales and distribution goals could potentially conflict with those of protecting the public, the

Exhibit 4

How Alcohol Sales Are Managed

Provincial government involvement



Liquor Control and Licensing Branch (LCLB) was established as a separate and distinct body from LDB (Exhibit 4).

As a regulatory agency, this branch of the Ministry of Attorney General has protecting the public as its primary focus. It does this by screening and licensing locations for alcohol sales made to the public at premises other than LDB stores and, through education and inspection programs, enforcing government regulations (Exhibit 16–page 37).

The decisions of LCLB influence how readily alcohol is available outside of LDB stores, which in turn affects revenues collected by government in the form of profits from LDB purchases as well as from social service taxes remitted by licensees.

Policy Review Underway

While we were writing this report, a government review of liquor policy was underway to determine whether:

- credit sales of packaged alcohol should be allowed;
- LDB stores should extend hours to include operations on Sundays and statutory holidays;
- “do-it-yourself” beer and wine businesses should be licensed and monitored;
- billiard halls should be licensed; and
- expanded forms of entertainment should be allowed in licensed establishments.

Some of the issues being considered:

- Allowing credit sales and extending store hours would make for increased customer convenience, but related administration fees would reduce government revenues. It is also possible that the added convenience could lead to increased consumption by those with drinking problems.
- The number of “do-it-yourself” beer and wine stores is on the increase because the public is able, with very little effort, to obtain beer and wine at significantly lower prices than at LDB outlets. The increase in the number of stores calls for government to examine the implications for government revenues and public access to alcohol.
- Billiard hall operators are calling for the right to be licensed to sell alcohol to their patrons to increase profits along with customer services. This could, however, lead to considerable increases in the number of drinking establishments in the Province.
- Licensed establishments such as restaurants are currently restricted in the forms of entertainment they can provide to customers. Some are calling for the right to use large-screen televisions and live music and performers—entertainment now allowed only in drinking establishments. This could, therefore, compete with existing drinking establishments, and lead to potentially higher noise levels in surrounding neighborhoods.

Tobacco

In British Columbia, the rules and regulations concerning the sale and use of tobacco have changed considerably over the years. At one point, anyone could purchase cigarettes and other tobacco products from stores that had them available. It was not uncommon for children to purchase them merely by saying they were doing so for their parents. As time went by and various studies were done, it was learned that the average smoker starts in his or her early teen years. It was also found that related health costs for smokers are high and that 20% of all deaths in the Province are related to tobacco use.

Because of the magnitude of the health impact of smoking, government policy for balancing social responsibility with the maximization of revenues is clear: tobacco sales are not promoted in any way. Instead, efforts are focused on collecting the full amount of related taxes.

The B.C. Royal Commission on Health Care and Costs in 1992 raised concerns about the fact that 90% of smokers start before the age of 19 years. Pursuant to this, the *Tobacco Sales Act* was enacted in 1994 to raise the legal age to purchase tobacco from 16 to 19 years of age. The Act was revised in 1995 to strengthen enforcement by the removal of the authorization to sell tobacco from those vendors caught selling it to people under 19.

Any retailer registered under the *Social Service Tax Act* with the Consumer Taxation Branch of the Ministry of Finance and Corporate Relations can sell tobacco (Exhibit 5). Wholesalers must also register with the branch and remit amounts referred to as “securities” based on their purchases from manufacturers. Wholesalers pass on these costs to retailers, who recover these amounts as taxes when they sell tobacco to the public.

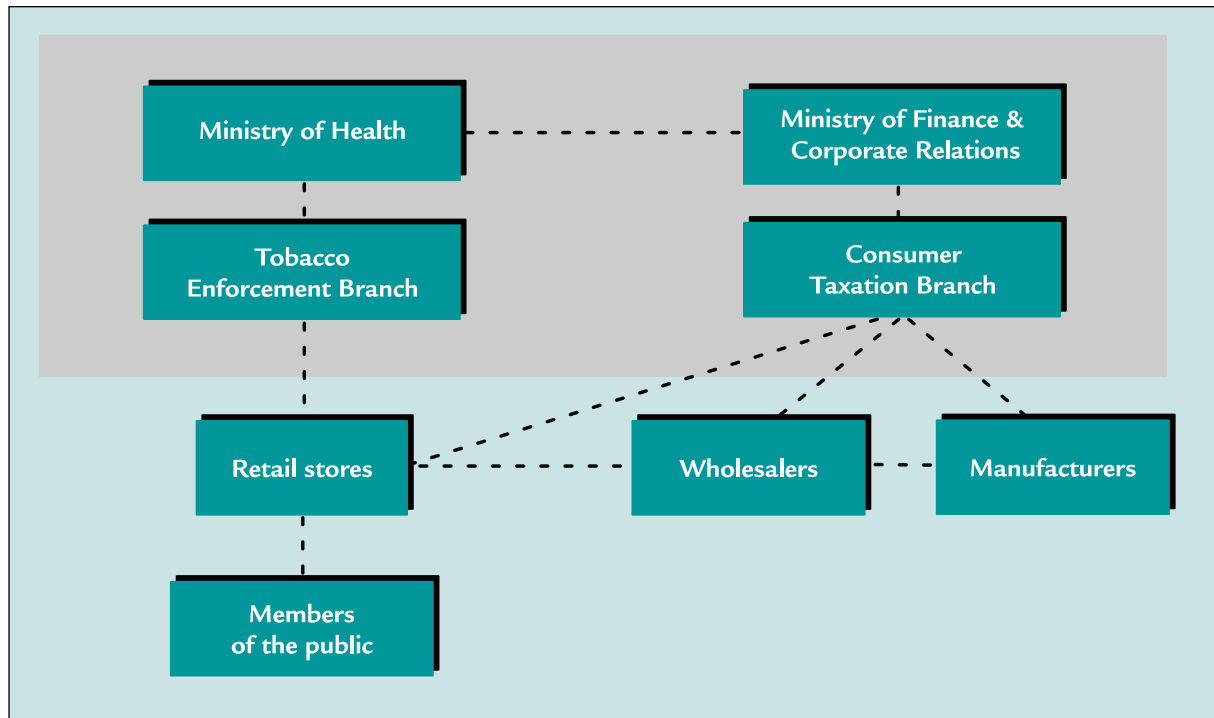
The Tobacco Enforcement Branch of the Ministry of Health monitors retail stores to see if the *Tobacco Sales Act* is being complied with—that is, that sales are not being made to those under 19 or in amounts fewer than 20 cigarettes at a time, and that signs with health warnings and age requirements are properly displayed.

The federal government plays a key role in regulating tobacco sales. The federal *Tobacco Sales to Young Persons Act* sets 18 years as the minimum age for purchasers unless superseded by provincial legislation with a higher age requirement. Also, the federal *Tobacco Products Control Act* prohibits advertising of tobacco products except for sponsorship signs at arts and cultural events.

Exhibit 5

How Tobacco Sales Are Managed

Provincial government involvement



Review of Legislation Underway

A 1995 decision of the Supreme Court of Canada struck down significant portions of the federal *Tobacco Products Control Act*. It had been challenged by tobacco companies as unconstitutional because they claimed it interfered with their right to communicate with their customers. As a result, the Act is under revision and was being debated in the Senate at the time of this report. The outcome of legislative revisions will determine whether media advertising for tobacco products will be allowed and, if so, in what form.

Under the proposed new legislation, cigarette advertisements would continue to be banned from billboards, bus shelters, radio, and television. At special event sites they would only be allowed on the bottom 10% of signs.

If passed in its present form, the Act will support those who are concerned that advertising promotes continued or increased use of tobacco. At the same time, however, it will also likely lead to reduced tobacco company contributions to arts and cultural events.

Gaming

Historically, gaming has always been present in our society in some form. At one time the only legal form of gaming, other than wagering on horse races, was that conducted in church basements and similar venues to raise funds for charitable purposes. Today a wide variety of games of chance are available, carried out in many locations.

Members of the public hold differing views about what activities constitute “gambling.” Some people do not consider the purchase of a lottery ticket to be gambling; others do, and may extend the definition to include activities such as arcade video games and speculative investments made in stock markets.

In this report we have decided to include the following under sections describing “gambling” activities: lottery schemes, such as 6/49 and Club Keno; charity fund-raisers, such as bingo and casinos; and wagering on horse races, including both on- and off-track betting (Exhibit 6).

Before 1969, the federal *Criminal Code* prohibited public gaming with the exception of pari-mutuel wagering on horse races (legal since 1906), small lottery schemes for charitable purposes, and limited gaming at agricultural fairs. In 1969, following growing purchases of illegal lottery tickets from other countries, the code was amended to permit public gaming in the form of lotteries operated by provincial governments.

In 1970 the Ministry of Attorney General began licensing gaming permitted under the *Criminal Code*, and in 1974 a *Lottery Act* was enacted to regulate the conduct of lotteries and other gaming activities described in the code. Charitable casinos were first permitted in 1978, and subsequently evolved from temporary locations to the permanent ones in existence today.

