



# **Gambling In Canada 2005**

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## **Statistics and Context**

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## Gambling in Canada Project 1998-2001

In November of 2001, Canada West Foundation ended its independent three-year long study of gambling in Canada. Four overarching research areas were explored: (1) the impact of gambling on the nonprofit sector; (2) opinions on, attitudes toward and public policy implications of, gambling; (3) the history and scope of gambling; and (4) the socioeconomic impact of gambling on community. Over the course of the research, the project produced over 700 pages of material comprising 16 reports, most of which can still be downloaded free of charge from the Canada West Foundation website ([www.cwf.ca](http://www.cwf.ca)).

The Gambling in Canada Project concluded with a number of policy recommendations. These eight recommendations remain highly relevant and important today.

### GAMBLING POLICY RECOMMENDATIONS

#### **1.0 Adopt the fundamentals of a public health approach in gambling policy development.**

- 1.1 Develop a public health research agenda for gambling.
- 1.2 Examine existing gambling policies for harm minimization opportunities.
- 1.3 Create a set of healthy advertising guidelines for gambling and lottery-type products.
- 1.4 Create a youth problem gambling strategy.

#### **2.0 Discontinue the expansion of gambling in Canada until research on gambling's social impact is available.**

#### **3.0 Focus data collection and research on increasing our understanding.**

- 3.1 Collect data both before and after change to gambling policy in a region.
- 3.2 Data collection should be transparent and made accessible to the public.
- 3.3 Review the effects of gambling policies on an ongoing basis.
- 3.4 Improve the quality of research on gambling's impact and fund independent studies.

#### **4.0 Establish public accountability measures for monitoring provincial and territorial gambling policy.**

- 4.1 Establish benchmarks for healthy gambling policy and measure progress towards these benchmarks.
- 4.2 Public reporting and dissemination of government revenue, expenditure and market data.
- 4.3 Balanced reporting of both the positive and negative impacts of gambling.

#### **5.0 Increase the use of democratic mechanisms in gambling policy-making.**

- 5.1 Limit gambling expansion to those activities with demonstrated grassroots support.
- 5.2 Allow direct democratic input on existing gambling policy when there is potential for harm reduction.
- 5.3 Establish regular, broadly-based provincial consultation mechanisms to review changes to gambling policies.

#### **6.0 Establish a long-term funding strategy for charities that reflects the changing nature of gambling policy.**

- 6.1 Develop gambling grant systems that better reflect charitable sector needs.
- 6.2 Maintain current levels of gambling funding to the nonprofit sector.
- 6.3 Reduce the incentive to use charitable gambling and grants.
- 6.4 Research the effects of gambling on charities.

#### **7.0 Any expansion of gambling onto First Nations reserves needs to consider the full impact of gambling in the community and on surrounding communities.**

- 7.1 On-reserve gambling policies should be developed in coordination with First Nations communities.
- 7.2 First Nations casino profits should be directed towards community development.
- 7.3 First Nations casino expansion should emphasize sustainability across the gambling industry.

#### **8.0 A national review of gambling activity in Canada should be initiated.**

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## Introduction

It has been just over a dozen years since gambling exploded in popularity as an entertainment and tax source for Canadians and their provincial governments. The rapid progression from agricultural fairs and basement bingos to a high profile and nearly \$13 billion a year industry has created a moving and controversial public policy issue.

The availability of so many gambling opportunities is also unparalleled in Canadian history. There are now 87,000 gambling machines (slot machines and video lottery terminals), 33,000 lottery ticket centres, 60 permanent casinos, 250 race tracks and teletheatres, and 25,000 licenses to run various bingo, temporary casinos, raffles, pull tickets and other activities (Figure 1). The role of these gambling implements in filling provincial coffers, funding good deeds, and providing employment is well-entrenched.

Yet, the societal costs of raising revenues from gambling remain largely unknown. Gambling’s human impacts on family stress, financial well-being, lost work productivity, and addiction—impacts that have resulted in suicide, crime, divorce, job loss, and lower overall health—are only just starting to be measured and tracked. Further, the costs of job losses, decreased quality of life, health care expenses and increased judicial costs are even less well known, and will likely remain so as the rate of gambling expansion out-paces the capacity of researchers to provide answers to these complicated questions.

While the revenue growth trend of the last three years suggests a modest levelling off of gambling revenues, these data are reflective of a period of several moratoriums on expansion and re-tooling of approaches brought on by the very high profile and public concerns of the period 1998-2002. The current untapped potential market for the next generation of gambling products (e.g., home-based Internet gambling, interactive television and video game gambling, and cell phone gambling) is large and arguably troublesome. Gambling’s

recent slow rate of growth appears restricted by regulatory controls rather than by an exhaustion of consumer preference or the ageing of the industry. The emergence of poker as a significant ratings winner for television networks underlines the suggestion that gambling as a product is nowhere near its market boundaries.

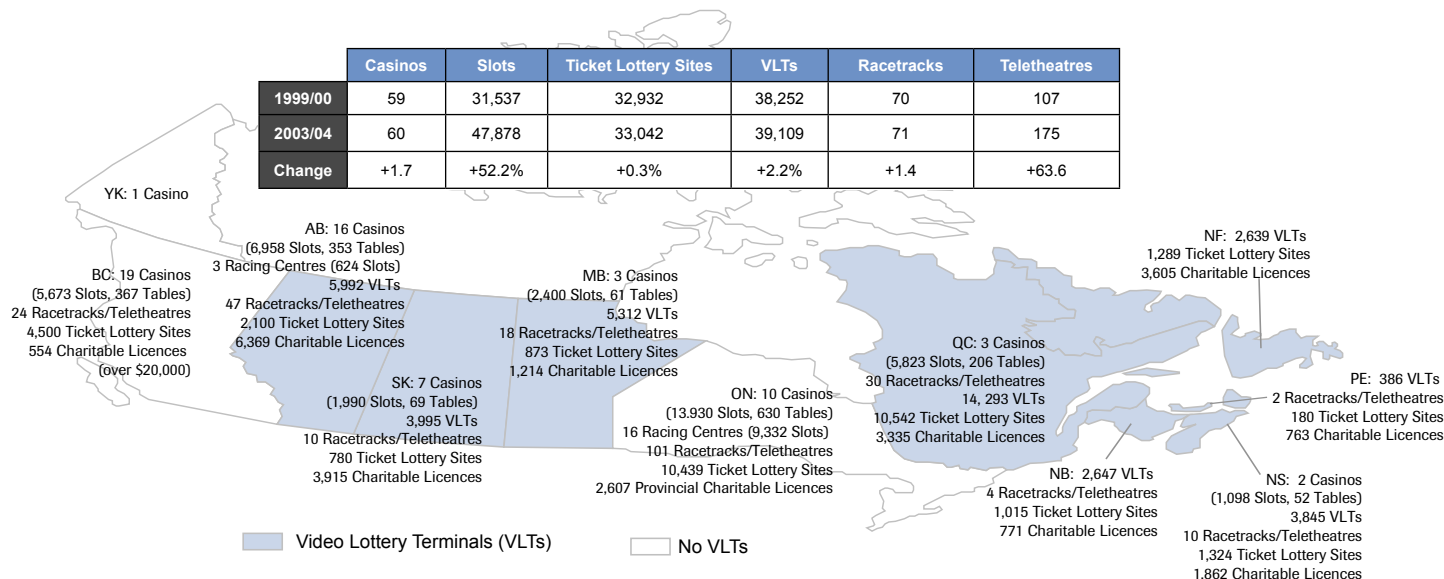
The yet unexplored and emerging opportunities suggest that future gambling markets will be increasingly difficult to control as more and more money leaks out to illegal and offshore activity. Trapping the “leakage” of gambling money to illegal and external sources has historically been an effective justification for introducing more gambling (including lotteries, casinos, video lotteries) and will no doubt also make compelling future arguments for expansion.

The well-established commercial effectiveness of the Internet represents the obvious next evolution of gambling. Indeed, wildly varying estimates suggest that Canadian Internet addresses make up anywhere from 5-15% of a multi-billion dollar worldwide online gambling activity in spite of the questionable legitimacy of offshore gambling providers. International on-line gambling providers understand the potential of Canadian markets as they currently actively promote and advertise their products in Canada.

While the profit from these activities heads off-shore, the economic impacts are primarily negative. Offshore Internet gambling takes money out of the Canadian economy while trapping the negative social costs here. These will be difficult issues to deal with in the coming years and will exert tremendous pressure to justify expanding gambling once again.

