

WESTERN CAPE GAMBLING AND RACING BOARD

West Coast Casino Development Project

Report on the achievement of undertakings in respect of Empowerment

made by West Coast Leisure (Pty) Ltd (“the licence holder”) by the

Social Equity Committee of the Western Cape Gambling and Racing Board

AMBIT OF REPORT:

This Report traces the measures adopted by the Social Equity Committee (“the Committee”) of the Western Cape Gambling and Racing Board (“the Board”) to monitor and ensure the delivery of all empowerment undertakings made by the holder of the West Coast casino operator licence, West Coast Leisure, in its bid documentation. As such, the report sketches the emphasis placed on empowerment initiatives and undertakings as a cornerstone of the licensing process in this Province, their articulation in the Policy Determinations developed by the Provincial Cabinet, their status as key criteria for the evaluation of licence applications in the Board’s Request for Proposal (“RFP”), the role played by such considerations in the evaluation of the various applications and their eventual incorporation into the conditions of the relevant licence.

In addition, this report focuses on the origins and constitution of the Committee, its functional parameters and approach and the nature of the investigations conducted at its instance, as well as the findings made by it at the conclusion of the construction phase of the casino component of the Project.

THE POLICY DETERMINATIONS:

A number of the Policy Determinations developed by the Provincial Cabinet stress the pivotal importance of the goal of empowerment of previously disadvantaged persons (“PDI’s”) in the licensing process in this Province. Relevant extracts from the Policy Determinations read as follows:

“1.2 The Board shall, when considering applications for casino operator licences, have regard to the following:

- (a) ...
- (b) ...
- (c) ...
- (d) ...
- (e) the applicant's contribution to the empowerment of local disadvantaged groups in this Province through both employment and equity ownership;
- (f) the degree of employment by the applicant of local professional consultants, construction entities and contractors from the emergent sector in this Province;
- (g) the number of new casual and permanent jobs to be created on-site in the casino and all its ancillary facilities;
- (h) the envisaged degree of employment by the applicant of staff from this Province for all aspects of the operation;
- (i) the programmes envisaged by an applicant to train his or her staff to enable them to progress within the operation;
- (j) the location of the casino and the compatibility of the proposed site with the relevant planning and development policies for the area, with due regard to its accessibility to all sectors of the community, and
- (k) the extent to which sustainable community facilities and the provision of tourism infrastructure will be provided.”

THE RFP AND ADJUDICATION PROCESS

The above criteria were in turn incorporated into the RFP, so that all applicants could be fully apprised of the degree to which empowerment considerations would play a role in the eventual allocation of the licence. In the Board's eventual adjudication of the various applications received, emphasis continued to be placed upon the importance of the extent to which proposals made by the applicant contributed towards the realisation of the community benefits sought by the Board.

The concept "community benefits" included the following key sub-criteria:

- Employment opportunities (opportunities for local employment, including direct and indirect, temporary and permanent, arising out of the development).
- Employment Mix (Projected composition of employees for whom provision is made, including provision for gender and the disabled).
- Social Impact (Mitigation of the negative potential social impacts of a casino development on neighbouring communities).
- SMME's (The degree of promotion of small, medium and micro businesses in the Region).
- Involvement of previously disadvantaged communities in the development through investment and ownership.
- Training (Training of employees, with due regard to employment mix, at various levels of employment).
- Problem Gambling (Awareness of and steps to be taken to mitigate the potential negative impact of the casino, such as education and rehabilitation).

The above criteria were taken into account by the Board in its evaluation of the application submitted. In consequence, it was acknowledged to be of great importance to ensure that all undertakings made in respect of empowerment, as in the case of other key areas of the project, would be honoured. This was achieved by way of the incorporation of these undertakings, by reference thereto, into the eventual licence conditions.