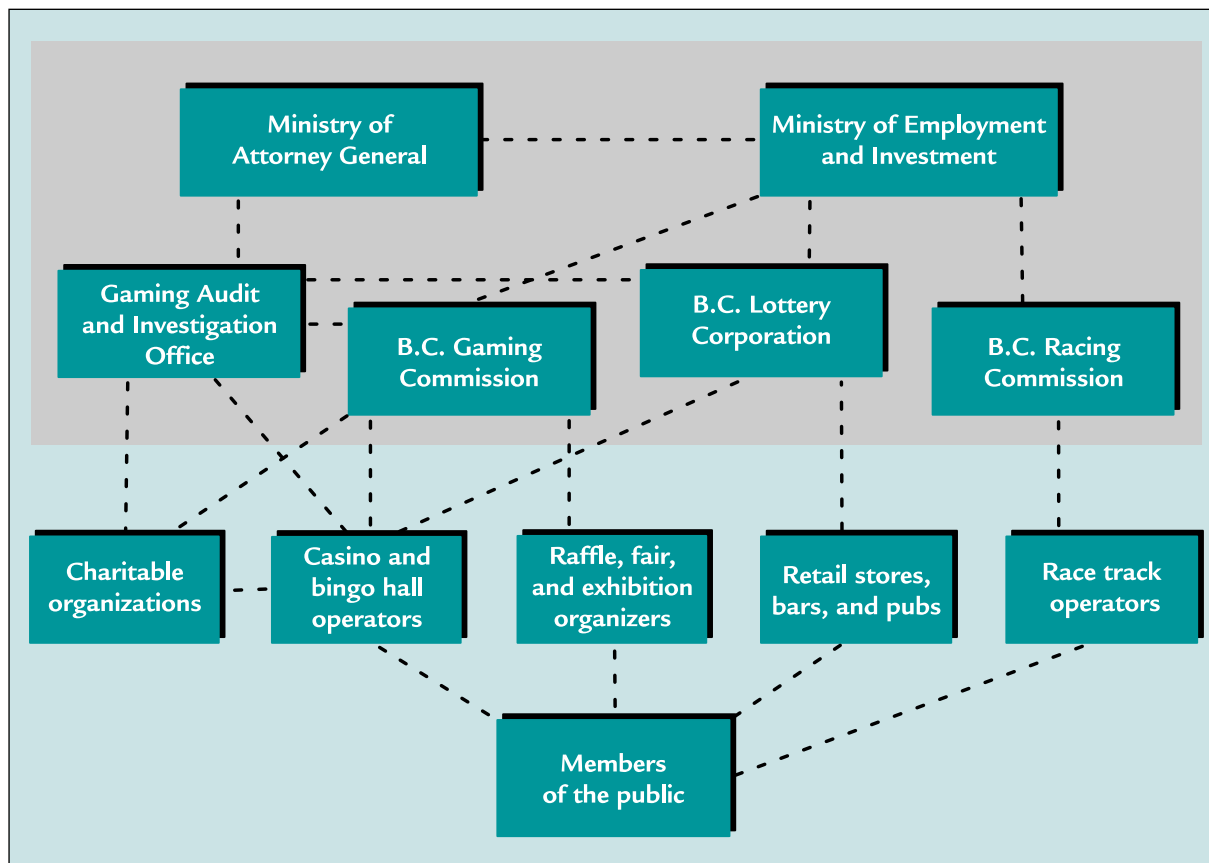
The period from 1975 to 1985 was one of rapid growth in the number of licensed gaming events—particularly at casinos and bingo halls. This growth led to increasing public concern about the need for adequate regulation of these activities. In 1987 the B.C. Gaming Commission was therefore established to develop policies and licensing standards, and the maximum number of charitable casinos to be permitted in the Province was frozen at 18.

Since then, regular analysis of provincial gaming policies has continued. In 1994 a Gaming Policy Review was conducted by government, using extensive public input and information from other jurisdictions. Considered in the review were

Exhibit 6

How Gaming is Managed

Provincial government involvement



expansion of current forms of gaming, the role of First Nations, and the distribution of gaming revenues. It concluded that:

- major casinos (for-profit, Las Vegas-style) would not be permitted;
- the scope of gaming would be expanded to allow more charitable casinos and bingos, electronic bingo, and up to 5,000 video lottery terminals (VLTs);
- First Nations gaming would be negotiated to include casinos, bingo halls, and electronic gaming, on the basis that it would be regulated by the provincial government;
- revenues from expanded activities would be dedicated to socially beneficial purposes;
- profits would be shared by all charities using the same facility in a given month;

- monitoring and enforcement of gaming activities would be strengthened by bringing in a new comprehensive *Gaming Act*, establishing an independent group in the Ministry of Attorney General to ensure that revenues are used only for approved purposes, and establishing an independent appeal board;
- a Gaming Coordination Council made up of representatives from the Gaming Commission, the Racing Commission, the Lottery Corporation, and the public would be established to advise government on gaming policy; and
- a prevention and treatment program for problem gamblers would be implemented, making a toll-free hotline and counseling available.

Since the release of the final report of this review in October 1994, four of the above proposals have not been acted on: a Gaming Coordination Council for advising government on gaming policy has not been formed; a new comprehensive *Gaming Act* has not been brought in; and government subsequently decided not to proceed with the introduction of VLTs or the prevention and treatment program.

Although an expansion into the use of VLTs was proposed as a means of competing with, and reducing the number of, illegal (and therefore unregulated) machines, anti-gambling groups were quick to point to social problems experienced by other jurisdictions with these terminals. At the same time, Ministry of Health funding cuts led to the suspension of the proposed prevention and treatment program. Both are currently being reconsidered as part of the latest round of policy review in this area, which is described in more detail at the end of this section.

Lotteries

In 1974, in keeping with the 1969 amendment of the *Criminal Code*, British Columbia began conducting lotteries as a partner in the Western Canada Lottery Foundation. Ten years later the B.C. Lottery Corporation was incorporated under the *Lottery Corporation Act*. The corporation, through a board of government-appointed directors responsible to the Minister of Employment and Investment, has the authority to conduct and manage lottery schemes within British Columbia, including the marketing of nation-wide and regional lottery games in association with other provinces.

The corporation's mission statement recognizes the need for balancing social responsibility with maximization of revenues. It aims to "contribute significantly to government

revenues and economic growth through providing top quality entertainment to the public in a socially responsible framework.”

Advertising campaigns to maximize revenues are prepared by corporation management, based on Province-wide polls and focus group reactions to proposed ads. In the past few years, as increases in sales of major lottery tickets such as the 6/49 and BC/49 have leveled off, new types of tickets have been developed to attract new purchasers and retain existing ones. The goal is to promote sales without offending public sensibilities or encouraging addictive behavior.

Charitable Gaming

The federal *Criminal Code* permits provincial governments or their agents to conduct gaming activities without restrictions on the use of related revenues. Provincial governments can also license charitable and religious organizations to conduct and manage gaming events, so long as related proceeds are used for charitable or religious purposes.

English Common Law, established at the end of the last century and upheld in Canadian jurisprudence, defines “charitable purposes” as:

- the relief of poverty, disadvantage, and distress;
- the advancement of education, culture, and the arts;
- the advancement of religion; and
- other purposes beneficial to the community that do not fall within the above (broadly interpreted to include amateur sports, public safety, community service clubs, volunteer fire departments, emergency rescue organizations, and provincial, regional, or community associations).

The B.C. Gaming Commission was established by Order-in-Council in 1987 to develop provincial gaming policy and oversee the licensing of agencies applying to conduct gaming events as fund-raisers. Such events include casinos, bingos, ticket raffles, and fairs and exhibitions.

The commission, reporting to the Ministry of Employment and Investment, reviews license applications and decides which applicants should be approved for gaming events. It is also responsible for enforcing the terms and conditions of licenses for charitable gaming events, as well as developing standards for inspecting and auditing licensed events.

If commission staff decide that an intensive review is needed to determine whether a particular operator is meeting

license requirements, they can ask for assistance from the Gaming Audit and Investigation Office of the Ministry of Attorney General. That office has recently been set up to act as an independent audit group for the Gaming Commission and the Lottery Corporation, and to do background investigations on companies and individuals that want to be involved in managing gaming events.

Charitable gaming in British Columbia is used as a way of funding charitable and religious organizations that might otherwise seek government assistance. As a result, only a small percentage of charitable gaming proceeds are directed into government hands. Therefore, when it comes to balancing social responsibility with maximization of revenues, the goal of the Gaming Commission is straight-forward: to make sure that only eligible organizations gain access to charitable gaming, that they get the full amount of money they are entitled to by their participation in gaming events, and that they use it for charitable purposes.

Horse Racing

Pari-mutuel wagering on horse races is regulated by the federal government. Approximately 70% of amounts wagered are returned as winnings and 23% goes to track operators and their employees. The remaining 7% is collected by the provincial government (4% is returned to the B.C. Racing Commission to support the horse racing industry, and 3% is used to fund general government programs).

The B.C. Racing Commission regulates the way race tracks are operated by developing and monitoring rules and regulations for racing. It also works with the racing industry on issues of common concern—such as deciding what horse racing improvements to make with the 4% designated from total wagers—and liaises with federal and other provincial racing authorities to revise federal regulations and resolve jurisdictional differences.

Policy Review Underway

A current government review of gaming policy is examining the financial and social implications of allowing additional gaming initiatives in the Province. It will be used to decide whether to:

- maintain gaming as it presently exists;
- expand present forms of gaming; or
- introduce new forms of gaming, such as for-profit casinos and video lottery terminals (VLTs).

Some of the issues being considered are:

- Distinguishing features of casino gaming in British Columbia at the moment are that only a limited number of table games are allowed; that is, there are no slot machines or high stakes tables, and alcohol cannot be served. Also, operators get to keep only 40% of the net proceeds (after prizes are paid out) to cover their costs. (This compares with 90% retained by for-profit casinos in Nevada and other parts of the United States.) Another 50% of net proceeds (equivalent to 20% of gross proceeds seen in Exhibit 3) goes to the charitable organizations licensed to hold gaming events. The remaining 10% goes to government in the form of license fees.

At the time of the 1994 Gaming Policy Review, for-profit casinos were ruled out because, according to the review's report, "the benefits of major casinos are difficult to predict, and do not justify risking the social costs, particularly in a strong economy." Since that time, natural resource revenues have declined and the Province has experienced increasing deficits. Government is therefore examining alternatives for raising revenues.

- With respect to VLTs, British Columbia is now the only province in Canada that does not have legal machines. It is estimated that there are at least 10,000 illegal machines in operation here, with no related government revenues or monitoring of whether operators are "fixing" outcomes.

The decision made by the 1994 review is being re-considered to allow access to VLTs, proposed in the 1994 report to be "on-line to enable constant monitoring. Computer-style terminals are conservatively designed to minimize problem gambling. They do not handle cash. Games must be purchased and winnings cashed out at a cashier."

Meanwhile, however, other provinces are questioning whether they should continue to provide legal access to VLTs. Although related revenues have increased significantly, so have problems stemming from addictive behavior associated with their use.