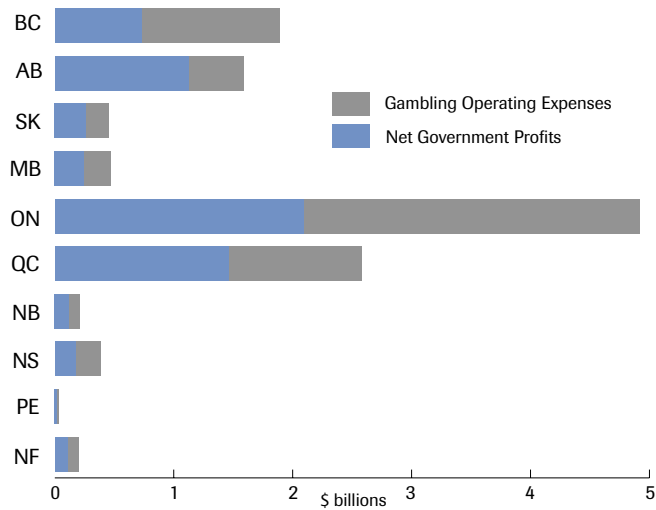
It is against the backdrop of these emerging trends that we present *Gambling in Canada 2005: Statistics and Context*. This

**Figure 1:** Gambling Availability by Province, 2003-04



**Source:** Derived by Canada West Foundation from provincial lottery and gaming annual reports, personal communication and the Canadian Gaming News (#121). **Note:** Charitable figures are estimates as only some charitable gambling activity is tracked and recorded.

**Figure 2: Government-Run Gambling Revenues by Province, 2003-04**



**Source:** Derived by Canada West Foundation from provincial lottery and gaming annual reports and provincial public accounts.

document represents our third significant effort to introduce some much-needed clarity and understanding to the issues of the growth of gambling. Using statistics for the 2003-04 fiscal year and historical trend analysis, the main gambling policy issues are given a numerical context.

**Government-Run Gambling Revenues**

There are a number of ways provinces report and measure the gambling revenue they earn from directly providing government owned and operated gambling activity. The highest value reported is the "gross wager." These values represent the amount of money spent on gambling, before any prizes are paid out. However, this figure is not particularly useful or precise as winnings are often reinvested again and again in subsequent wagering. Gross wager figures will not be considered in this report.

The next measure of revenue reporting is gross profit. Gross profits represent a more precise measure of the true economic value of gambling activity. Gross profits include both the provincial government share of gambling proceeds and the expenses associated with providing gambling regulation, administration, advertising and suppliers/commissions. For 2003/04, the gross profit from government-run gambling activity in Canada was \$12.742 billion (Figure 2)—an increase of \$700 million from 2002/03 reported figures (CPRG 2004). This figure represents only those activities in which governments directly participate as a gambling provider. Additional gambling activity run by charities, First Nations, and horse racing are not considered in these data.

On average, the gross profit figure breaks down into an equal 50/50 split between government profit and the costs associated with raising those revenues (or expenses). In other words, for each dollar of government revenue raised through gambling a second dollar goes to pay for the direct operation of gambling activity. This ratio is down from a 60/40 profit cost split for 1999/00—representative of additional international competition and cost increases associated with raising revenues through gambling.

	\$ millions			
	Gross Revenue	Expenses	Gov't Net Profit	Profit Margin
BC	\$1,889.6	\$1,162	\$727.6	38.5%
AB	1,591.0	468	1,125.2	70.7
SK	456.3	195	261.0	57.1
MB	468.1	223.1	245.0	52.3
ON	4,917.7	2,826.1	2,091.6	42.5
QC	2,585.5	1,126.2	1,459.3	56.4
NB	209.1	89.8	119.3	57.1
NS	387.0	212.6	174.4	45.1
PE	34.7	15.6	18.1	53.8
NF	203.8	96.2	107.6	52.8
<b>Total</b>	<b>\$12,741.9</b>	<b>\$6,412.6</b>	<b>\$6,329.2</b>	<b>49.7%</b>

For 2003/04, \$6.412 billion was paid out in gambling-related expenses. In addition to government administrative expenses, thousands of jobs associated with the provision of gambling revenues are supported by these revenues.

Profit margin ratios vary greatly based on the type of gambling available in each province. Ontario and BC—provinces without VLTs—are the least efficient at raising revenues from gambling. Only 38.5% of gambling revenue accrues to the provincial coffers in BC and 42.5% in Ontario. Electronic forms of gambling are less labour intensive than other forms, and therefore provinces with higher numbers of VLTs and slot machines will earn a higher percentage of income as profit. (Operational costs for many types of electronic gambling are excluded as race tracks, bars and lounges operators pay for the space they provide for these gambling machines out of commissions.)

Alberta stands out as particularly efficient in raising revenue from gambling because the province is unique in that it does not operate its own casinos (they are operated on a fixed cost shared agreement between charities and for-profit gambling operators). The province earns the majority of the revenues from the 6,500 slot machines it places within charity casinos.

The smallest measure of government-reported gambling activity is that of "net profit." Net profit figures consider only the amount of revenue that the province uses for funding activities not directly related to raising gambling revenue. These gambling figures usually exclude the administration costs associated with running operational and regulatory bodies, commission paid to retailers and suppliers, and any third-party payments due (e.g., the federal government, First Nations or charities).

From a net perspective, gambling revenues brought in \$6.329 billion dollars in 2003/04, representing only a very small increase from reported 2002/03 figures (CPRG 2004).

Increased cross-border casino competition, renovations to existing facilities, declining tourism, greater expenses and increasing competition for revenues from internet gambling all help explain the stunted growth.

Ontario, at nearly \$2.091 billion in revenue leads all provinces in net profits from gambling, followed by Quebec (\$1.459 billion) and Alberta (\$1.125 billion). These are the only provinces that earn more than \$1 billion in profit from gambling.

### Government-Licensed Gambling Revenues

While government-run gambling represents the bulk of the legal gambling activity in Canada, there are also a large number of smaller scale activities licensed by governments for charitable purposes (e.g., bingo, raffles, pull tickets, and mega-lotteries) horse racing venues (tracks and teletheatres) and a few smaller casinos operated on a part-time basis or by First Nations.

This additional gambling activity is extremely difficult to track and measure. Licensing of charitable activity is sometimes done via thousands of municipalities or provinces only track the largest events and the data reporting standards for charitable gambling are less transparent.

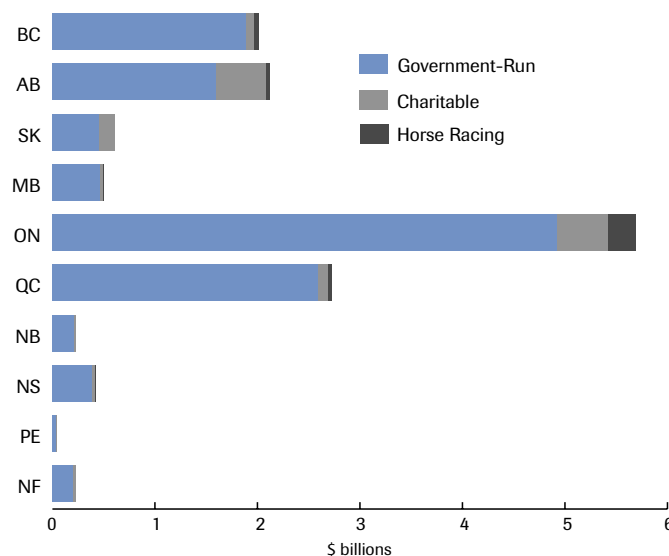
Yet these sources of revenue are not inconsequential. There was a minimum of \$1.417 billion spent on gross charitable gambling activity and \$415 million generated through horse racing gross profits. Due to the data limitations the actual level of charitable activity is likely much higher.

Adding both the government-licensed and government-run gross gambling profits together creates the best available snapshot of the scope of legal gambling activity in Canada. In sum, \$14.575 billion in gross gambling profits were earned in 2003/04.

Almost 40% of that revenue was created in Ontario. The popularity of horse racing and the proliferation of smaller charitable gambling events in the province has increased the province's share of the overall legal gambling picture. Ontario's percentage of the national gambling picture is similar to its share of the adult (19+) population (38.6%).

