

From: Bailey, Sarah PREM:EX (Sarah.Bailey@gov.bc.ca)
To: Smith, Matt PREM:EX (Matt.Smith@gov.bc.ca)
Subject: Meeting Material's for Tomorrow and One Note
Sent: 12/01/2022 00:34:13
Attachments: Governance of Liquor File _PDE_Dec 1 2022.pptx
Message Body:

Hi Matt,

Please see attached materials for tomorrow's briefing at 11:30 AM.

Additionally,

1. At our first meeting you had mentioned a computerized version of your to-do list, would you like to share that with me now so I can work on editing/categorizing it like we spoke about?
2. I'd like to formalize a way to prioritize with incoming staff meeting requests. I have some thoughts I'd like to discuss with you, low priority.
3. Meeting: TNG/Taseko cab sub agreement conflicts with your^{s.22} to schedule an earlier flight? Would you like me

Thank you,

Sarah Bailey
Executive Coordinator for Matt Smith, Chief of Staff to Premier David Eby
Office of the Premier
(250) 818-4234



Governance of the Liquor & Cannabis File

*Ministries of Finance & Public Safety and Solicitor General
December 1, 2022*



Roles and Responsibilities

There are two branches of government that provide most of the oversight of/support for the beverage alcohol and cannabis industries in BC:

Liquor Distribution Branch (LDB)

- Wholesale (public) and Retail (hybrid model – public/private)
- Reports to Minister of Finance through CAS
- Legislative Framework: *Liquor Distribution Act* (LDA), *Cannabis Distribution Act* (CDA)

Liquor and Cannabis Regulation Branch (LCRB)

- Regulator (General Manager has statutory decision-making authority)
- Reports through PSSG
- Legislative Framework: *Liquor Control and Licensing Act* (LCLA), *Cannabis Cannabis Control and Licensing Act* (CCLA)

Other program areas involved: Cannabis Secretariat (PSSG); Agriculture and Food (AF); Trade (JERI); Tourism (TACS)



Operational and Revenue Generating vs. Regulatory Functions

In 2020, the reporting structure for the LDB and LCRB was adjusted, with each entity reporting through to different ministers:

- Separating revenue generating operations from regulatory functions is considered governance best-practice to help ensure accountability and transparency of an independent regulator.
- Independent recommendations on the gaming file (i.e., German Report) have highlighted the importance of maintaining appropriate separation between regulatory and revenue generating functions – this principle was carried through to the liquor file as well.
- The rationale for this separation is to ensure real and perceived fairness in a sector where government competes with private business for retail revenue.



LDB Overview

The LDB is a branch of government led by a CEO/General Manager (ADM), reporting to the Assoc. DM of CAS.

The LDB is responsible for the wholesale distribution and retail sale of beverage alcohol and non-medical cannabis.

- Distributes liquor products through two distribution centres located in Delta and Kamloops, and non-medical cannabis products through a distribution centre located in Richmond
- Operates 198 BCLIQOUR stores (BCL) and 34 BC Cannabis Stores (BCCS).

The LDB has approx. 5,000 employees for both liquor and cannabis.

The LDB generates \$1.2 billion in annual net income for the province with its liquor wholesale operations representing its primary source of revenue.



s.13; s.17

LCRB Overview

The LCRB is a branch of government led by a General Manager (Assistant Deputy Minister).

- As the statutory decision maker, the GM administers the Acts and regulations.
- General policy direction is provided by the minister/government.

The LCRB is responsible for regulating liquor and legal non-medical cannabis for the private sector, including:

- Licensing and compliance for retail sale and marketing
- Supervising licensees, permittees and the operation of establishments and event sites
- Regulating social responsibility programs
- Enforcing legislation, regulations and policy

The LCRB oversees over 10,700 liquor and cannabis licensees and has approx. 170 FTEs.

The LCRB has a \$1,000 vote for liquor (its operating budget is solely funded through licensing and other fees).