Controlling Access

Some interest groups point to high health and social costs to argue that government should make every effort to reduce public participation in drinking, smoking, and gambling. This could be done by limiting the availability of alcohol, tobacco,

and gaming by, for example, further restricting the number of places where these activities can take place, raising required age levels, or raising prices. There is, however, a danger that such restrictions could in turn lead to increases in illegal activities.

The government's role is therefore to set limits that are strict enough to consider the public good, yet flexible enough to respond to changes in public demand to avoid escalating illegal participation.

Alcohol

Access to alcohol is controlled by a number of things: the age of the consumer, the type and number of locations where alcohol can be purchased or consumed, the prices charged, the time during which sales are allowed, and the means used to pay for purchases.

In British Columbia, alcohol cannot be sold to anyone under the age of 19 years. To do so can lead to fines or cancellation of licenses under the *Liquor Control and Licensing Act*.

Packaged alcohol can be obtained only from Liquor Distribution Branch (LDB) stores or licensed outlets. As an arm of government, LDB has the authority to purchase and sell alcohol under the federal *Importation of Intoxicating Liquors Act* and the *Liquor Distribution Act*. The number and location of stores is decided by government based on public demand. There are currently 221 liquor stores, 283 cold beer and wine stores, 141 rural agency stores, two distribution centres, and 77 industry outlets around the Province.

Alcohol by the glass can be purchased from any of eight types of premises licensed under the *Liquor Control and Licensing Act*, including hotels, restaurants, and pubs. The number and location of such establishments is decided by the Liquor Control and Licensing Branch based on guidelines for each type of license. For example, restaurants can only serve alcohol along with food, and pubs cannot be located too close together.

After buying packaged alcohol, the purchaser can legally open and consume the product only in private locations—that is, not in a public place such as a park. When buying alcohol by the glass, the purchaser must consume the contents only in approved areas of licensee premises. Establishment operators, for their part, are not permitted to sell alcohol to anyone who shows signs of intoxication.

Alcohol prices are determined largely by levels of federal, provincial, and municipal taxes (referred to as “mark-ups”). At present, about 40% of the retail price goes to the provincial

government (Exhibit 3). Decisions about whether to raise or lower provincial mark-ups are made by government based on information prepared by Treasury Board staff.

Hours of operation for LDB stores and their agents are set by government, and at present do not include operations at main stores on Sundays or statutory holidays. Licensed premises can make sales at various times according to the type of license held.

Members of the public purchase LDB products using only cash or debit cards that directly access their bank accounts. Licensees who may need to purchase larger volumes of alcohol are also able to use certified cheques or bank drafts supported by a letter of credit from banking authorities. Purchases made on credit are, at present, only possible at LDB agency stores or at licensed premises.

The policy review now underway is considering the advantages and disadvantages of extending operating hours and permitting credit card sales at LDB stores.

Tobacco

Controlling access to tobacco is accomplished by a number of means: the age of the purchaser, the type of location where the tobacco can be purchased or used, and the prices charged.

In British Columbia, tobacco cannot be sold to anyone under the age of 19 years. To do so can lead to fines and removal of vendors' rights to sell tobacco under the *Tobacco Tax Act*.

Tobacco can be obtained from any retailer registered with the Consumer Taxation Branch of the Ministry of Finance and Corporate Relations under the *Social Service Tax Act*. These retailers can sell any type of tobacco they decide is worthwhile for their businesses, but they cannot sell cigarettes in numbers under 20 at a time (to discourage purchases by people under the age of 19 years). Cigars, chewing tobacco, snuff, loose tobacco, and cigarette papers and filters are usually available only from specialty stores. In the case of cigarette vending machines, owners must install them in "adult-only" premises.

Unlike alcohol, packaged tobacco can be opened by a purchaser and used in public. Decisions about where tobacco can be used are guided by municipal bylaws, not provincial legislation. An increasing number of public and work places are requiring that smoking take place only in designated areas.

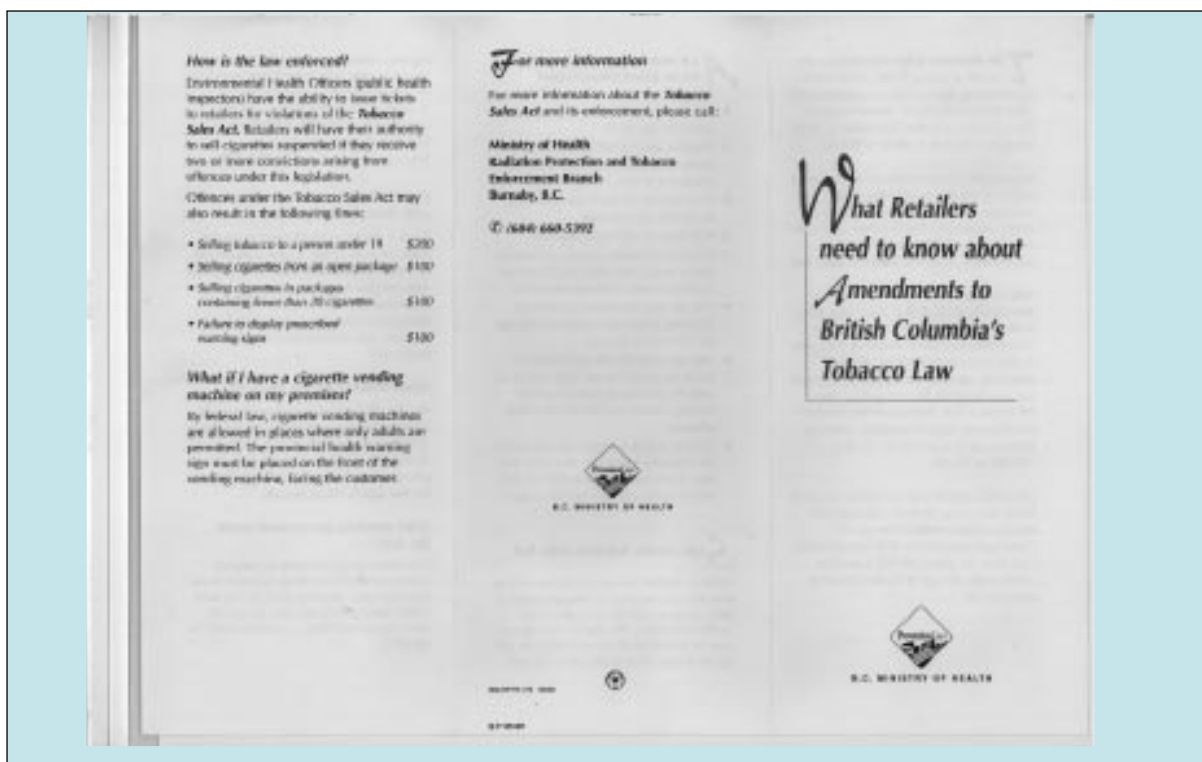
Tobacco prices are determined largely by levels of federal and provincial taxes. At present, about 50% of the retail price goes to the provincial government (Exhibit 3). Decisions about whether to raise or lower provincial tax rates are made by government based on policy analyses prepared by Treasury Board staff. These analyses have to consider the impact of prices on levels of tobacco consumption and of smuggling taking place from other provinces and countries: lower prices can lead to increased consumption and higher numbers of deaths and health costs; and higher prices can lead to more smuggling and lower government revenues collected to offset related health costs.

When the federal government lowered its share of tobacco taxes in 1994 to reduce smuggling from the United States, many provinces followed suit with a reduction in provincial taxes. British Columbia chose to hold its taxes at the same level, resulting in prices from 40% to 100% higher than in other provinces. Government's position was clear: smoking is not to be encouraged by reduced prices.

Enterprising mail order businesses have sprung up in other provinces to fill tobacco orders from British Columbians wanting to buy tobacco at lower prices. Nevertheless, buyers are still required to remit B.C. tobacco taxes on such purchases. To assist British Columbia in discouraging this type of sale, other government agencies exchange information that is used to bill purchasers for the amount of taxes owing to the provincial government.

To further reduce inter-provincial smuggling, provincial governments across Canada have begun to use color-coded strips around tobacco products to identify the province of origin. This now gives government inspectors a way of catching any retailers who purchase tobacco from other provinces that have lower tax rates.

Tobacco sales to First Nation peoples living on federal reserves are not subject to federal or provincial taxes, which means that tobacco products are available on reserves at lower prices than elsewhere. For this reason, there are restrictions on the amounts that can be obtained on any reserve. Dealers on reserves have to obtain special permits from the Consumer Taxation Branch of the Ministry of Finance and Corporate Relations. The permits enable them to purchase and re-sell tobacco in limited amounts based on population numbers and historical levels of use. Although each dealer has guidelines for limiting sales to individuals, not much can be done to discourage those who might resell purchases to others who are off-reserve or non-Native.



Gaming

Access to gaming venues is restricted through limits on the age of participants, types of venues that are permitted, and amounts spent. Participants must be at least 19 years of age, except for: lottery ticket purchasers, who can be as young as 16 (but whose winnings are turned over to the Public Trustee until they reach 19); and bingo players, who in some community settings can be as young as 12 years.

Types of venues permitted and limits on amounts spent vary, depending on whether the participant is buying a lottery ticket, participating in charitable gaming, or wagering on horse races.

Lotteries

The B.C. Lottery Corporation (BCLC) generates the majority of its revenues from three types of lottery games:

- mass market games such as 6/49 and BC/49, typically played by a large portion of the adult population of both genders and crossing all ages, education backgrounds, and income levels;
- social games such as Breakopen tickets, played in adult-only social settings such as bars, taverns, pubs, and clubs; and

- niche market games such as Club Keno, aimed at specific segments of the population to generate incremental revenues.

Nearly 75% of lottery revenue comes from the mass market games, available at any of over 2,000 retail outlets; 20% from social market games, available at over 1,000 adult establishments; and the rest from niche markets. The products, which can be marketed only in British Columbia, are purchased at least once a month by nearly 70% of the eligible public.