CONDITIONS OF CASINO OPERATOR LICENCE AWARDED TO THE LICENCE HOLDER

In accordance with the observations made above, Condition 33 of the casino operator licence issued to West Coast Leisure stipulates as follows:

“33. All commitments and undertakings made by the licence holder in respect of the empowerment of previously disadvantaged persons or communities, both in its bid documentation, and any amendments or supplementations thereto approved by the Board or agreed to between the licence holder and the Social Equity Committee of the Board (as ratified by the full Board) subsequent to the lodgement of its Proposal, shall be adhered to by the licence holder and monitored through a regular people’s audit.”

The purpose of the above condition was to ensure that compliance with empowerment undertakings made by the licence holder could be enforced. It was also recognised that, in view of the extensive nature of the undertakings made, it would be necessary to constitute a committee, the purpose of which would be to monitor the implementation of the relevant undertakings, to conduct audits designed to quantify levels of compliance and to deal with queries and concerns which might arise as well as all other matters germane to the delivery of the empowerment undertakings. In accordance with the above objectives, the following further conditions were inserted into the relevant casino operator licence:

- “34. The Board shall establish and the licence holder shall fund monitoring committees between itself, the Board, the relevant local authorities and such other parties as may be appropriate, in order to monitor the implementation of the Project components and the developmental conditions. These committees shall meet on a monthly basis once the licence has been issued and shall function under the chairmanship of a person nominated by the Board.**
- 35. All reasonable costs incurred by the Board in evaluating and monitoring the progress and completion of the Project shall be for the account of the licence holder, pursuant to the provisions of Section 12 (22) of the Law, provided that the Board shall consult with the licence holder on a regular basis with a view to ensuring that such costs are not excessive or inappropriate.”**

The above conditions ensured that meaningful monitoring of the delivery of empowerment undertakings could take place.

ESTABLISHMENT, COMPOSITION & FUNCTIONS OF THE COMMITTEE

In accordance with the provisions of Condition 34 of the licence, the Board established a Social Equity Committee, funded by the licence holder pursuant to Condition 35. The functions of this Committee are to monitor and evaluate compliance with the empowerment undertakings of licence holders, bearing in mind the fact that it is of importance to ensure not only that the quantitative elements of the empowerment undertakings, such as the targets set, are met, but also that the qualitative aspects bear up to scrutiny. In this regard, for example, it is important to ensure that empowerment initiatives are meaningful in terms of nature and content, are accessible, are as broad-based as possible and in fact have the effect for which they were designed.

The Committee, which incorporates a number of Board members, certain staff members and representatives of the relevant licence holder, meets on a monthly basis and addresses itself to progress made in respect of a number of issues. Its agenda is largely generic in

nature with every meeting addressing the listed topics, and information being updated and discussed on a regular basis. Agenda items typically include an assessment of progress made in respect of key areas of concern. Attention is accordingly focused on, *inter alia*, the extent to which the development has created accessible employment opportunities for Affirmable Business Enterprises (“ABE’s”) and Small, Medium and Micro Business Enterprises (“SMME’s”), created structures enabling such opportunities to be maximised, the extent to which concession and other opportunities in the Project have been made accessible to Previously Disadvantaged Persons (“PDI’s) or Entities and the degree to which empowerment has been achieved through training and related measures.

The above procedure enabled all parties to remain focused on the realisation of the many empowerment benefits which the Project has to offer in a spirit of mutual co-operation.

MEETINGS OF THE COMMITTEE

The Committee commenced its formal functioning on 11 November 1999, before the final grant of the licence issued in respect of the Cape Metropole. At this juncture, the Committee focused its energies on developing a protocol for its future functioning and seeking unanimity as to the parameters within which it would operate.

After a number of initial meetings, consensus was reached on the format for future meetings, the status and functioning of the Committee, the extent of its decision-making authority, its manner of reporting to the Board and, crucially, the manner in which compliance by the licence holder with empowerment deliverables could meaningfully and effectively be monitored by the Board.