Alberta's unique affinity for high levels of gambling activity becomes more pronounced when the charitable figures are included into the consideration of gambling revenues. Specifically, because the tables in Alberta's 16 permanent casinos are run by charities, Alberta's casino table revenues are not considered in most statistical presentations. The inclusion of these data (Figure 3) increases Alberta's share of the legal gambling activity to 14.5%, well past its 10% share of the national adult population. The only other province

Figure 3: Gross Government Run & Licenced Gambling Revenue 2003/04



	\$ millions				% of total
	Charitable	Horse Racing	Government-Run	Total	
BC	\$74.7	\$49.0	\$1,889.6	\$2,013.3	13.8%
AB	493.4	35.7	1,591.0	2,120.0	14.5
SK	150.8	0.35	456.3	607.5	4.2
MB	23.1	10.3	468.1	501.4	3.4
ON	503.0	268.2	4,917.7	5,688.9	39.0
QC	99.0	44.0	2,585.5	2,728.6	18.7
NB	18.9	2.1	209.1	230.1	1.6
NS	27.8	3.3	387.0	418.2	2.9
PE	3.0	1.9	33.7	38.6	2.7
NF	23.9	0.3	203.8	228.0	1.6
<b>Total</b>	<b>\$1,417.7</b>	<b>\$415.1</b>	<b>\$12,741.9</b>	<b>\$14,574.7</b>	<b>100%</b>

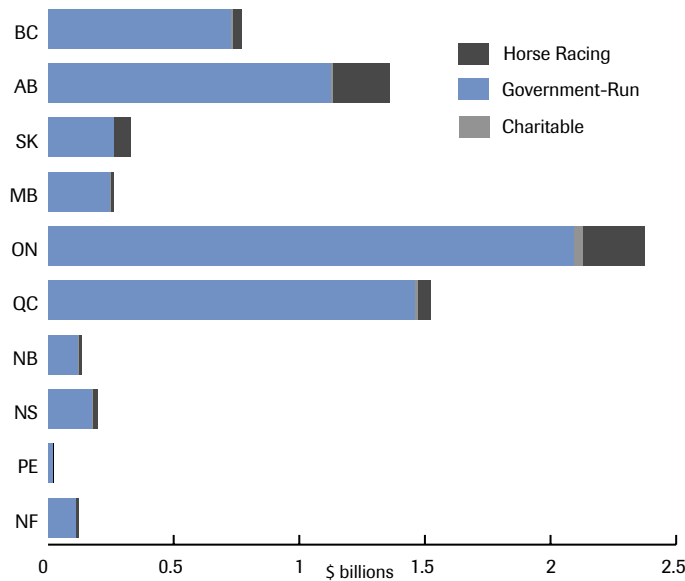
**Source:** Derived by Canada West Foundation from provincial lottery and gaming annual reports and provincial public accounts, personal communication, and Canadian Pari-Mutuel Association. **Note:** Charitable activity in Saskatchewan includes First Nations revenues. Some additional sources of revenue are not included as data were not recorded or released.

in a similar position is Saskatchewan at 3% of the population and 4% of the gambling activity. These data are tempered slightly as the other provinces do not have very accurate (i.e. complete) recording of their charitable gambling activity.

Charitable gambling revenues have not diminished in value greatly over the last 15 years. The charities' share of the overall gambling revenue pie has diminished a great deal, but the absolute revenues have not been in decline. Additionally, over the last 5 years charities' share of that pie is also holding steady. With 11% of the gross profits going to gambling in 2003/04, charities receive the same portion of gambling revenue that they earned in 1999/2000 (Azmier 2001).

The competition trends of the 1990s that saw bingo and raffle and pull-ticket sales threatened have been successfully offset by the introduction of technologies to renew traditional games, increased

**Figure 4: Net Government Run & Licenced Gambling Revenue 2003/04**



	\$ millions			Total	% of total
	Charitable	Horse Racing	Government-Run		
BC	\$37.4	\$6.8	\$727.6	\$771.8	10.9%
AB	226.0	8.4	1,125.2	1,359.6	19.2
SK	67.6	0.1	261.0	328.7	4.6
MB	12.0	4.3	245.0	261.3	3.7
ON	246.0	37.2	2,091.6	2,374.8	33.5
QC	49.5	13.2	1,459.3	1,521.6	21.5
NB	12.6	0.9	119.3	132.9	1.9
NS	23.0	1.5	174.4	198.9	2.8
PE	1.4	0.9	18.1	20.4	0.3
NF	12.0	0.1	107.6	119.7	1.7
<b>Total</b>	<b>\$687.4</b>	<b>\$73.5</b>	<b>\$6,329.2</b>	<b>\$7,090.1</b>	<b>100%</b>

**Source:** Derived by Canada West Foundation from provincial lottery and gaming annual reports and provincial public accounts, personal communication, and Canadian Pari-Mutuel Association. **Note:** see Figure 2.

profit sharing from new games, and the popularity of mega-lotteries for large prizes (e.g., homes). Recent years have also seen charities benefit from hundreds of millions of dollars in annual grants from provincial gambling proceeds.

Removing gambling-related expenses from the gross profit totals shows that less net profit is retained by governments and charities from these forms of government-licensed gambling. Altogether, just over \$7 billion of net gambling profits from government-run and government licensed gambling were recorded in 2003/04 (Figure 4). At \$2.374 billion, one-third (33%) of these revenues accrue in the Ontario—less than its share of the adult population (39%).

As with gross revenues, Alberta and Saskatchewan's overall gambling revenue activities are considerably more profitable than average.

In particular, Alberta represents only 10% of the adult population, yet a substantial 19% of the national share of net profits from gambling are earned by Alberta's provincial government and charities.

Overall, the profit margin on government-licensed gambling is slightly less (48%) than on government-run activities (50%). Charities may not have the efficiency of electronic gambling but do have lower overhead associated with volunteer labour. Also, horse racing profit is primarily fed back into its own infrastructure and agricultural associations in the form of expenses. Only \$73.5 million (18%) of the proceeds from horse racing is transferred to provincial coffers.

Most legal gambling is run by governments, therefore the bulk of profits from the combined legal gambling activities are earned by provincial governments. Adding the horse racing and licensing portions to previous totals brings provincial revenues to at least \$6.4 billion in net profit.

As charitable income is not well-recorded and tracked it is difficult to be precise of the total value of charitable gambling fundraising. While unclear, these values are not inconsequential—charities earned at least \$687 million in 2003/04 and earned more through unrecorded activity.

Charitable net revenues are particularly strong in Alberta and Saskatchewan. Alberta's charitable casino model is the primary reason for its strong revenue position. As was originally the case in many provinces, charities in Alberta work with casino owners and operators of permanent casino structures on a fixed cost-sharing basis to deliver casinos in the province. As a result, Alberta charities earn nearly 17% of all earned revenue in the province.

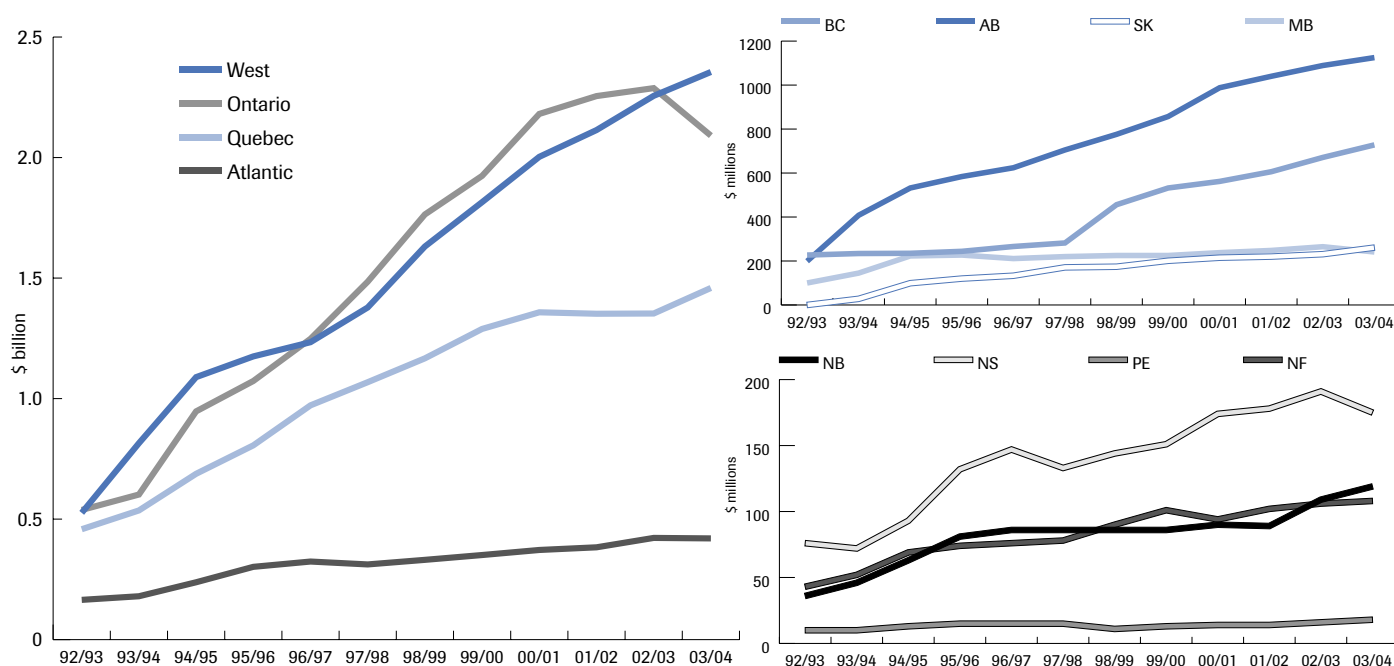
At 20%, Saskatchewan charitable revenues are also above the average due to the inclusion of directly-earned First Nations' casino revenue in the charitable totals. Removing these First Nations' amounts from the overall total would put the Saskatchewan provincial value in line with the national average.