Restrictions are placed on amounts spent by individuals. It is BCLC policy that “retailers are obligated to inform any customer who attempts to purchase large amounts that the game is a lottery, which means no guaranteed win and that wins might mean sharing...any excessive amounts being purchased by a player or group go beyond the spirit of the game.” BCLC staff monitor for this through electronic means and can shut down retailer access to lottery terminals if there is any indication of rapid, successive transactions caused by high volume purchases.

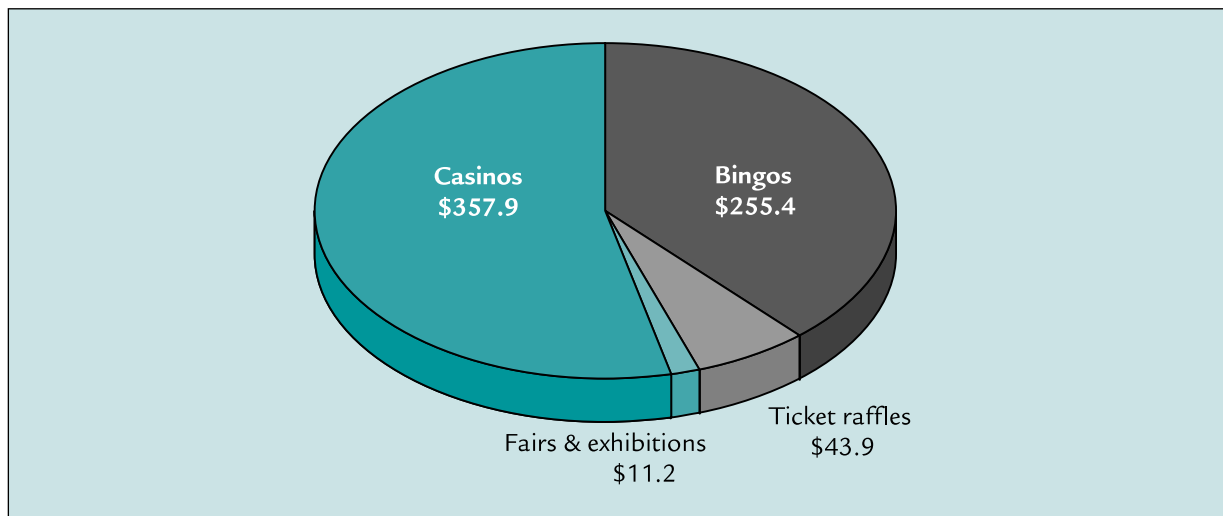
Charitable Gaming

The majority of spending on charitable gaming takes place at casinos, followed closely by bingo halls. Ticket raffles and gaming at fairs and exhibitions make up the rest (Exhibit 7).

Exhibit 7

Charitable Gaming Proceeds

Total amounts wagered in 1996 (\$ Millions)



Source: B.C. Gaming Commission

Casino events are run by private operators who have been screened by the Gaming Audit and Investigation Office and approved by the B.C. Gaming Commission (Exhibit 6). Volunteers from licensed charitable organizations have to be present to assist in various tasks, such as counting and recording proceeds. Games with high stakes are not permitted, nor are slot machines, and dollar limits are placed on individual bets allowed in each round of games played. In 1995/96 the commission issued over 2,500 licenses for casino events held at 17 casino locations, most of which are open every evening.

Bingo is run in 42 commercial bingo halls and some 450 other locations, where there are no spending limits placed on participation of individual players—other than the practical limits of managing numerous bingo cards. In 1995/96 the B.C. Gaming Commission issued over 2,100 licenses for bingo events.

Charitable organizations may be licensed to conduct as many as three ticket raffles a year. In 1995/96 the B.C. Gaming Commission issued over 1,000 licenses. Fairs and exhibitions run a relatively small portion of the gaming events held, with all charitable proceeds going directly to fair boards. The two major fairs in British Columbia are the Pacific National Exhibition and the Cloverdale Rodeo. No dollar limits are placed on individuals purchasing raffle tickets or playing midway games at fairs and exhibitions.

Horse Racing

Wagers on horse races can be placed in a number of ways:

- “live” at any of the seven race tracks in the Province;
- by “teletheatre,” at any of 22 locations in adult-only establishments, on races taking place at the seven provincial race tracks; or
- by “simulcast,” at the same adult-only locations, on races taking place in other provinces and countries.

No restrictions are placed on dollar amounts wagered, but they have to be made with cash.

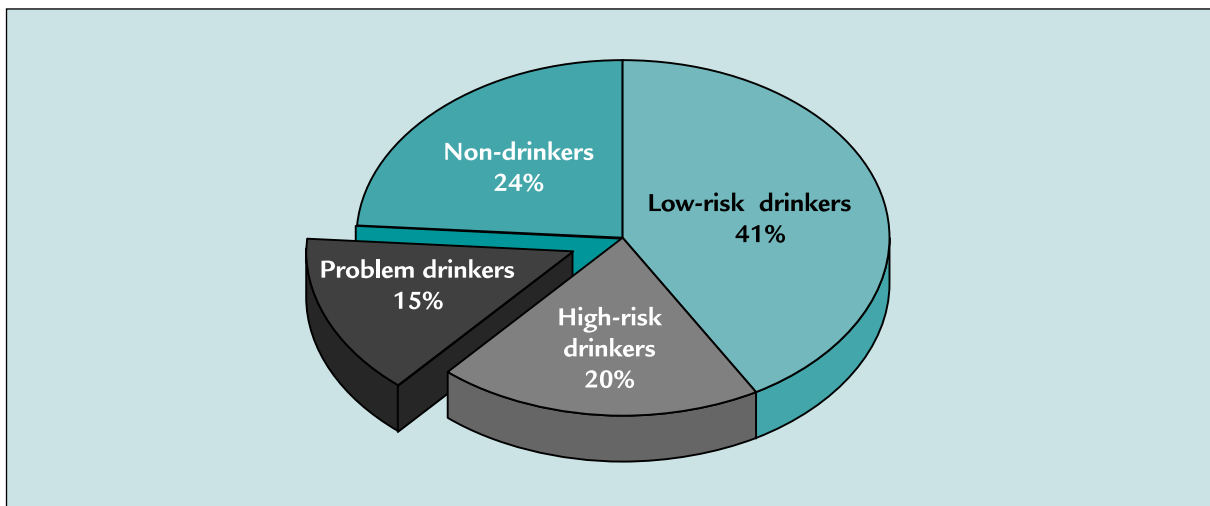
Minimizing Health and Social Costs

Whether or not there are increases in public participation in drinking, smoking, and gambling, government has a responsibility to provide programs to deal with the related negative impacts on society with respect to health and social costs.

Exhibit 8

Prevalence of Problem Drinking

15% of British Columbians over the age of 15 have drinking problems

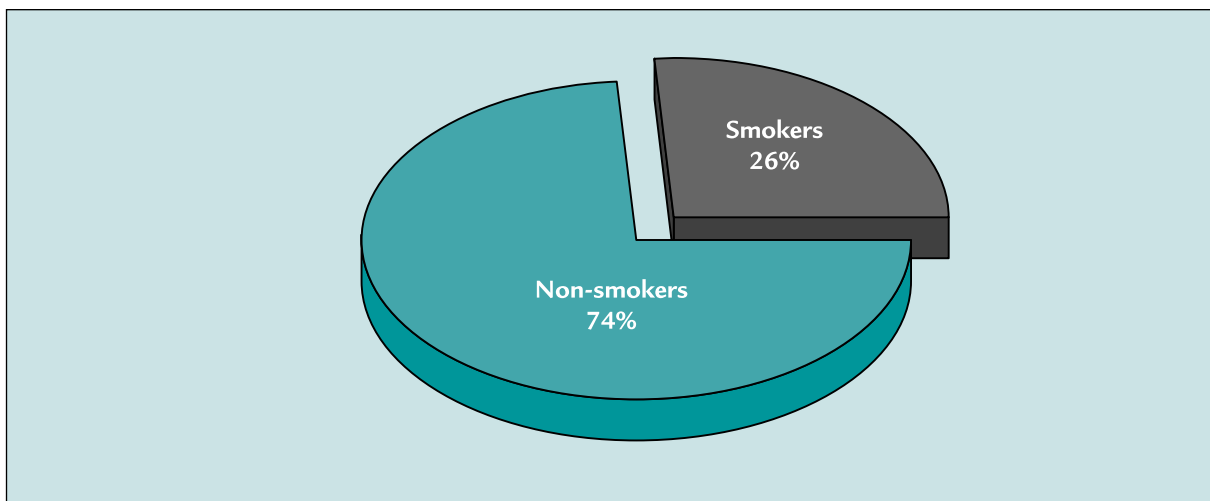


Source: Prepared based on data from the Ministry for Children and Families

Exhibit 9

Prevalence of Smoking

26% of British Columbians over the age of 12 smoke

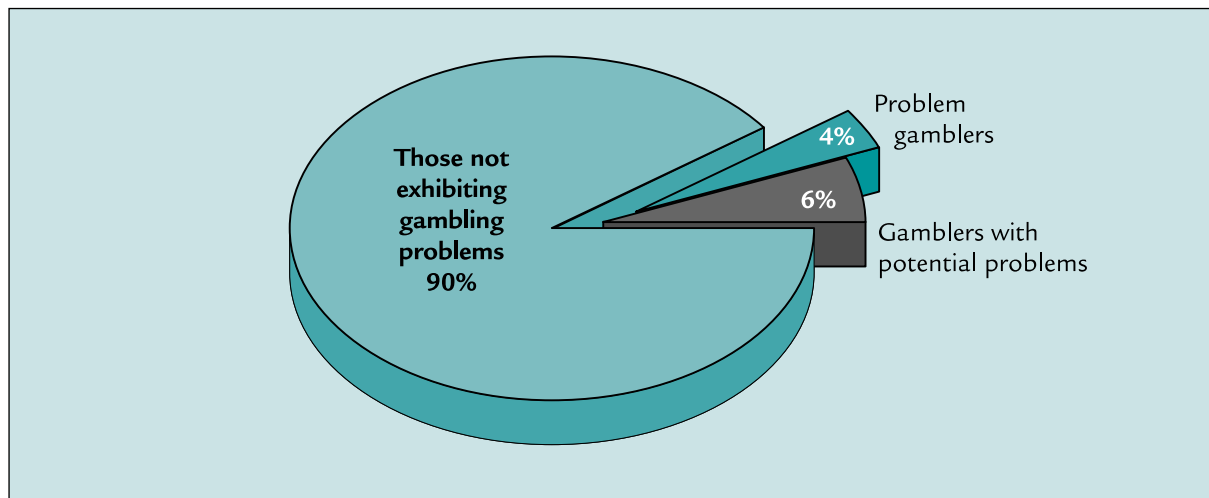


Source: Prepared based on data from the 1994 Statistics Canada *National Population Health Survey*

Exhibit 10

Prevalence of Problem Gambling

4% of British Columbians over the age of 18 gamble excessively



Source: Prepared based on data from the Angus Reid Group 1996 *Social Gaming and Problem Gambling in British Columbia: Report to the British Columbia Lottery Corporation*

It is estimated that 15% of British Columbians have problems with drinking, 26% smoke, and 4% have problems with gambling (Exhibits 8, 9, and 10).