Initially, the Committee conducted formal meetings at least once every month, and continues to meet regularly. However, contact between the licence holder and the office of the Board in respect of empowerment issues is not confined to such meetings. Ongoing interaction between the office of the Board and representatives of the licence holder is

required and maintained in order to ensure that the Board remains up to date with all developments affecting compliance with empowerment deliverables. Thus, in instances where the office of the Board receives feedback or queries from individuals regarding aspects of the licence holder's empowerment structure or its *modus operandi* in executing the policies ascribed to by it, these are immediately referred to the licence holder for its comment. All the relevant documentation is then placed before the Board component of the Committee for its consideration and decision. So, also, the licence holder is required to submit a monthly report following the format of the generic agenda in advance of each meeting to enable the Board component of the Committee to familiarise itself with the issues to be raised at the meeting and so to facilitate meaningful interaction between the parties. In addition, the Committee played an active role in the creation of a consultative forum to facilitate enhanced communication between the operator and its various empowerment partners.

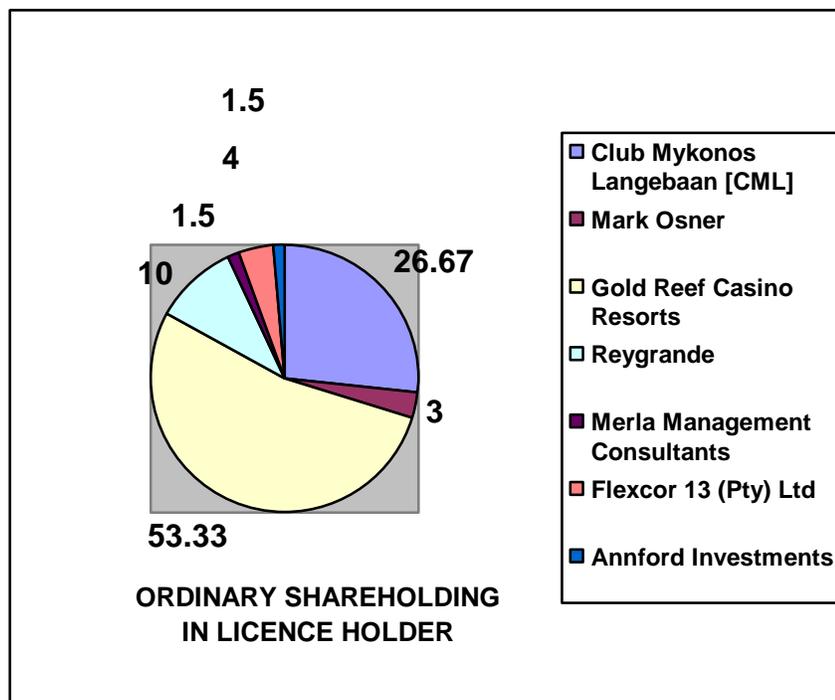
A representative of the Board's office has also regularly visited the offices at which statistics and records in respect of the evaluation, selection and appointment of empowerment sub-contractors and suppliers, the work performed by them, the value thereof and their payment are maintained, for the purpose of conducting audits aimed at verifying the monthly statistics furnished to the Committee by the licence holder. These are physical audits entailing a thorough examination of all records kept, invoices submitted and payments made to PDI's and ABE's. This approach enables the Committee to quantify the licence holder's compliance with the targets set by it on an ongoing basis, while the perusal of records relating to the manner of evaluation and selection of suppliers and sub-contractors enables the Board, through the Committee, to monitor the extent to which the empowerment undertakings of the licence holder are being achieved on a qualitative level. The cumulative statistics gathered by way of this process, and thus the licence holder's compliance with the targets set, will be addressed and analysed in detail at a later juncture in this report.

In addition, the Committee has also conducted site visits involving physical inspections of all relevant facilities.

EMPOWERMENT UNDERTAKINGS MADE BY THE LICENCE HOLDER

The empowerment objectives set and undertakings made by the licence holder are comprehensively set out in its bid documentation. Specific undertakings are made in respect of shareholders, employees and suppliers of the licence holder on the one hand and members of the community on the other. This report will briefly outline the key deliverables identified in the bid, but it must be stressed that the areas covered by this report are not exhaustive.