It is important to consider that in addition to the monies received from their participation in gambling fundraising, charities are often indirect—but important—participants in the proceeds of government-run gambling. Ontario runs casinos called “charity” because the proceeds are set aside for government grants; Saskatchewan's ticket lottery proceeds are set aside to fund community groups, as are some government bingo proceeds in Quebec. BC and Alberta also have grant-making entities to distribute gambling proceeds to charities.

These grants help fund good works to offset concerns associated with the negative impacts of gambling. For 2003/04 the value of the money set aside for charitable grants exceeded \$440 million. These grants have also been used to offset the losses charities incurred as smaller, older forms of charity gambling lost market share to the government-run activity.



**Figure 5:** Change in NET Gambling Revenues by Region and Province, 1992-93 to 2003-04



Source: Derived by Canada West Foundation from provincial lottery and gaming annual reports and provincial public accounts and the Dominion Bond Rating Service (DBRS).

### Historical Net Gambling Revenues

Gambling’s emergence as a significant source of revenue for provinces is generally well-understood. Overall revenues have grown from \$1.687 billion in 1992/93 to \$6.329 billion in 2003/04—a substantial 275% increase. Yet, this picture is somewhat imprecise. There are a number of regional and cyclical trends within these data that offer additional insight.

Of primary importance is that it is clear gambling revenue growth has slowed down considerably from the early surge of the 1990s. The last four years have brought only a 7% increase in revenue—from \$5.914 billion in 1999/00 to 2003/04 levels.

This levelling-off of growth can be interpreted as a sign of the aging of the gambling product, but market growth is also artificially influenced by a) regulatory barriers; b) self-imposed moratoriums on new products; c) interprovincial and international competition; and d) public opinion. Contrasted against the growth period of 1990-1999, one that could be best characterized by the relaxation of regulatory control, the current period is reflective of a number of provincial concerns and caution as to the appropriate next steps.

Given the apparent popularity of gambling activity in media, entertainment, and sport, perhaps it is more accurate to say the current gambling industry has matured to the limits of its regulatory boundaries. There are new technologies (e.g., the Internet, cellphones); new markets (e.g., First Nations’ Casinos, international gamblers); and yet-to-be-explored opportunities (e.g., interactive gambling) that suggest a very large potential for gambling revenue growth.

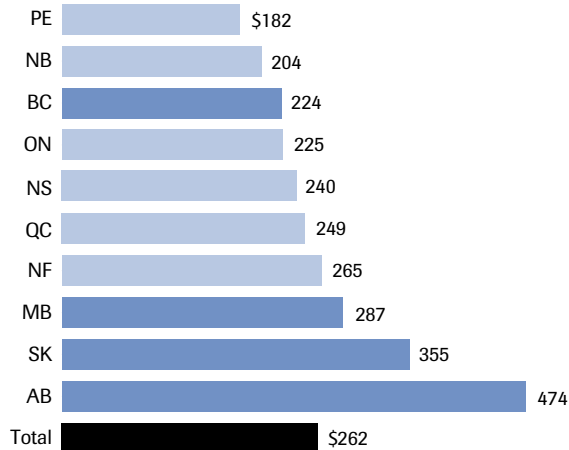
Regional data also suggest that some markets are still experiencing upward growth. Figure 5 illustrates that the western provinces (especially SK, AB and BC) continue to experience relatively robust growth—buoyed by casino and slot machine expansion in BC, and slot machine expansion in Alberta, and the growth of casino/slot revenues in Saskatchewan. In 2003/04, Saskatchewan’s net revenue from gambling surpassed Manitoba’s for the first time.

In spite of a smaller portion of the adult population in the West (30%) than Ontario (39%), western provincial revenues are actually higher (\$2.355 billion vs. \$2.091 billion). This western regional growth trend is likely to continue with gambling expansions planned in Alberta and Manitoba.

While the West’s gambling revenues are still expanding, central Canada is having a negative influence on the overall trend of growth. In Ontario, 2003/04 revenues have declined somewhat in reaction to increased US competition and weaker tourism figures. However, the year-round operation of a second casino in Niagara Falls will likely return some growth to provincial revenues for 2004/05, whereas, in Quebec revenues are likely to decline as its rollback and redistribution of VLTs continued in 2004/05.

In the Atlantic region, growth has also been slowed but remains steady thanks to the renewal and replacement of VLTs and modest growth in Nova Scotia casino revenues.

**Figure 6: Per Adult (19+) Provincial Net Revenue**



**Source:** Derived by Canada West Foundation from provincial lottery and gaming annual reports and provincial public accounts.

**Gambling Revenue: Context**

*Per Adult Provincial Revenue (19+)*

Provincial per adult gambling revenues measure the amount of income generated for each person aged 19 or older in a province. However, it is important to note that this is not at all the same as the amount each person spends. While survey results show that most Canadian adults do gamble, only a small portion of the population plays the main forms of revenue generation (casinos, slot machines and VLTs) and only a smaller portion of that group plays those games frequently. (Note: per adult revenue figures do not account for tourism-related spending either by tourists, or by Canadians abroad.)

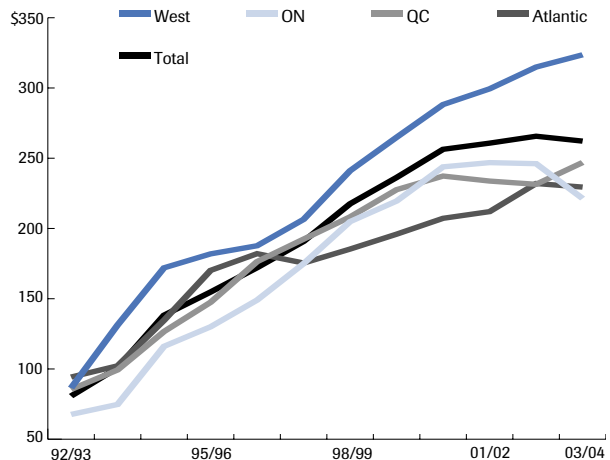
Per adult revenues provide an accurate estimate of the relative additional tax burden that each adult in the province would have to pay to maintain the same level of government services without gambling revenues. Per adult figures can also represent a good measure of the relative profits each province receives from gambling.

Using this measure it is clear the degree to which the prairie provinces once again stand out (Figure 6). Alberta, at \$474 per adult, earns \$212 (44%) more per adult than the national average of \$262. Saskatchewan (\$355) and Manitoba (\$287) round out the top three provinces in per adult earnings.

Figure 7 illustrates the historical trends of these same data. Per adult revenue growth in the West is the strongest and continues to grow upwards, counteracting the declining trends in Ontario, Quebec and the Atlantic region. Each of these regions have experienced modest per capita declines in recent years as gambling revenue growth has failed to keep pace with the adult population growth in those areas.

Figure 7 also illustrates the overall rapid growth of revenue on a per adult basis in Canada throughout the 1990s and the relative stagnant growth that has been occurring since the year 2000. In that time, total per adult revenue growth has increased only 2.3% from \$256 per person in 2000/01 to \$262 in 2003/04.

**Figure 7: Per Adult (19+) Provincial Revenue**



**Source:** Derived by Canada West Foundation from provincial lottery and gaming annual reports and provincial public accounts and the DBRS.