Some people may argue that there are economic benefits obtained from public participation in drinking, smoking, and gambling from increased job creation and funding for public programs. These benefits are, however, offset by social and health costs from related usage (Exhibits 11 and 12).

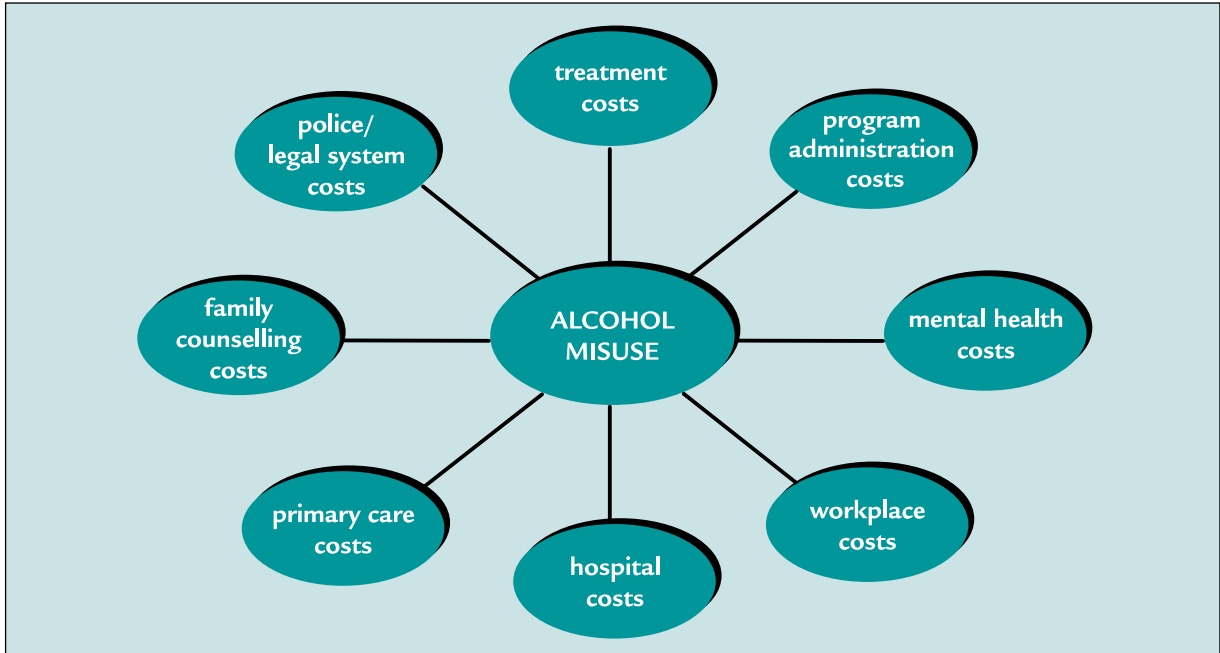
According to a 1996 study by the Canadian Centre for Substance Abuse, premature deaths from smoking and excessive drinking in Canada are believed to account for almost one-quarter of premature deaths and one-tenth of time spent in hospitals for all causes—the majority of this from smoking. Although excessive gambling is believed to contribute to the number of deaths by suicide, no formal studies have been done to determine the incidence.

Other social and health costs of excessive drinking, smoking, and gambling include: lost work time resulting from lower productivity and absenteeism caused by illness and accidents; law enforcement required for related problem behavior such as drunken driving, assault and battery, smuggling, stealing, prostitution, and money laundering;

Exhibit 11

Costs of Alcohol Misuse

Misuse impacts many areas

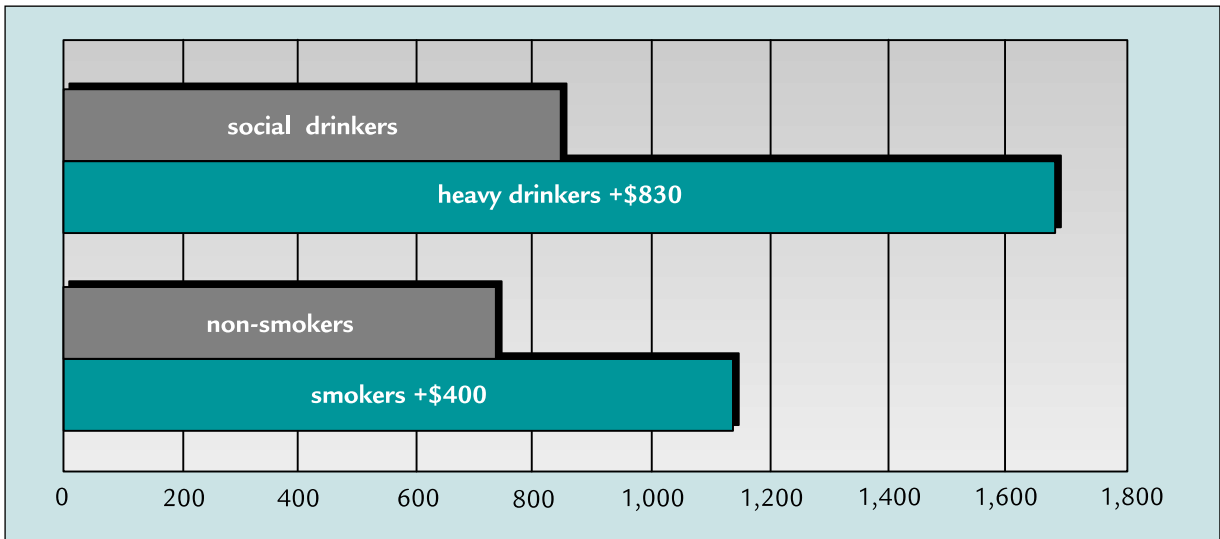


Source: Ministry for Children and Families

Exhibit 12

Medical Costs of Drinking and Smoking

Estimates of annual incremental cost claims for smokers and heavy drinkers



Source: Taken from University of Michigan 1994 study and converted to Canadian dollars

court costs for dealing with those accused of these infractions; and welfare issues such as family breakdowns and increased welfare payments.

Research studies vary in their assessment of the costs of excessive drinking, smoking, and gambling. Some suggest that social and health costs total more than twice the related revenue collected by government. Others say that cost-benefit studies should be done to take into account the economic benefits of increased employment and profits for those involved in producing and selling the products.

Whatever the level, most observers agree that there are indeed high costs associated with smoking and problem drinking and gambling, and that government should seek to lessen the costs through treatment and prevention efforts.

Treatment programs focus on those who have already been identified as having a problem with limiting their participation in a particular activity—to modify existing behavior. Prevention programs aim to reduce the likelihood of problem behavior developing in those who may be at risk.

British Columbia has treatment and prevention programs to assist those who have, or are at risk of having, drinking problems. For smoking, research studies show that it is difficult to get smokers to quit unless they are highly motivated, so funding is focused on preventing people from starting in the first place.

At the moment, no provincial funding is available to help those with gambling problems.

The costs of these programs relative to the revenues collected are shown in Exhibit 13.

Alcohol

Problems with alcohol and other drug misuse are addressed by Alcohol and Drug Services (ADS), which has recently been transferred from the Ministry of Health to the Ministry for Children and Families. ADS works with various partners within government, Crown corporations, and community groups to develop and implement treatment and prevention programs. For example, efforts to reduce the number of drunk driving offenses involves police, community support agencies, and the Insurance Corporation of British Columbia.

Exhibit 13

Costs of Treatment and Prevention

Annual costs compared to government receipts for fiscal 1995/96 (\$ Millions)

	Provincial Government Revenue	Treatment and Prevention Program Spending	Program Spending as a Percentage of Revenues
Alcohol	651	55*	8.4%
Tobacco	482	1.5	0.3%
Gambling	274	0	0
Totals	1,407	56.5	4.0%

* Spending includes treatment and prevention for problems with alcohol as well as other drugs.

Sources: Liquor Distribution Branch, Consumer Taxation Branch, B.C. Lottery Corporation, B.C. Gaming Commission, B.C. Racing Commission, Ministry of Health, Ministry for Children and Families, and Summary Financial Statements

Treatment

ADS spends \$46 million a year (out of the \$55 million shown in Exhibit 13) coordinating a network of services throughout the Province to assist people who have been identified as having problems related to alcohol and other drug misuse. A range of assistance is available, from centres for detoxification and intensive residential and non-residential treatment, to non-intensive outpatient treatment and supportive residences. Clinical services are provided by counselors, health care workers, doctors, and nurses.