In respect of shareholders, the licence holder has committed to an equity investment structure designed to assist historically disadvantaged shareholders to procure equity with the minimum of financial exposure. Thus, in respect of its ordinary shares, the licence holder is held as to 10% by its empowerment partner, Reygrande Investment Holdings (Pty) Ltd (“Reygrande”), which has an irrevocable option to increase its shareholding in the licence holder to 30%. The current shareholding in the company can be graphically portrayed as indicated in the graph below:



It should be noted that the 10% shareholding currently held by Reygrande in the licence holder has been procured at no cost to the empowerment company. It has also been expressly agreed in the shareholders' agreement that the holding of Reygrande in the company will not be diluted. Reygrande's option to acquire a further 20% of the ordinary shares in the licence holder is moreover exercisable at any future date, providing the empowerment stakeholders with the broadest possible framework within which to increase its participation in the Project and, correspondingly, representation on the Board of the licence holder.

In respect of employees, the bid documentation outlines and commits to the licence holder's human resource policies in respect of:

- job creation and the recruitment of PDI's in the Western Cape (coupled with a licence condition requiring 80% of employment opportunities – both in respect of the construction and operational phases – to be allocated to persons based in the West Coast Region or the Western Cape),
- training of staff, specifying the training to be presented, which will mirror that offered by the Casino Operator, Casinos Austria, in its other international operations,
- the introduction of a profit-sharing scheme for employees,
- the setting of employment targets, and
- the implementation of an employment equity audit to monitor and assist in the achievement of targets as well as the introduction of an Employment Equity Review Team to ensure that the information emanating from the audit is reliable and its recommendations implemented.

Furthermore, in respect of procurement, it is a condition of the licence that a minimum of 30% of the employment opportunities during the construction phase of the Project will be allocated to PDI's and ABE's. In approaching the question of whether this requirement has been complied with, it must be taken into account that, in terms of the licence conditions, the total capital expenditure in respect of the Project will be finally determined only after the casino has been in operation for some time. In addition, the licence holder will be required to make provision, irrespective of the sum at which the

capital expenditure in respect of the project is set, for a convention centre. Therefore, a substantial portion of the construction to be undertaken in respect of the Project has not yet been undertaken. Ongoing audits will therefore be required until such time as all construction is complete.

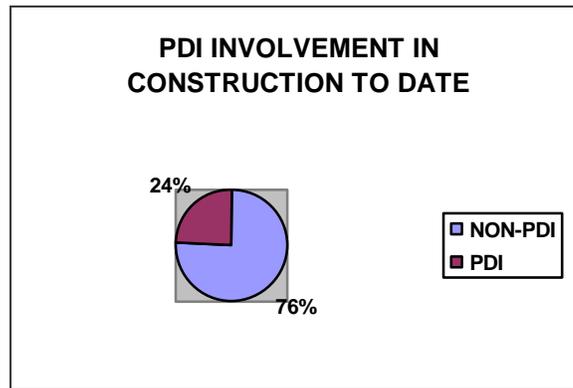
MONITORING IMPLEMENTATION OF EMPOWERMENT DELIVERABLES

The specifics contained in the bid documentation, such as targets (whether numerical or percentile) and budgetary commitments are quantitative elements of the empowerment undertakings made in the original bid of the licence holder which the Committee is able to monitor on an ongoing basis. Thus, the Committee has, for example, throughout the construction phase of the development, closely monitored the licence holder's compliance with the affirmative procurement target of 30% stipulated in respect of the construction phase.