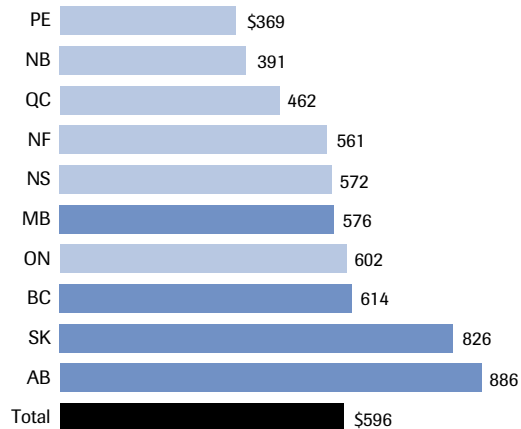
*Per Adult Losses (19+)*

Per adult losses represent a better way of estimating the direct financial impact of gambling on individuals. Data in this section are based upon the gross profit revenues from government-run gambling activity, government-licensed charitable activity (including First Nations) and horse racing.

As with the revenue calculations, per adult calculations largely underestimate the actual monies spent on gambling by individuals who gamble because only a small portion of the adult population gamble on the highest revenue extracting gambling options (slot machines, VLTs and casinos). By spreading these calculations across the entire adult population, the actual losses appear less severe. (Note: This measure also excludes the effects of tourism activity.)

The per adult loss in Canada for 2003/04 was \$596—nearly \$50 per person per month or more than \$1.65 lost per adult per day

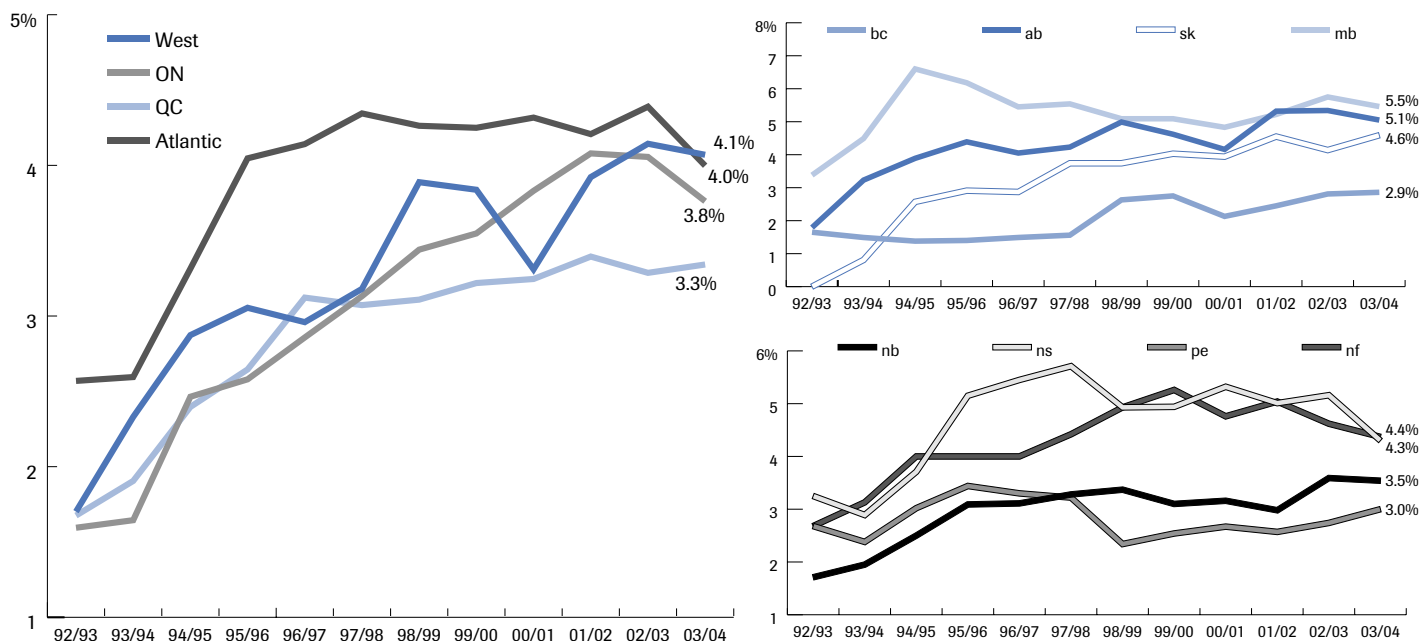
**Figure 8: Per Adult (19+) Gambling Losses (all sources)**



**Source:** Derived by Canada West Foundation from provincial lottery and gaming annual reports and provincial public accounts.



**Figure 9: Gambling Revenues as a Percentage of Own Source Revenues 92/93-03/04**



**Source:** Derived by Canada West Foundation from provincial lottery and gaming annual reports and provincial public accounts and the DBRS.

(Figure 8). Once again, Alberta (\$886) and Saskatchewan (\$826) distinguish themselves—adults in these provinces lose as much as 40-50% more money gambling each year than the national average. Three of the top four provinces in per adult losses are from the West.

*Provincial Gambling Revenue Dependency*

The issue of government gambling dependency is perhaps the most prominent concern for critics and analysts. Governments find themselves in a potential conflict of interest as both the providers and regulators of gambling. This dual role creates questions about the ability of governments to properly carry out both responsibilities. Profit maximization and public health goals would appear to be often incongruent.

As gambling has grown in popularity so has the portion of the net revenues that provinces draw from gambling activity. Between 2.9% (BC) and 5.5% (Manitoba) of provincial own-source revenue was derived from government-run net gambling revenue in 2003/04 (Figure 9). Alberta, even with its high natural resources revenues, was the second most dependent province on gambling revenues, with more than 5.1% of provincial own-source revenue from gambling activity. Rounding out the top three is Saskatchewan at 4.6%. Once again, the West distinguishes itself as being relatively more dependent on gambling to fund programs.

For the provinces as a whole, 3.8% of all revenue raised by the provinces was derived from gambling sources. These data represent a slip from previous highs of 3.9% in 2001/02 and 2002/03. The only provinces that exhibited an increase in their reliance on gambling were BC, Saskatchewan, Quebec, and PEI.

The importance of gambling revenues represents a sizeable barrier to changing gambling policies. Compelling arguments can be made that the provinces require these revenues to deliver programs. A proposed policy change that might result in a reduction of gambling revenue is often opposed due to publicly-held fears of a subsequent reduction in services (Azmiar et al 1999).

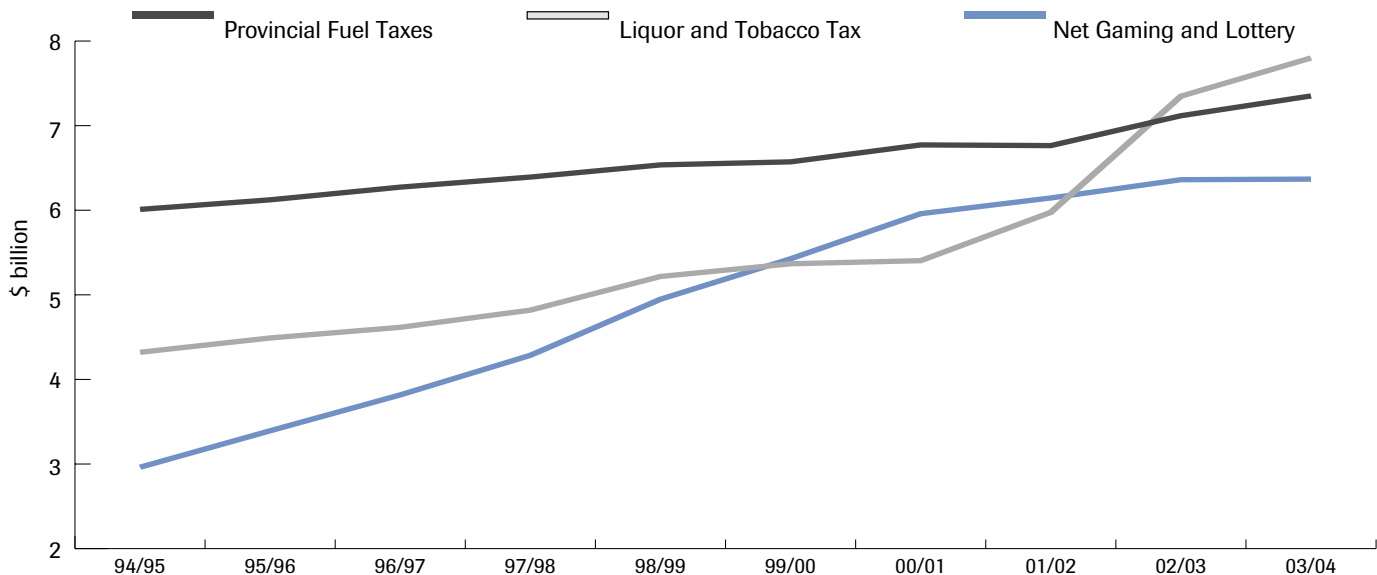
The decline of gambling's importance does not mean that gambling revenues are also in decline. Rather, a number of other income sources, (e.g., natural resource revenues) are increasing at a more rapid pace causing a decline in the relative importance of gambling revenue. Since the 2000, provincial governments' dependence on gambling revenue has grown only a quarter of a percentage point.