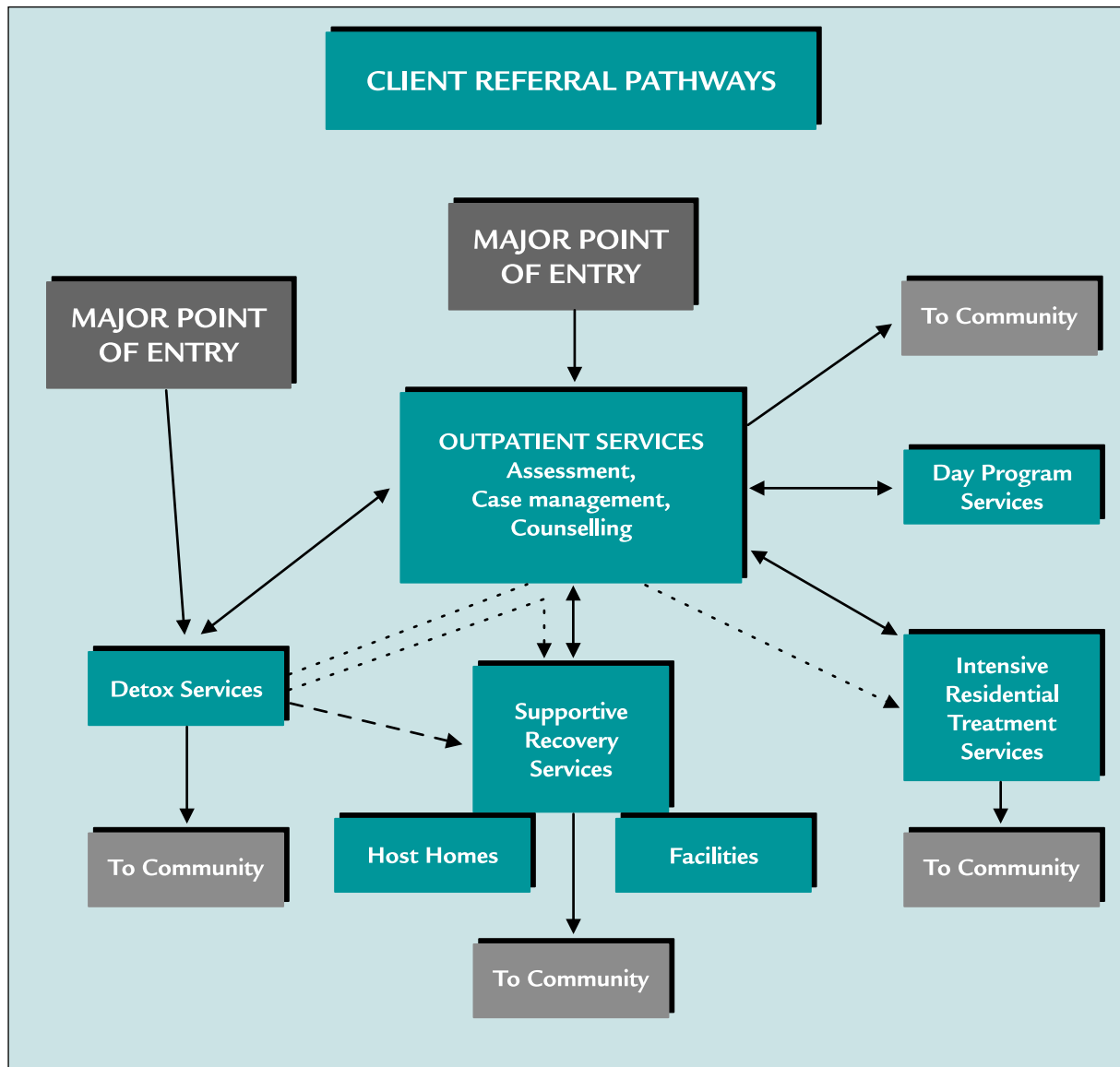
People can decide to admit themselves to this “System of Care” (Exhibit 14) or they may be encouraged to make contact through their doctors or employers. Entry is made through one of nine detox centres, or by asking for an assessment at one of the 146 outpatient clinics. Of about 40,000 admissions in 1995/96, two-thirds cited alcohol as the major problem; the other third had problems with non-prescription drugs such as cocaine. Most of those being treated are men—especially in the live-in treatment programs. While this could be due to more men than women having severe problems with alcohol, another factor may be that women are less willing to enter treatment programs requiring them to leave their children in the care of others.

ADS researches program options and develops program policy, standards, and guidelines for all types of service delivery. It also uses comprehensive assessment, treatment

Exhibit 14

Ministry of Health Treatment Services

SYSTEM OF CARE for those recovering from alcohol misuse



Source: Ministry for Children and Families

planning, and on-going case management to check that people receive the services they need when they need them.

To make better use of limited funding, ADS recently expanded the availability of intensive day treatment for all clients who can cope with a non-residential program. As a result, more people who need residential treatment are now able to gain access to it.

CounterAttack Drinking and Driving Program

The B.C. CounterAttack program, developed in 1977, is an example of a successful prevention initiative. The program's success over the years has been achieved through the various partnerships with ICBC, community groups, service clubs, police, health organizations, public safety organizations, and professional associations. At the time, alcohol-related accidents were at a high of close to 12%. Today, the percentage of alcohol-related accidents has stabilized at approximately 7%. While there are some other factors at work, the CounterAttack prevention program's multi-faceted approach to preventing and deterring impaired driving using public awareness, advertising, and community initiatives, has helped save lives on B.C. roads and has helped to shape the public's attitude toward the practice of drinking and driving.

Prevention

Prevention focuses on populations of people—that is, groups of people—whereas treatment is mainly directed toward individuals. While treatment efforts focus on people who have been identified as having alcohol misuse problems, prevention efforts focus on the rest of the population—to keep them from developing problems.

Alcohol and Drug Services (ADS) spends \$9 million a year (out of the \$55 million shown in Exhibit 13) providing provincial prevention policies, resources, planning strategies, and programs to reduce alcohol and other drug misuse. At ADS outpatient clinics, staff work with communities to identify groups at risk for alcohol problems and develop prevention strategies to address the individual, environmental, and social factors that place these groups at risk. For example, one key group at risk is secondary school students, so one-third of money spent on prevention supports the School-Based Prevention Program. Prevention workers in this program develop, in conjunction with their school communities, programs and policies to prevent alcohol and other drug misuse among youth.

Tobacco

The Ministry of Health points to tobacco use as the leading cause of preventable death in British Columbia. One of its information brochures says:

The earlier people start to smoke, the more likely they are to become addicted and develop tobacco-related illness. Of Canadians who smoke, 90% started before they were 19. About 10,000 Canadian youth under the age of 16 start smoking every month.

Of all deaths in B.C., one in five is related to smoking. Each year, over 5,000 people die as a result of tobacco-related illnesses. Illnesses caused by smoking cost taxpayers...over \$1 billion a year. Because of the personal and financial costs of smoking, reducing tobacco use is a priority for the B.C. Ministry of Health.

Sellers

There is no provincial government agency responsible for selling tobacco, such as the Liquor Distribution Branch is for alcohol. The provincial government must therefore monitor the way large numbers of retailers sell products to see that legislation and related regulations are being followed. This is done by public health inspectors in the health departments and health units throughout the Province in coordination with the Tobacco Enforcement Branch in the Ministry of Health, whose efforts are described in more detail in the next section under “Regulating Sales.”

Purchasers

To discourage purchasers from buying and using tobacco products, the Ministry of Health developed a provincial Tobacco Reduction Strategy in 1989, in collaboration with the National Strategy to Reduce Tobacco Use.

The program involves a variety of partners both within the Ministry of Health (including community dental programs, public health nursing, hospital care, continuing care, alcohol and drug programs, environmental health protection services, and community health strategies) and outside (B.C. Lung Association, Canadian Cancer Society, Heart and Stroke Association, B.C. Medical Association, Knowledge Network, B.C. Council on Smoking and Health, B.C. Parks and Recreation, Canadian Council on Smoking and Health, and Airspace – Non-smokers’ Rights Association).

The strategy aims to:

- increase the number of people who become and remain non-smokers;
- develop healthy public policies that provide protection from environmental tobacco smoke; and
- support non-smoking as the societal norm.

Over the past three years, spending for this initiative has increased from \$250,000 to \$1.5 million a year. This funding is used for policy development, education programs, and research (Exhibit 15).

Exhibit 15

Smoking Prevention

Tobacco Reduction Strategy actions

What Actions has the British Columbia Tobacco Reduction Strategy produced?

The TRS supports a variety of initiatives aimed at the broad goals of protection, prevention, and cessation. These initiatives fall into five broad categories.

Legislation

- In July 1992 the British Columbia Legislative Assembly passed the **Tobacco Product Amendment Act**. The primary intent of this Act is to prevent the sale of tobacco products to children and youth. Many of the stipulations of the Act are a direct reflection of the recommendations of the Report of the British Columbia Royal Commission on Health Care and Costs.
- The British Columbia government has supported and encouraged the development of **municipal and regional smoking control bylaws** throughout the province. By 1993, 69 local governments in B.C. had implemented smoking control bylaws. These jurisdictions represent 80 per cent of British Columbians.

Education and promotion

- In partnership with the Canadian Cancer Society, the Heart and Stroke Foundation of B.C. and Yukon, and the B.C. Lung Association, the Ministry of Health funded **smoking prevention television programming for youth** on British Columbia's Knowledge Network.
- Before implementing the *Tobacco Product Amendment Act*, the Ministry of Health will work with the B.C. Council on Smoking and Health to develop a **package of information to help retailers** become more aware of the issues surrounding the use of tobacco by children and youth and the laws governing the sale of tobacco products.
- Break-free Allstars is a **smoking-prevention program for children** 8 to 10 years of age that is based on the principles of active living. The Ministry of Health and the Ministry of Municipal Affairs, Recreation and Housing have launched the program in British Columbia.
- The Capital Regional District's Tobacco Free Task Force developed the **Smoke-free Activity Book** in association with the Office of Health Promotion and the B.C. Lung Association. The booklet contains games, puzzles, and other activities that encourage young people to remain smoke-free. Aiming at the "Smoke-free Class of 2000," the booklet will be distributed to Grade 5 students throughout British Columbia.