Emerging Issues – Liquor and Cannabis

- Status of LDB wholesale operations following job action.
 - Increasing industry pressure to explore alternative delivery options.
- Public health and safety costs are expected to rise due to increased consumption of alcohol since the onset of the COVID-19 pandemic.
 - Overall costs in 2020 are estimated at \$2.5 billion (direct health care costs: \$860 million).
 - Health advocates want a stronger role in supporting policy development. They point to their exclusion from BTAP as evidence that government collaboration has favoured industry.
- State of BTAP and next steps regarding 2018 report and outstanding recommendations, in particular:
 - Recommendation 16, a comprehensive review of benefits for BC manufacturers.
 - Recommendation 12, creating a new model for minimum retail pricing that increases liquor prices but reduces alcohol related hospitalizations and associated health care costs.
- Reducing liquor license processing times through regulatory reform and proposing new fees for liquor licenses
- Ongoing competition with the illicit cannabis market and implications for the LCRB and LDB, especially in LDB's role in cannabis retail.



Snapshot of Liquor Industry Benefits

- BC liquor manufacturers provide thousands of regional jobs and contributed approx. \$1 billion to provincial GDP in 2021.
- Government has provided financial benefits to liquor manufacturers for decades, mostly through mark-up concessions via the LDB.
- In FY 2021/22:
s. 17
- Large, multinational commercial wineries operating in BC are seeking to increase benefits; BC breweries and craft distilleries are seeking parity with wineries.

	# in BC (FY21/22)	Foregone revenue (FY21/22)	% of LDB net income (FY21/22) – 1,192.7M
Wineries	439	s. 17	s. 17
Breweries	221		
Distilleries	78		
Total	738		

* Does not include business supports accessed through JERI and TACS, or manufacturer supports through AF.



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Ministry of
Finance

Business and Technical Advisory Panel (BTAP)

- The Ministries of FIN, PSSG and AF share responsibility for working with BTAP.
- BTAP consists of representatives from liquor manufacturing, retail and hospitality sectors and was established to inform government on policy issues of concern to the BC liquor industry.
- Since its 2018 report, BTAP has put forward 34 recommendations, incl. emergency pandemic-related recommendations (15 are completed; 13 being assessed or implemented).

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Comments or questions?

Cheryl May
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Doug Scott
Deputy Solicitor General, PSSG

Doug.Scott@gov.bc.ca



From: Salter, Shannon PREM:EX (Shannon.Salter@gov.bc.ca)
To: RE, D PREM:EX (DRE@gov.bc.ca)
Cc: Smith, Matt PREM:EX (Matt.Smith@gov.bc.ca)
Subject: FW: Note with Advice about LDB / LCRB
Sent: 12/01/2022 05:45:34
Attachments: 497288 IN - LDB and LCRB - Draft Nov 8.pdf
Message Body:

Just resending this note so that it's on the top of your inbox for the 11:30am tomorrow. This note is from finance, not PSSG.

From: Wood, Heather FIN:EX <Heather.Wood@gov.bc.ca>
Sent: November 9, 2022 1:43 PM
To: Salter, Shannon AG:EX <Shannon.Salter@gov.bc.ca>
Subject: Note with Advice about LDB / LCRB

Hi Shannon, here is a note with some general advice about the roles and ?placement? of LDB and LCRB within the core government ministry system, considering the revenue-generating role of LDB vs. the regulatory role of LCRB.