A part of this trend has been the growth of the other so-called "sin" taxes of tobacco and alcohol. As shown in Figure 10, tax revenue growth in alcohol and tobacco has surged since 2001/02. In the year 2003/04, the combined values of liquor and tobacco reached \$7.8 billion compared with the \$6.3 billion in gambling net profit. Nonetheless, gambling is still the single dominant sin tax revenue source.

Not long ago, it appeared as though gambling revenues would actually outgrow the combined revenues generated from alcohol and tobacco taxation. Indeed, for a short period of time, gambling revenues did surpass these other revenue sources.

Gambling revenues also approach those of fuel tax revenues. At \$7.3 billion, fuel tax revenues are only \$1 billion above current gambling net profits—with similar growth rates. At one time (1998/99), gambling profits even approached provincial natural

**Figure 10:** Comparative Sources of Government Revenue 94/95-03/04



**Source:** Derived by Canada West Foundation from provincial lottery and gaming annual reports and provincial public accounts and the Dominion Bond Rating Service (DBRS).

resource revenues in importance but natural resource revenues have more than doubled since then to the current \$13.1 billion. Natural resource revenues now dwarf gambling in size and relative importance to the overall provincial revenue mix.

**Gambling Expenditure: Context**

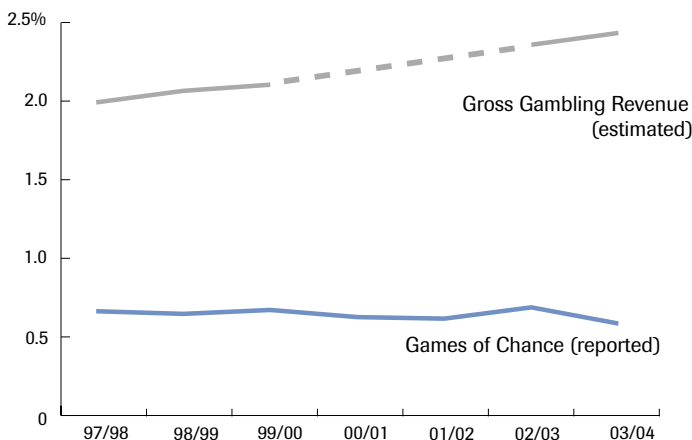
Household expenditure provides another opportunity to understand gambling activity. This approach is particularly insightful as it also provides an illustration of the clear lack of awareness individuals have of their actual gambling behaviours.

Figure 11 illustrates two main measures of household spending. The first, “games of chance,” is the amount of spending on games of chance that individuals report to Statistics Canada’s Survey

of Household Spending (SHS). The second line on the graph illustrates an estimate of the actual spending levels derived by dividing gross provincial gambling profits by the number of households in the provinces (for purposes of this estimate, non-government run gambling was excluded). As with previous estimates, this calculation also ignores the effect of tourism spending, both internally (foreign spending in Canada) and externally (Canadians gambling abroad).

Using these revenue figures it is apparent that Canadians vastly underestimate their amount of gambling spending each year. Only one-quarter of actual gambling expenditure levels were reported by Canadians in 2003. Actual annual household spending levels are estimated at \$1,080, and reported spending was only \$272.

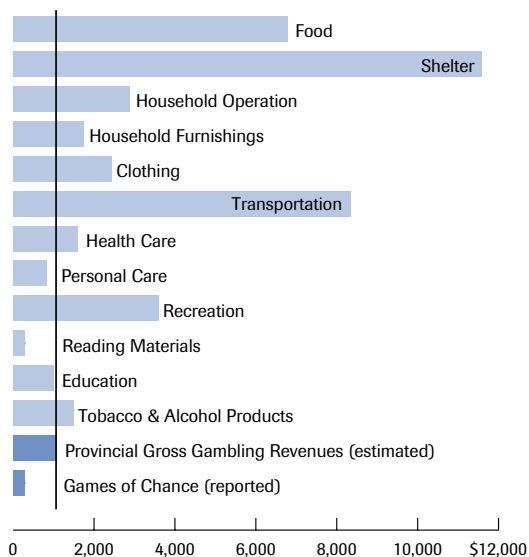
**Figure 11:** Gambling Expenditure as a Percentage of Total Consumer Expenditure (reported and estimated)



	Gross Provincial Revenue		Games of Chance (reported)		
	Total	Est. per household	Total	per household	Under-reporting
97/98	\$7,926,070,000	\$715	\$2,738,229,650	\$247	35%
98/99	\$8,632,000,000	\$765	\$2,808,936,630	\$249	33%
99/00	\$9,040,000,000	\$806	\$2,993,059,320	\$267	33%
00/01	n/a	n/a	\$2,965,432,410	\$261	n/a
01/02	n/a	n/a	\$3,084,386,670	\$267	n/a
02/03	\$12,046,889,272	\$1,033	\$3,648,869,490	\$313	30%
03/04	\$12,741,875,000	\$1,080	\$3,210,530,240	\$272	25%

**Source:** Derived by Canada West Foundation from Statistics Canada’s Survey of Household Spending data, Canadian Gambling Partnership, and provincial lottery and gaming annual reports and provincial public accounts and Statistics Canada National Accounts data. **Note:** Dotted line represents data not calculated.

**Figure 12:** Comparative Sources of Household Expenditure 2003



**Source:** Derived by Canada West Foundation from Statistics Canada's Survey of Household Spending data.

In fact, spending on “games of chance” has barely increased at all according to individuals completing the SHS in spite of a number of year over year increases in gambling revenue. In the last 5 years, more than \$3 billion in additional gross gambling revenues were earned by the provinces, yet reported spending levels increased a mere \$225 million.

The apparent disconnect between known gambling losses and estimated losses represents a gambling policy issue. These data suggest that regulatory efforts to require technologies and procedure that assist in tracking or limiting individuals' gambling losses would be of value.

Figure 12 also demonstrates the importance of gambling expenditure as portion of total consumer expenditures. The individually reported figures for games of chance represent only a very small part (0.6%) of total household expenditures. However, gambling's importance as an expenditure is much higher using the estimated figure—2.5% of average household expenditures may actually go towards gambling activity.

Figure 13 presents these same data in a different light. Comparative household expenditures are used to place gambling's importance to the household expenditure in context. The actual gambling expenditure levels per household (\$1,080) are higher than the amounts spent on education (\$1,007) and personal care (\$834). Gambling levels are also close to alcohol and tobacco products (\$1,489) and health care (\$1,588). The self-reported figure of \$272, although only one quarter of the actual value, is still on par with household expenditures on reading materials (\$283).

*Expenditure Source*

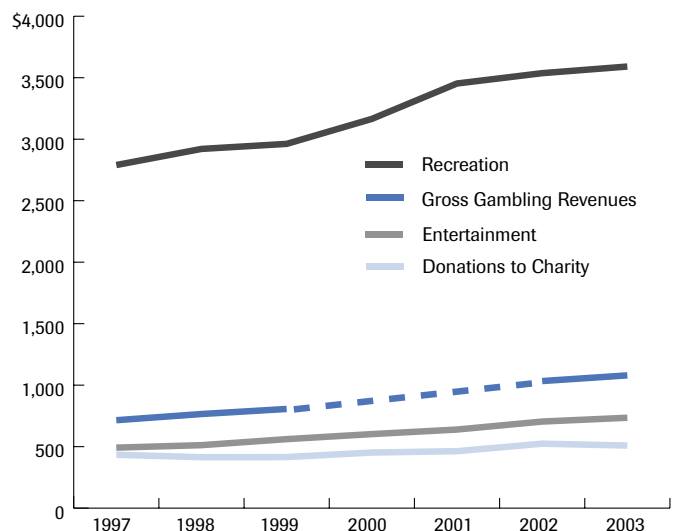
As household gambling expenditures appear to have increased rapidly in the last dozen years, it is unclear as to what impact this additional \$12.7 billion expenditure has had upon other sources of expenditure, savings and debt loads. It is known that consumer debt loads have increased in recent years and that individuals savings levels have declined, but these trends can be unrelated to the increase in gambling expenditures.

It may also be true that other forms of entertainment-related spending have declined if gambling spending has cannibalized other spending. However, as illustrated in Figure 13, household recreation-related expenditures have also increased since 1997.