Policy co-ordination

- In 1992 the Ministry of Health conducted a survey of smoking

control policies in **continuing care facilities** throughout the province.

- The Ministry of Health works with the Ministry of Attorney General to develop smoking control policies in **corrections facilities**.
- The Ministry of Health acts as a resource for **workplaces** that want to develop smoking control policies.
- In 1991 the Ministry of Health conducted a survey of smoking control policies in all **school districts** in British Columbia.

Community action

- The Ministry of Health was a major funding partner in the development of a physician-assisted approach to smoking cessation. The B.C. **Physicians' Stop Smoking Project** provides physicians and their staff with a package of materials which outlines a systematic approach to smoking cessation that is appropriate to a wide range of clinical settings.
- The Ministry of Health supported a **community-wide smoking cessation contest** (Quit-to-Win) as part of North Shore Health's Heart Smart North Shore program.
- The Ministry of Health supported the development of the Canadian Cancer Society's **Fresh Start smoking cessation program**, which Canadian Cancer Society volunteers and staff are offering in communities throughout British Columbia.
- The Ministry of Health is supporting the development of **cessation programs for high risk groups** such as young women, teens, aboriginal populations, and pregnant women. These initiatives involve the target group in planning and implementing programs which focus on the social factors that contribute to tobacco use.
- In 1992 the Ministry of Health announced a major initiative with a focus on encouraging young people in their decision not to use tobacco. Called **Supporting a Smoke-free Generation**, the initiative asks communities to identify local concerns regarding tobacco use by children and youth and to work with the young people themselves to develop appropriate and effective strategies for change. This approach is consistent with the New Directions emphasis on health promotion and on greater public involvement in health issues.

Research

- The British Columbia Ministry of Health is an active partner in the **National Women and Tobacco Working Group**. The group introduced an Action Document in 1993 which examines the issue of tobacco use by women and suggests actions that concerned groups can take to increase the number of Canadian girls and women who remain smoke-free.

Source: Ministry of Health

Gaming

In 1993 the B.C. Lottery Corporation commissioned the Angus Reid Group to do a benchmark study on problem gambling in British Columbia. All forms of gaming were assessed, whether illegal or legal, for both in- and out-of-province. The study examined the frequency of respondent participation in 24 different types of gaming including: local casinos, resort casinos, raffle tickets, BC Lottery tickets, arcade video games, electronic and paper forms of bingo, on- and off-site wagering on horse races, speculative investments, and games of skill played with or without money at stake, such as cards, golf, and bowling—all activities where “winning” can be an important part of the attraction.

The terms “problem” and “pathological” gambling are used in the study. Problem gambling is defined as “patterns of gambling behavior that compromise, disrupt or damage personal, family or vocational pursuits and is intended to include pathological gambling as one end of a continuum of gambling involvement.” Pathological gambling is further described as “a continuous or periodic loss of control over gambling; a progression, in frequency and in amount wagered, in the preoccupation with gambling and in obtaining monies with which to gamble; and a continuation of the behavior despite adverse consequences.”

This study was repeated in 1996 (Exhibit 10), with results suggesting that fewer than 4% of British Columbians exhibit problem or pathological behavior. (3.5% in 1993, 3.9% in 1996.)

Although fewer individuals (4%) may exhibit problem behavior than for drinking (15%) and smoking (26%), costs can be relatively high because gambling activities involve spending that can increase significantly as problems escalate. The Angus Reid study points out that:

The criminal justice system can be severely affected by pathological gambling. Studies have shown that two out of three pathological gamblers commit illegal acts in order to pay gambling related debts and/or to continue gambling. Such acts typically are turned to out of desperation and occur late in the disorder. Some crimes committed by pathological gamblers involve violence or armed robbery... most are non-violent crimes against property. Many involve embezzlement or fraud.



establishing efficient systems

Government regulations govern the sale of alcohol and tobacco and how gaming takes place, placing restrictions on vendors regarding who is licensed to sell, what they are permitted to sell, who they sell it to, and how they promote sales. The systems for regulating each type of revenue differ, depending on the level of government involvement. Separate government agencies exist for overseeing alcohol sales and gaming activities. Tobacco sales, on the other hand, are widely distributed through various sales outlets that are monitored to see if they adhere to government regulations. Stringent restrictions require suitable means for designated government agencies to control what actually goes on.

With the significant amounts of government revenue being generated by all activities, it is also important to have adequate government controls in place to ensure the cash is properly transferred to central agencies.

Regulating Sales

The first phase of regulating sales is deciding who should be licensed to sell and what and when they can sell under that license. Inspection and enforcement are then needed to see that licensees conform to license requirements. Also, advertising plays a key role in the level of sales, so regulators must monitor the ways in which it takes place.

Alcohol

With over 200 main stores and 500 smaller outlets, the Liquor Distribution Branch (LDB) operates one of the largest retail and distribution networks in the Province. More than 43 million customer transactions took place in fiscal 1995/96, with sales of \$1.5 billion. Of these sales, approximately 77% were over the counter and the other 23% were to licensees such as restaurants and pubs.

The *Liquor Distribution Act* and the *Liquor Control and Licensing Act* have regulations that are used to enforce license requirements for the purchase and sale of alcohol, including minimum ages for servers and purchasers, hours of operations, sobriety of purchasers, forms of accompanying entertainment, and means of purchase. Inspectors from the Liquor Control and Licensing Branch (LCLB) visit licensees to see whether

regulations are being adhered to and can take steps that lead to cancellation of licenses if necessary, thereby removing the right to sell alcohol.

All radio and television advertising by manufacturers of beer and wine, as well as advertisements for all types of alcohol in newspaper and magazines published in British Columbia, have to be approved by LCLB (hard liquor cannot currently be advertised on radio or television, although based on a recent Supreme Court of Canada ruling, the spirit industry is asking for a change). Staff in the branch spend time reviewing proposed advertisements to see if the emphasis is on convincing consumers of product quality, so that manufacturer sales would only be increased by consumers switching brands rather than consuming more alcohol. They also review and approve in-store displays and labeling for all types of alcohol, to see that it is not focused on increasing consumption.

Exhibit 16

Liquor Control and Licensing Branch

Enforcement Program

The role of the LCLB enforcement program is to help provide an orderly, problem-free environment for licensed establishments and manufacturers of alcoholic beverages in British Columbia. Central to this objective is the minimization of the public health and safety risks associated with the service and consumption of alcohol. Although penalties are imposed on those who break the law, the goal of the LCLB is to minimize infractions through education and voluntary compliance.

Key components of the enforcement program include:

1. **Enforcement Policies and Procedures** which are clearly defined to ensure consistency in decision-making.
2. **Information Services** provided to industry associations and law enforcement agencies regarding liquor laws, infraction penalties, new policies and trends in liquor law enforcement.
3. **Liquor Inspectors as Educators** to inform manufacturers, agents, and licensees about the liquor laws of the Province with the intention of preventing infractions.
4. **Premise Inspection Program** to ensure that all licensed establishments are regularly inspected, and that problem establishments are carefully monitored.
5. **Enforcement Hearings** conducted as necessary to provide timely, appropriate action, and fair and consistent penalties.
6. **Enforcement Liaison Program** to enable the LCLB to effectively administer liquor laws with the aid of police and law enforcement agencies in British Columbia.

Source: Ministry of Attorney General

Tobacco

The *Tobacco Sales Act* and its regulations are used to enforce Ministry of Health requirements for the purchase and sale of tobacco, including minimum age for purchasers, numbers of cigarettes sold, and display of signs with provincial health warnings and age limits. Health inspectors from provincial health departments and health units visit retailers to see whether regulations are being followed. When they find that a retailer has breached the law, for example by selling tobacco to someone who is underage, they can issue fines. If two or more convictions occur, the Tobacco Enforcement Branch may ask the Consumer Taxation Branch to suspend or cancel the retailer's authorization to sell tobacco.

Retailer advertising of tobacco products is prohibited by federal legislation. To avoid duplication of effort, the federal government provides funding for provincial staff to include steps in their inspections to see that retailers do not use advertising to promote tobacco sales.

Gaming

Lotteries

The B.C. Lottery Corporation (BCLC) sells lottery tickets through three major distribution channels:

- an on-line network of 2,200 retailers selling 6/49, BC/49, Extra, Club Keno, Daily 3, and instant scratch and win tickets;
- a social gaming network of 1,200 operators of bars, pubs, and bingo halls where Club Keno is played and Breakopen tickets are sold; and
- lottery game subscriptions by mail.

Prospective candidates for selling lottery tickets apply directly to the corporation and are selected according to demonstrated demand at that location. Those selected must complete basic training in the use of lottery terminals for recording sales and checking tickets for winnings. Contracts are then drawn up with terms and conditions that can be monitored through the use of electronic controls over terminals and by visits from BCLC staff. These on-line retailers must display signs stating that purchasers have to be 16 years or older.

Club Keno is played and Breakopen tickets are sold in adult establishments where alcohol is available, so there is a risk that player judgment may be influenced by intoxication.

This can be controlled to some extent because tickets have to be purchased directly from the retailer for cash. Breakopen tickets are available from vending machines stocked by retail operators. Purchasers can access machines directly as long as they have adequate change, so there is more of a danger that intoxication could contribute to overuse.

BCLC staff visit establishments on a random basis to see that retailers and operators are following proper procedures. At on-line retailers, this involves checking for proper use of lottery terminals and looking for posted signs stating that purchasers must be at least 16 years old. For social gaming operators, BCLC staff observe whether sales are being made only on a cash basis and to players who are not intoxicated. For both retailers and operators, BCLC staff also check to see that the only advertising used is the posting of signs that have been prepared by BCLC.

Lottery game subscriptions by mail are received and processed by BCLC staff who look for proper completion of required forms. Purchases are made only by cheque, money order, or credit card to reduce problems with fraud.

Charitable Gaming

Charitable organizations or fairs and exhibitions wanting to conduct casinos, bingos, or ticket raffles must apply to the B.C. Gaming Commission, which assesses eligibility conditions and proposed use of funds before granting licenses with specified terms and conditions.