Apart from the monthly reports which the licence holder is required to furnish in this regard, representatives of the Board have made physical visits to the premises on which all relevant documentation is kept. The credentials of the business entities or persons to whom work has been allocated have been examined to determine whether they qualify as empowerment entities or individuals. Audits have been performed to ensure that the amounts reported to have been expended on affirmative procurement are accurate, that invoices matching such amounts have been presented to the licence holder by the relevant persons or entities, and that such amounts have been paid over within a reasonable time.

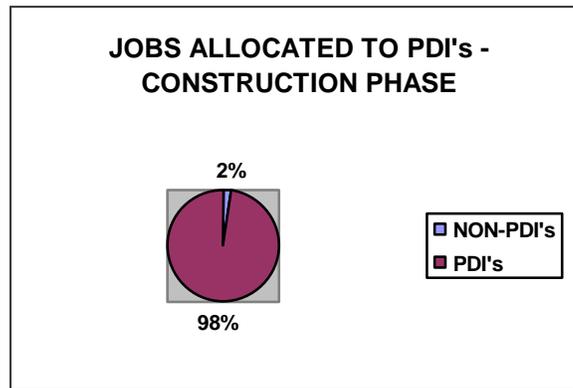
The tables furnished below provide statistics in terms of certain (although not all) key deliverables of the licence holder's empowerment undertakings which have been monitored on an ongoing basis by representatives of the Committee. The figures actually achieved are measured against the targets set in the bid or stipulated in the licence conditions to determine the level of compliance with the empowerment objectives set or to be adhered to by the licence holder and, correspondingly, compliance with the conditions of the casino operator licence issued to the company.

In respect of the level of involvement of PDI's and ABE's in the construction performed to date as audited by the Office of the Board in respect of costs incurred as at 28 February 2002, total construction costs have amounted to R10 500 000,00, of which PDI's have performed work to the value of R2 503 125,22, which, as is indicated by the table below, amounts to 23,8% of the total work performed.



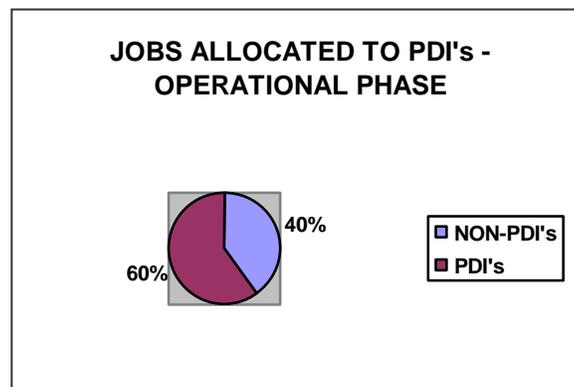
In respect of the above table, it will be noted that the undertakings made by the licence holder included a stipulation in its procurement policy to the effect that it would implement a policy of 30% empowerment breakout in the construction phase of the project. The figure of 23.8% actually attained therefore does not meet the targets specified. However, if allowance is made for the value of the utilisation of an empowerment workforce, the relevant percentage rises to 25,2% of the total amount expended.

In the above regard, the table shown below illustrates the fact that, of 125 jobs created during the construction phase to date, 123 have been allocated to PDI's, signifying that, to date, 98% of the total jobs created to date in the construction phase have been taken up by PDI's.



It will also be noted that the conditions of the casino operator licence provide for the incorporation in the development of a conference facility, which is yet to be built. The Board is presently considering the possibility of creating a mechanism to be made applicable to the construction of the conference facility, which will enable the original undertakings made by the licence holder with regard to its empowerment breakout policy to be fulfilled.

An analysis of the job-creation statistics in respect of the operational phase of the Project reveals that of a total of 181 jobs created by the development during the period in respect of which the audit has been performed, 109 have been allocated to PDI's, amounting to 60% of the employment opportunities created, as is shown below:



It should also be noted, in respect of the above figures, that a further 24 of the employment opportunities contemplated above have been allocated to white women. If this category of persons is included in the definition of PDI, the percentage of work allocated to PDI's in the operational phase rises to 73,48%.