Specifically, the recreation expenditure subset of “entertainment” has not been substantially influenced by the growth of gross gambling profits. Since 1997, entertainment-related expenses have grown from \$492 to \$735 in 2003. This was approximately the same rate of growth as gambling gross profits over the same period.

Another area of concern relates to the impact that the rise of gambling revenues may have had upon direct charitable donations because of the use of some government-run gambling proceeds to offer grants to charities. Individuals may divert their direct donations to charities in order to be entertained at charity casinos. On the whole, however, the increase in gambling revenues does not appear to have had a negative impact on donations. Donation levels have increased modestly since 1997, from \$434 per household to \$509 per household in 2003. Although not declining, it is of note that these values are only one-half the estimated amounts spent on gambling.

**Figure 13:** Comparative Sources of Recreation Expenditure 1997-03



**Source:** Derived by Canada West Foundation from Statistics Canada's Survey of Household Spending data, Canadian Gambling Partnership, and Provincial lottery and gaming annual reports and provincial public accounts and Statistics Canada National Accounts data. **Note:** Dotted line represents data not calculated.

**Figure 14:** Western Revenue Allocations 02/03 and 03/04

	\$ 02/03	\$ 03/04
<b>BC</b>		
Charities & Community organizations	\$133,200,000	\$132,000,000
Problem gambling	3,308,000	4,000,000
Consolidated Revenue Fund (GRF)	488,800,000	384,000,000
Host local governments of community casinos	38,221,000	45,000,000
Host local governments of destination casinos	6,900,000	8,000,000
Health Special Account	0	147,000,000
<b>Total</b>	<b>\$670,429,000</b>	<b>\$720,000,000</b>
<b>AB</b>		
Agriculture, Food and Rural Development	\$16,620,000	\$16,620,000
Children's Services	30,000,000	30,000,000
Community Development	76,105,000	85,806,000
Economic Development	14,100,000	14,100,000
Gaming	146,448,000	160,748,000
Health and Wellness	196,380,000	209,274,000
Human Resources and Employment	0	16,633,000
Infrastructure	145,000,000	165,000,000
Innovation and Science	127,497,000	110,285,000
Learning	116,400,000	91,000,000
Municipal Affairs	40,000,000	24,000,000
Transportation	95,000,000	160,000,000
Finance	95,679,000	84,365,000
<b>Total</b>	<b>\$1,099,229,000</b>	<b>\$1,167,831,000</b>
<b>SK</b>		
Provincial Government's General Revenue Fund (SIGA Profits - Casinos)	\$12,304,500	\$11,995,125
First Nations' Trust (SIGA Profits - Casinos)	12,304,500	11,995,125
Community Development (SIGA Profits - Casinos)	8,203,000	7,996,750
Essential Programs (health care, highways, etc. (VLT Profits)	117,918,000	201,667,000
Provincial Government's General Revenue Fund (SGC Profits - Casinos)	16,007	18,240
First Nations' Trust (SGC Profits - Casinos)	8,003	9,120
Community Initiatives Fund (SGC Profits - Casinos)	8,003	9,120
<b>Total</b>	<b>\$150,762,013</b>	<b>\$233,690,480</b>
<b>MB</b>		
Economic benefit equalization	\$2,585,000	\$2,698,000
Addictions Foundation of Manitoba	1,898,000	1,866,000
Charitable organizations	3,946,000	3,932,000
<b>Total</b>	<b>8,429,000</b>	<b>8,496,000</b>
Transfer to GRF	\$265,484,000	\$235,419,000

**Source:** Provincial lottery and gaming annual reports

## Gambling Allocations

Provincial net gambling profits of \$6.3 billion fund primarily the day-to-day operations of government, facilitating the provision of programs and services for the public. Gambling revenue directly supports provincial infrastructures, provides for debt repayment, health care, education and social services, grants to charities and treatment of gambling addiction. (The activities funded by gambling revenues in the western provinces are described in Figure 14.)

For the most part, the specific allocation of gambling revenues is either wholly or partially at the discretion of governments. For some provinces there can be commitments to spend a certain percentage of the revenues in specific areas (e.g., additional municipal grants to places with casinos) and government ministries (e.g., health care) and for addiction services (e.g., research, treatment and education commitments).

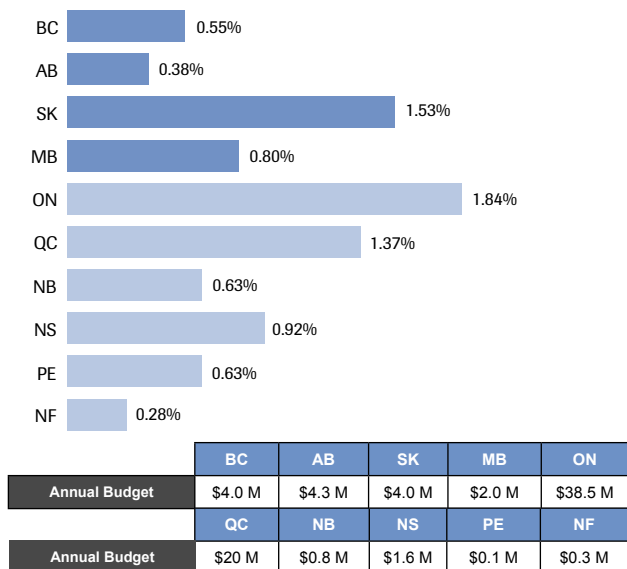
Despite these commitments, in nearly all cases gambling revenues first flow to the various provincial consolidated/general revenue funds (GRFs) to mix with all other revenue sources to then be distributed among all the functions of government, or to fulfill specific announced gambling-spending commitments.

This latter approach is reflective of the on-going politics of the gambling issue. Some provinces have gone to the extreme and designate large parts of gambling revenues to specific projects and programs deemed to be for the public good. The province of Alberta (as illustrated in Figure 14), uses all its gambling revenues to specifically fund a number of core government responsibilities (e.g., transportation, health, learning, municipal affairs). "Alberta Lottery Fund" symbols appear on projects across the province to remind citizens of the good works gambling supports. Saskatchewan, BC, and Ontario also have partial commitments of gambling revenues.

This trend is representative of a shift in the thinking towards gambling spending. The apparent moral issues associated with the funding of basic government activities through gambling revenues has lessened as government programs become the justification for providing gambling activity. The highly regressive nature of this form of taxation, religious objections to gambling, and the issues of raising funds from problem gamblers and the addicted appear to have diminished as concerns. Additionally, previous objections related to the funding of core programs with an unstable revenue like gambling have lessened over time. The once realistic threat of a citizen-forced change to gambling policies has been diffused in recent years as expansion has slowed.

The alternative case—a lack of information on where the money from gambling goes—can also be problematic. Most of the revenues earned in Manitoba, Quebec, and the Atlantic provinces are earned without allocation commitments. The wholesale transfer of revenues to the GRFs allows for no system of checks and balances to monitor the provinces'

**Figure 15:** % of Net Revenues Spent on Prevention and Treatment of Problem Gambling 2003/04



**Source:** Treatment figures derived from personal communication with provincial lottery and gaming officials. Revenue figures derived by Canada West Foundation from provincial lottery and gaming annual reports. **Note:** Data are estimated budgeted figures only, actual program spending will differ.

commitment to the good works principles associated with raising gambling revenue. Gambling revenues are described as falling into a black hole. With some on-going public tension over the appropriateness of gambling policy, the absence of provincial accountability for the spending of gambling dollars can become an issue of trust.

### Gambling Grants

One important non-government destination of gambling revenue is direct grants to registered charities, nonprofits and individuals. Alberta (approx. \$170 million), BC (\$132 million), Ontario (\$100 million) and Saskatchewan (approx. \$38 million) each provide grants to fund local charitable activities. Charities in these provinces can apply to receive portions of the government gambling proceeds. In the case of BC and Ontario, these revenues were originally designed to offset the losses from the introduction of government-run gambling that reduced revenues to charities.

Another high profile government spending activity is the designation of some gambling revenues to fund gambling addiction treatment, education, prevention and research activities. All provincial governments to varying degrees fund these services to deal with the consequences of problem gambling. Figure 15 details the annual problem gambling expenditure in each province for 2003/04. Combined, the provinces budgeted just over \$75 million to be spent on administering and delivering of programs in 2003/04, or about \$3.10 per adult Canadian. Provincially, Ontario (estimated at \$38.5 million) and Quebec (\$20 million) budget the most money for treatment. (Actual spending figures will be lower due to administration costs.)