Commission inspectors then visit gaming locations to see that licensees conduct events in a proper manner. They check controls over money, training and participation of volunteers, operating hours, number of events held, and ages of participants. They also review submissions from licensees to check on the accuracy of dollar amounts retained and whether they are used only for approved purposes. In addition, random audits are performed by staff of the Gaming Audit and Investigation Office of the Ministry of Attorney General to ensure that charitable organizations use funds raised from gaming for approved charitable purposes.

Advertising for gaming events is also reviewed by the commission to confirm that it complies with policy and accurately represents prize levels.

Horse Racing

Race track events are regulated by the B.C. Racing Commission to ensure that participants do not use illegal means to influence the outcomes of races. Sales of tickets to wager on the races are regulated by the federal government.

Collecting Revenues

With significant amounts of revenue being collected from various agencies, there are two main concerns: that amounts are correctly reported, and that they are promptly remitted to government. This requires suitable means for auditing sales figures and managing cash flows.

Alcohol

The Liquor Distribution Branch (LDB) manages all provincial government alcohol revenues. Annual sales figures and net revenues for LDB are audited for accuracy by the Office of the Auditor General. Daily cash deposits are made by each store directly to government bank accounts.

Sales tax amounts on alcohol sales not made through LDB are remitted by individual licensees on a monthly basis to the Consumer Taxation Branch at the Ministry of Finance and Corporate Relations, where they are reviewed for accuracy and deposited to central government bank accounts.

Tobacco

The Consumer Taxation Branch of the Ministry of Finance and Corporate Relations collects all tobacco revenues directly from wholesalers based on purchases from manufacturers. Wholesalers then pass these costs on to retailers, who pass them on to consumers as part of the purchase price.

Tobacco revenues are remitted by wholesalers on a monthly basis and are subject to scrutiny by audit staff of the Consumer Taxation Branch. Manufacturers are required to send detailed reports to the branch showing sales to wholesalers. These reports are then used to verify the accuracy of sales figures disclosed by wholesalers. Retailer sales cannot be checked in a similar fashion because wholesalers remit amounts based on purchases from manufacturers, not on sales to retailers. However, branch staff audit retailers to look for errors and omissions in records showing amounts of tobacco purchased and sold, in an effort to determine whether illegal purchases have been made (from reserves or from other provinces where provincial taxes have not been charged).

Revenues collected are deposited in government bank accounts as soon as they are received and processed. To ensure effective cash management, staff in charge of revenue collection notify Provincial Treasury of deposit amounts on a daily basis.

Gaming

Lotteries

For on-line retailers, the B.C. Lottery Corporation (BCLC) is able to “sweep” retailer bank accounts on a weekly basis to collect amounts owing as a result of ticket sales made on lottery terminals. Deposits are then made on a weekly basis to central government bank accounts.

Retailers and operators of adult establishments with Club Keno machines have to enter player purchases on lottery terminals. These terminals record sales figures that BCLC staff can use to compare with money collected every week from each operator. Breakopen tickets are ordered by operators from BCLC and paid for as part of regular “sweeps” of their bank accounts.

Lottery revenues are deposited on a daily basis to BCLC bank accounts from which weekly transfers are made to central government accounts.

Charitable Gaming

License fees are submitted to the B.C. Gaming Commission by charitable organizations: for casinos, 10% of net revenues after prizes have been paid out; and for other forms of gaming, such as bingos and raffles, 2% of gross revenues. The commission deposits the money daily into central government bank accounts after checking reported amounts for completeness and accuracy.

Horse Racing

Amounts of money owing to the provincial government are calculated by B.C. Racing Commission staff based on amounts of total wagers disclosed by operators of race tracks and “teletheatres” and scrutinized by federal regulators. Revenues are collected and remitted to central government daily.



in summary

Revenues from alcohol, tobacco, and gaming are significant, and government involvement is complex. At the same time as it searches for ways to raise money to fund worthwhile public programs, government must decide how to use the means within its control to protect the public from problems arising from the use of alcohol or tobacco, and from gaming activities. Public interest in government's role in this regard is increasing; policy reviews concerning the control of liquor and gaming are underway, and federal tobacco legislation is being revised.

The potential for conflict between increasing revenues from these sources and protecting the public from the negative effects of drinking, smoking, and gambling can lead to problems in how programs are managed. We found that stated goals for each program clearly reflected the need for balance; however, we did not go so far as to see how they are carried out in practice. We also found that ways of controlling access to each activity are clearly defined, and that there are established programs for treatment and prevention of drinking problems—ranging from intensive residential to support and education. In addition, there is a provincial tobacco reduction strategy aimed at discouraging the on-set of smoking, encouraging cessation efforts, and preventing exposure to second-hand smoke. However, there is currently no program to assist those with gambling problems.

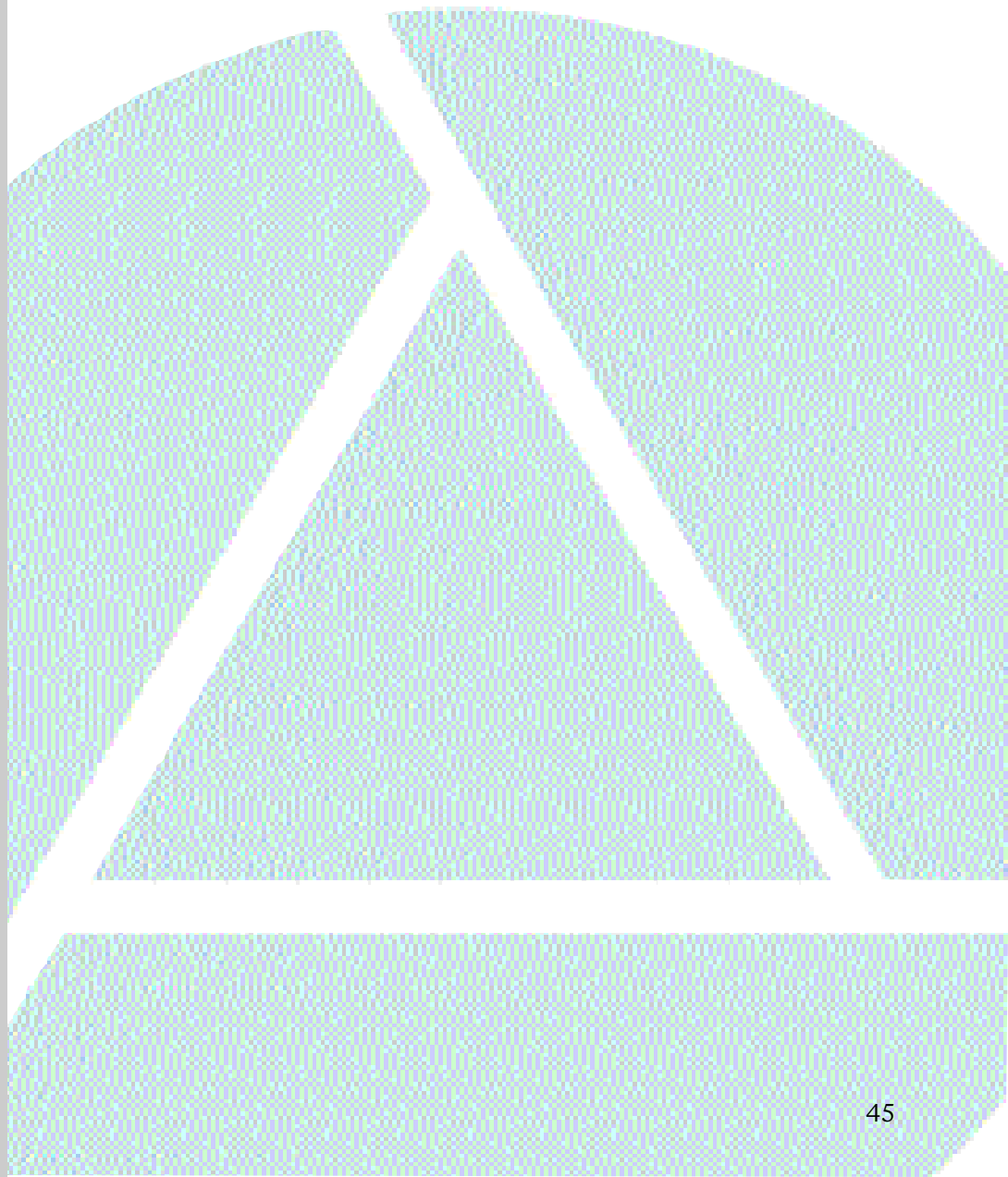
Systems for regulating sales and collecting revenue are well established. Government controls the sale of alcohol to the public and licensed vendors through the Liquor Distribution Branch, and it licenses and monitors vendors through the Liquor Control and Licensing Branch, both the responsibility of the Ministry of Attorney General.

Tobacco can be sold by any retailer registered under the *Social Service Tax Act* with the Consumer Taxation Branch of the Ministry of Finance and Corporate Relations. The branch monitors retailers to see that sales are made only in accordance with the *Tobacco Tax Act*, and collects tobacco revenue directly from wholesalers based on purchases from manufacturers. The Tobacco Enforcement Branch of the Ministry of Health monitors whether sales are made in accordance with government health regulations.

For gaming, government allows charities to hold casino, bingo, and raffle events as fund-raisers under the control of the B.C. Gaming Commission. The public is also allowed to purchase lottery and Breakopen tickets, and to play games controlled by the B.C. Lottery Corporation. Betting on horse races takes place under joint control of the federal government and the B.C. Racing Commission. These agencies all collect and remit gaming revenues to central government on a regular basis and report to the Minister of Employment and Investment.



appendix



appendix

1996/97 Reports Issued to Date

Report 1

Performance Audit

Management of Child Care Grants

Report 2

Crown Corporations Governance Study

Report 3

Performance Audit

Vancouver Island Highway Project: Planning and Design

Report 4

Performance Audit

Trucking Safety

Report 5

A Review of Government Revenue Expenditure Programs
Relating to Alcohol, Tobacco, and Gaming



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