It is important to note that, with the exclusion of the percentages attained in respect of the empowerment breakout during the construction phase, the above statistics not only reveal compliance by the licence holder with the conditions of the casino operator licence awarded to it, but performance over and above the objectives originally identified in the its bid.

The licence holder has also provided empowerment training in a variety of fields including pricing of bills of quantities, basic safety procedures, payment procedures, labour recruitment by sub-contractors, the development of programmes designed to meet deadlines and basic site safety and health procedures.

Casino staff were also provided with training in respect of the identification and handling of persons suffering from compulsive gambling. In addition, extensive training was provided for surveillance and security staff, floor attendants, supervisors, cashiers, vault cashiers, cash desk personnel, pit bosses, assistant pit bosses, inspectors and dealers. A learning and performance budget has also been set aside to provide for continuous training on a variety of staff levels. Sixty percent of this budget has been earmarked for the training of previously disadvantaged staff members.

In view of the nature of the conditions subject to which the licence was issued, which provided that, subject to an express minimum, the total capital expenditure in respect of the Project would be calculated in terms of a formula predicated largely on the revenues generated by casino operations over its initial period of operation, the full extent of the Project has not yet been finalised and therefore, concession opportunities have not been finally decided upon, allocated or monitored by the Committee.

MONITORING OF QUALITATIVE ASPECTS OF EMPOWERMENT

By far the greatest challenge facing the Committee was the formulation of an approach designed to ensure that the qualitative aspects of the implementation of empowerment undertakings were satisfactory. In this regard, it must be acknowledged that the overriding aim was to mould an approach which maintained the correct balance between ensuring formal compliance with licence conditions, on the one hand, and ensuring that the *manner* in which compliance was achieved passed muster.

The Committee was alive to the fact that, while it had a responsibility to the community to ensure that empowerment of the broad-based nature promised took place, it could not unduly interfere in internal decisions made by the licence holder which *prima facie* fulfilled the conditions spelled out in the licence.

Only one complaint was received in respect of the licence holder's approach towards empowerment. The Committee forwarded the complaint to the licence holder and procured its comment in respect thereof. In addition, an independent investigation was launched, in which use was made of the services of an independent empowerment consultant. Upon completion of the investigation, the Committee could find no evidence substantiating the complaint or indicating that the attitude of the licence holder towards empowerment was not what it should be. The complaint referred to appears to have been satisfactorily resolved.

It should be mentioned that, although the Project has created a number of empowerment opportunities, the benefits expected to be forthcoming from the utilisation of these opportunities have not always been realised. In this regard, the Board has noted with some disappointment that, owing to what seems to be poor communication between the various role-players, certain initiatives which were to have been pursued by empowerment partners have not be followed up on. While the West Coast Community Trust has been registered, it is not yet fully functional. In respect of the empowerment shareholder, Reygrande Investment Holdings (Pty) Ltd ("Reygrande"), the equity

structure of this company was to have been remodeled to allow for a broader base of shareholder participation. The Mykonos Empowerment Programme was to have been managed by Reygrande on behalf of the licence holder and an agreement was to have been finalised in this regard. However, little progress has been made in reaching finality on these matters. This general lack of progress is exacerbated by the fact that the shares held by the empowerment partners have not yielded any dividends to date. Despite a number of discussions having been held, the attempts of the Committee to keep the channels of communication between the licence holder, the Board and the empowerment partners open and to assist the empowerment partners, where appropriate, have generally met with limited, if any response from the empowerment role-players.

The Board has acknowledged that it cannot compel the empowerment partners to make use of the opportunities provided by the Project in a certain manner or within defined time limits. However, it is noted that the delays in realising the benefits inherent in the Project do not advance the interests of its intended beneficiaries. The Board has, however, consistently assured all role-players and wishes to emphasise once more that its door remains open and that it will assist in any manner possible in order to ensure the full implementation of all empowerment opportunities arising from the project.