When considered as a percentage of provincial revenues, these allocations are quite small (Figure 15). Nationally, only 1.2% of the net proceeds from gambling are diverted to the development of

programs to deal with gambling addiction. Ontario (estimated at 1.84%), and Saskatchewan (1.54%) fund at the highest levels while Newfoundland (0.28%) and Alberta (0.38%) fund the least as a percentage of profits.

These data are not to be interpreted to suggest that problem gambling addiction services are over- or under-funded in any one province. Rather, the policy question is whether 1.2% of net revenues or \$75 million nationally is sufficient for the *prevention* and *education* efforts to proactively address future addiction issues. By way of contrast, the province of Ontario alone spends \$248 million on the marketing and promotion of its gambling activities.

### Problem Gambling

The most contentious and problematic gambling policy issue involves the impact of the behaviour of individuals with a gambling impulse control disorder has upon themselves, their families and communities. These “problem gamblers” suffer severe consequences including bankruptcy, job loss, divorce and, in the most tragic case, suicide.

The recent development of a Canadian Problem Gambling Index (CPGI) has provided, for the first time, a comparative analysis of the state of problem gambling in Canada (Marshall and Wynne 2003). Statistics Canada’s 2002 Canadian Community Health Survey administered the CPGI and found almost 1.2 million persons exhibiting at least 1 indication of some problem gambling behaviour—roughly enough persons to fill a major Canadian city. Their findings suggest that—on the whole—almost 1 in 15 gamblers (6.3%) are exhibiting some at-risk behaviours.

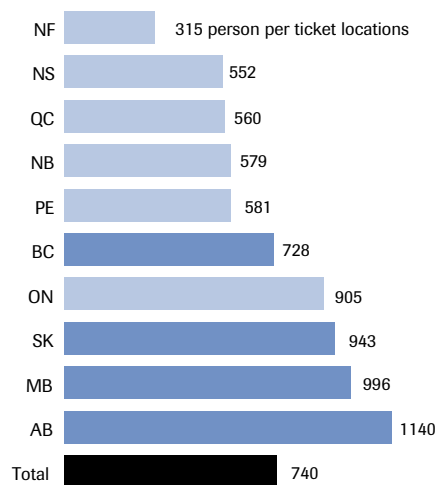
Provincially, Manitoba (9.4%), Saskatchewan (9.3%) and Alberta (7.8%) lead the way with the highest percentage of at-risk and problem gamblers—wholly consistent with these provinces’ status as the leaders in most of the gambling revenue categories.

**Figure 16:** At Risk and Problem Gambling, 2002

	Adult Gambling Population	At-Risk & Problem Gambling Rate	# of At-Risk & Problem Gamblers	Gambling Treatment \$ per At-Risk & Problem Gambler
BC	2,474,000	6.9%	170,706	\$23
AB	1,731,000	7.8%	135,018	\$32
SK	575,000	9.3%	53,475	\$75
MB	642,000	9.4%	60,348	\$32
ON	7,213,000	6.5%	468,845	\$82
QC	4,787,000	4.6%	220,202	\$91
NB	463,000	5.3%	24,539	\$31
NS	588,000	5.7%	33,516	\$48
PE	83,000	4.8%	3,984	\$29
NF	330,000	6.3%	20,790	\$14
<b>TOTAL</b>	<b>18,886,000</b>	<b>6.3%</b>	<b>1,191,423</b>	<b>\$63</b>

**Source:** Derived by Canada West Foundation from Statistics Canada 75-001-XIE Vol. 4, No. 12.

**Figure 17:** Ticket Lottery Locations per Capita (19+), 2004



**Source:** Personal communication with provincial lottery and gaming officials.

### Gambling Venues

As illustrated in Figure 1 (on page 1), there are over 145,000 places and opportunities to make a legal wager in Canada. In 2004, Canadians and tourists could choose to gamble at 87,000 electronic gambling machines (EGMs) in casinos, bars, lounges and racetracks, 33,000 lottery ticket centres, more than 25,000 licensed charitable events, 60 permanent casinos featuring 1,700 gambling tables, and 250 race tracks and teletheatres.

A range of legal gambling activity is available in every Canadian province. Weekly lotteries, scratch tickets, bingo, break-open tickets and raffles can be played in every province and territory. Notable exceptions are the lack of casino table games and slot machines in PEI, New Brunswick and Newfoundland, and the lack of VLTs in Ontario and in BC.

The three prairie provinces offer perhaps the broadest range of gambling activity. These provinces have now approved most of the main forms of legal gambling, including First Nations-run gambling. Alberta was also unique in offering a sports-based lottery to benefit its (for-profit) NHL teams. Certainly, the wide availability of most forms of legal gambling in this region is a factor in the higher revenue and problem gambling data.

It is also noteworthy that in spite of gambling's popularity in the prairie regions, ticket lottery activity in this region is relatively unpopular. The fewest number of lottery ticket centres per adult are located within the prairie region (Figure 17). The variety of other gambling activities available in the area may influence these data.

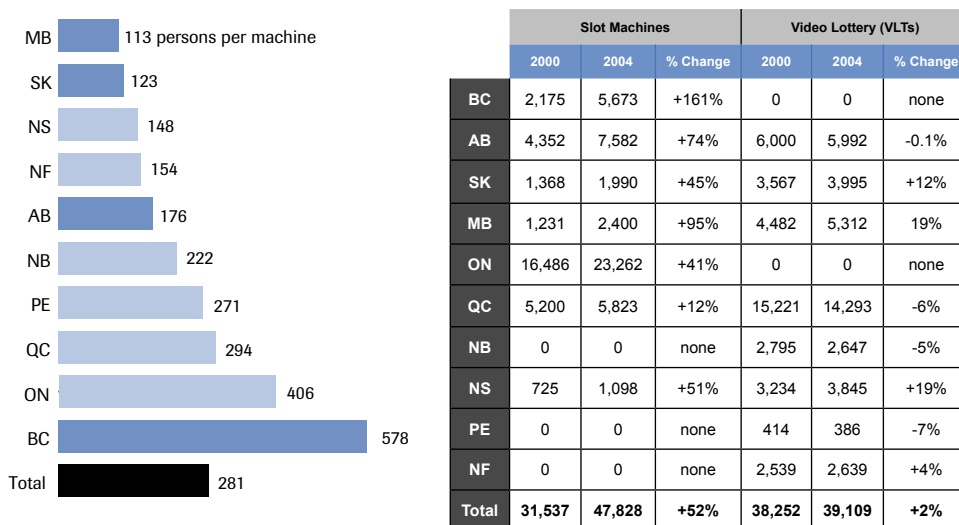
Over the last four years, the main area of gambling growth in Canada has been in slot machines. Due, in part, to the waning tolerance for VLTs among the public and regulators, slot machines have now taken over as the dominant form of electronic gambling. In the last four years alone, 16,000 new slot machines have been introduced across the provinces (Figure 18). Once again, slot machine growth is most pronounced in the West. In BC, the number of machines increased 161%, Alberta added 74% more, Saskatchewan added 45% more.

Slot machines also dominate activity in most provincial casinos. In December 2004, there were 1,738 tables operating in casinos compared with 37,872 in-casino slot machines, a ratio of 21 machines for each table game. In Manitoba, the ratio runs as high as 39 machines for each table game because of electronic bingo and other electronic games within its casinos. The lowest ratio is found in BC where there are 15 games per table.

As a result of slot machine growth, the EGM is by far the most prolific form of gambling in Canada. In 2004, there was an average of 281 persons for every machine in Canada—down from 329 persons per machine in 2000. On a per adult basis, the most machines can be found in Manitoba (1 EGM per 113 adults), Saskatchewan (1 per 123 adults), and Nova Scotia (1 per 148 adults). Ontario, with over 23,000 machines, has the most EGMs, but has relatively fewer machines per adult (1 per 406 adults) due to its lack of VLTs.

Quebec is also distinct; with over 14,200 VLT machines alone, it is the leader in providing this form of technology. Of the 39,109 VLTs in Canada, 37% are located in Quebec. These totals reflect a 6% reduction in the number of VLTs available in the area since 2000. The province is in the midst of an overall reduction and redistribution of the number of VLTs in lower income areas. VLT reductions have also occurred in PEI and New Brunswick. The growth rate for all provinces was only 2%—reflective of a number of self-imposed expansion moratoriums and the shift to the more popular slot machine form of electronic gambling.

**Figure 18:** Electronic Gambling Machines per Capita (19+), 2004



**Source:** Derived by Canada West Foundation from provincial lottery and gaming annual reports, personal communication and the Canadian Gaming News (#121). **Note:** Manitoba 2004 figures include all slot machines and electronic games within its casinos. Manitoba year 2000 figures included only slot machines.



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