Heather

Ministry of Finance

BRIEFING DOCUMENT

To: Heather Wood
Deputy Minister and
Secretary to Treasury Board

Date Requested: November 4, 2022
Date Required: November 8, 2022

Initiated by:

Date Prepared: November 8, 2022

Ministry Contact: Amanda Thompson

Phone Number: 778-584-2990
Email: Amanda.Thompson@gov.bc.ca

Cliff #: 497288

TITLE: Liquor Distribution Branch (LDB) and the Liquor and Cannabis Regulation Branch (LCRB)

PURPOSE:

(X) FOR INFORMATION

DATE PREPARED: November 8, 2022

TITLE: Liquor Distribution Branch (LDB) and the Liquor and Cannabis Regulation Branch (LCRB)

ISSUE: Overview of the Role and Governance of the LDB and LCRB

BACKGROUND:

The Liquor Distribution Branch (LDB) and the Liquor and Cannabis Regulation Branch (LCRB) together are responsible for liquor and non-medical cannabis supply and sales in the Province.

LDB is responsible for the wholesale distribution and retail sale of beverage alcohol and non-medical cannabis. LDB is the operator of BC Liquor Stores and BC Cannabis Stores. With nearly 200 BC Liquor Stores in BC, it makes LDB one of the largest retail chain operators in the province (see Appendix A for more details).

The LCRB oversees the policy, regulation and licensing of liquor and non-medical cannabis establishments and events, including responsibility for compliance and enforcement. The LCRB supervises over 10,000 licensed establishments and over 25,000 licensed events per year in the province of BC (see Appendix B for more details).

LDB is considered a Government Business Enterprise (GBE) for accounting purposes. This means that LDB fully funds its operations from external revenues from selling goods and services. LDB net income is generated from liquor wholesale operations (majority of the net income) as well as retail operations. Cannabis operations are growings.^{s.13; s.17}
s.13; s.17 and elimination of the black market.

LDB generates \$1.2 billion in net income annually from sales of \$4.4 billion (in 2021/22), which represents a significant amount of the government's revenues.^{s.12}
s.12

Excerpt from Table A5 Revenue by Source in the 2022 First Quarterly Report

(\$ millions)	Actual 2018/19	Actual 2019/20	Actual 2020/21	Actual 2021/22	Updated Forecast 2022/23	Plan 2023/24	Plan 2024/25
Liquor Distribution Branch net income	1,104	1,107	1,161	1,189	1,173	1,198	1,225

The Tax Policy Branch of the Ministry of Finance is responsible for consideration of tax policy decisions.^{s.12}

s.12

The LDB applies a mark-up on the landed cost of liquor (determined by the type of liquor) and a 15 per cent mark-up on the landed cost of cannabis. The landed cost is the total price when purchased by LDB, including the original price of the product, transportation fees, duties, taxes, packaging and handling. All cannabis and liquor retailers, including LDB-operated BC Stores, in turn purchase cannabis and liquor from the LDB at a common wholesale price that reflects the LDB's mark-up.

There is a 10 per cent PST charged on liquor and a 7 per cent PST charged on cannabis.

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DISCUSSION:

Segregated Program Functions

To be effective, compliance and enforcement programs should not have responsibility and authority (whether perceived or real) to manage day-to-day activities of a program. Segregation between control and operating activities ensures that government can monitor and regulate its own performance and demonstrate accountability to the public. This reduces the risk of co-dependency and sharing of resourcing, or perception risks for program decision-making and oversight.

Segregation also enables program functions to set distinct business objectives and plans and manage resources accordingly. This approach helps to maintain the balance between operational goals of optimizing service delivery versus regulatory and compliance objectives of promoting safe consumption and managing public safety. Demonstrated transparency and accountability of program functions is especially important where government operates as a monopoly (as is the case with LDB), and without an independent regulator, as it provides citizens and users with confidence in the program's service delivery and decision-making.

Governance Considerations

While the LCRB is part of the traditional core ministry operating environment, LDB has traditionally operated as a government business enterprise (GBE). A GBE is an entity that has been delegated financial and operational authority to carry on a business; who sells goods and services outside the government reporting entity as its principal activity; and is self-funded.