PROBLEM GAMBLING

Condition 27 of the licence issued to the licence holder reads as follows:

“27. The licence holder shall adhere to the programme submitted as part of its bid in respect of the measures to be adopted by it to address the issue of problem gambling and such other measures as may be stipulated by the Board from time to time.”

This condition ensures not only that the licence holder is obliged to implement all of the undertakings made in its bid in respect of measures directed towards addressing problem

gambling, but also that, should the Board see fit to call for the implementation of other measures.

The holder of the casino operator licence issued in respect of the Cape Metropole, SunWest International (Pty) Ltd, (and, on a broader scale, its largest shareholder, Sun International South Africa) has developed a national Responsible Gambling Programme, to which it has committed itself, and which, in the view of the Board, presents the most complete and extensive set of measures designed to react meaningfully and purposively to the issue of problem gambling. These measures, for which extensive provision has been made in the programme, include the following:

- Education (of staff, patrons and the general public) & training
- Counselling & Treatment
- Sponsoring of Research
- Provision of collateral material, e.g brochures, posters, notices on cash desks and on gaming tables
- Programme and Help line on all gambling-related advertisements
- National Help Line
 - 24 hours per day, 7 days per week
 - Toll free
 - Hosted at the Kenilworth Place Addiction Treatment Centre
 - Answered by specially trained counsellors
 - Referral for initial comprehensive assessment by clinical psychologist
 - Costs borne by Sun International
- Out-patient Counselling
 - Clinical psychologists in 5 major centres
 - Psychologists trained at Kenilworth Place
 - Customised 6-session treatment programme paid by Sun International
- In-patient treatment
 - Severe cases
 - 3 centres

- Costs covered by most medical aid schemes and also subsidised by Sun International if necessary
- Self-exclusion policy

It is readily apparent that there are a host of measures for which provision has been made by the above licence holder in an attempt to address the issue of problem gambling.

Since these measures must be, and have been, implemented on a large scale in this Province pursuant to the relevant licence conditions, and because the Board is of the view that both the interests of the industry and those of the general public would be best served by the uniform application of the same programme throughout the Western Cape, the Board has spearheaded an initiative to make provision for a provincially co-ordinated approach, requiring all holders of casino operator licences in this Province to make a financial contribution towards the Programme, thus preventing the unnecessary duplication of resources available to the public and presenting a unified front in respect of the issue. It will be of interest to note that considerable interest has subsequently been expressed, on a national and inter-provincial level, in securing the involvement of all gambling industry role-players – not merely the various holders of casino operator licences - in the Programme throughout the country.

CONCLUSION

The Committee is satisfied that, as at the date of this report, the licence holder has thus far substantially complied with the conditions of the casino operator licence issued to it in respect of the implementation of the empowerment undertakings contained in its bid. The only area in respect of which full compliance is yet to be secured relates to the allocation to persons or entities with empowerment credentials of 30% of the work undertaken in the construction phase of the project. As has been said, despite the 30% target originally set, only 25% has been achieved to date. However, since the convention centre is still to be constructed, the target is attainable and the Board will ensure that it is achieved.

Notwithstanding the above, it is readily acknowledged that certain of the empowerment undertakings made in the bid will be realised only over the medium to long-term, and the Board will monitor this process to ensure that it conforms in all respects, with the undertakings made in its bid by the licence holder and with the conditions of the licence. As such, the Committee will remain in place and continue to exercise its monitoring function, albeit on less intensive and regular a basis. Further reports will be issued tracking the results of this ongoing process.

The conclusions drawn and the views expressed by the Committee in this Report have been ratified by the full Board.

SIGNED by the members of the Social Equity Committee of the Board on this day of, 2002.

DR J HAMILTON
CHAIRPERSON

PROF. L DE VRIES
COMMITTEE MEMBER

MR D BURTON
COMMITTEE MEMBER

RATIFIED by the Western Cape Gambling and Racing Board on this day of, 2002.

D W AURET
CHAIRPERSON
WESTERN CAPE GAMBLING AND RACING BOARD