Unlike Crown Corporations, LDB operates under the direction of a board of one (the Minister of Finance), with ministry oversight focusing on policy implementation rather than operational management for their commercial lines of business including warehousing, distribution, and retail sales.^{s.12; s.13}

s.12; s.13

CONCLUSION

While LDB and the LCRB are jointly responsible for liquor and non-medical cannabis supply and sales in BC, their financial model, business model, objectives, and governance structure are distinct from one another.

s.12; s.13

Appendix A: LDB Organizational Overview and Governance

The Liquor Distribution Branch (LDB) is responsible for the wholesale distribution and retail sale of beverage alcohol and non-medical cannabis. While it is not a crown corporation, the LDB is required to comply within the requirements of a Crown agency in relation to its financial reporting, service plan and mandate letter.

To fulfill our responsibilities to Government and the people of BC, the LDB:

- generates revenue for the Government of BC;
- manages the LDB's business risks;
- ensures accountability of key business partners; and
- develops and implements programs and services aimed at deterring the sale of non-medical cannabis and beverage alcohol to minors and those who appear intoxicated.

The LDB is proud to contribute more than \$1 billion annually to the Province of B.C., helping to provide financial support for vital public services such as health care and education.

Governance

The *Liquor Distribution Act* (LDA) gives the LDB the sole right to purchase beverage alcohol both within BC and from outside the province, in accordance with the federal *Importation of Intoxicating Liquors Act*. The *Cannabis Distribution Act* (CDA) establishes a government wholesale cannabis distribution model, public cannabis retail stores, and an online government sales channel.

Under the Ministry of Finance, the LDB has a General Manager and CEO who is responsible for administering the LDB and the CDA, subject to direction from the Minister. The General Manager and CEO:

- Operates a province-wide, retail and wholesale beverage alcohol business, within a mixed public-private retail model;
- Operates a province-wide, retail and wholesale non-medical cannabis business within a mixed public private retail model;
- Has a workforce of approximately 4,600 full- and part-time employees

BC Liquor Stores & BC Cannabis Stores

The LDB is the operator of BC Liquor Stores and BC Cannabis Stores. With nearly 200 BC Liquor Stores in BC, it makes LDB one of the largest retail chain operators in the province.

Since opening its first BC Cannabis Store in Kamloops on October 17, 2018, the LDB has been carefully and efficiently rolling out its chain of BC Cannabis Stores in municipal communities with established zoning bylaws for the retail of non-medical cannabis.

The LDB continues to work alongside stakeholders and municipalities across the province to expand its network of legalized BC Cannabis Stores.

Source: <https://www.bcldb.com/about/about-ldb>

Appendix B: LCRB Organizational Overview and Governance

The Liquor and Cannabis Regulation Branch (LCRB) oversees the regulation and licensing of liquor and non-medical cannabis establishments and events. This includes:

- Restaurants, bars and pubs serving liquor
- Liquor manufacturers
- Liquor retail stores
- Special events involving liquor
- Private cannabis retail stores

The LCRB also:

- Educates establishments about liquor and cannabis laws and rules
- Promotes safe establishments and safe communities according to public health and interest
- Makes sure modern liquor and cannabis policy, laws and tools meet the needs of citizens

Role of the general manager

The general manager oversees the LCRB. Under B.C. law, they have specific responsibilities and authorities.

All the LCRB's activities are undertaken under the authority of the general manager. The general manager administers the

- Liquor Control and Licensing Act (LCLA)
- Cannabis Control and Licensing Act (CCLA)

They also supervise all establishments licensed under the LCLA and the CCLA, including

- Manufacturers of liquor and agents
- Places where special event permits are issued
- All non-medical cannabis retail stores and cannabis marketers

The Liquor and Cannabis Regulation Branch encourages voluntary compliance of all licensees. The LCRB supervises over 10,000 licensed establishments and over 25,000 licensed events per year in the province of BC.

Source: <https://www2.gov.bc.ca/gov/content/employment-business/business/liquor-regulation-licensing/about-lcrb>

PSSG ^{LiTuaor} ^{Carin abis} steps - unite the
regulators.

- work w/ PSSG agr.:- formation - Brifney