

Cabinet Decision Document

Ministry Document Number: 03/05

MINISTER:

Rick Thorpe, Minister of Competition, Science and Enterprise

TITLE:

Core Services Review & Deregulation Task Force Outcome - Liquor Distribution Branch Reform

ISSUE: FOR DECISION

Pursuant to the Premier's direction of July 31, 2001 to undertake a Core Services Review of Ministry and Crown agency mandates, and to identify service delivery alternatives, the Ministry of Competition, Science & Enterprise is presenting the Core Services Review outcomes and recommending the Liquor Distribution Branch reform for Cabinet approval.

RECOMMENDATION:

That Cabinet approve the following Strategic Shifts for the Liquor Distribution Branch:

- From limits to private sector entry and participation to increased private sector involvement and jobs;
- From limits to service to enhanced service;
- From regulation and operation of the retail network to regulation of the retail network;
- From in-house management of warehouse operations to outsource/exit warehouse operations; and
- From many regulations, little enforcement to few regulations, strong enforcement.

BACKGROUND:

In keeping with our commitment to review all public services and identify the core roles of government in the economy, the Ministry of Competition, Science and Enterprise and the Liquor Distribution Branch (LDB) undertook a comprehensive review of the retail beverage alcohol system, the distribution, importation and warehousing systems, and the internal operations of the LDB.

The application of the Core Services Review tests for the LDB concludes that it is not a core service of government to be directly involved in the warehousing, distribution and retail of beverage alcohol products. Therefore, government will reform its involvement with the Liquor Distribution Branch.

The Core Services Review did confirm that the LDB should continue to play a role in regulating access to and socially responsible use of beverage alcohol, and act as the importer and wholesaler of record and, the collector of revenue for the province of British Columbia.

LDB Environment:

Currently, the LDB operates 224 government liquor stores. The LDB also administers the following private liquor stores appointed under the Liquor Distribution Act: 144 Rural Agency Stores that provide full liquor service in smaller and rural communities; 86 British Columbia manufacturer agency stores at wineries and breweries and some offsite locations; and private wine agency stores that sell British Columbia and imported wines.. The LDB and Liquor Control and Licensing Branch (LCLB) administer 290 licensee retail stores (Cold Beer & Wine Stores) that are licensed under the Liquor Control and Licensing Act. At present there are a total of 768 retail locations for beverage alcohol in British Columbia.

LDB Assets:

The LDB owns 14 government liquor store buildings, and holds leases on 210 other government liquor store buildings. The leases are a mix of long-term, medium-term, and short-term. The LDB also owns distribution centres in Vancouver and Kamloops. The Net Book Value of these owned assets is \$4.615 million.

In addition, the Net Book Value of the LDB assets in technology, vehicles and equipment totals \$36.757 million.

History of the retail of beverage alcohol in British Columbia:

The current “mixed model” of liquor distribution in British Columbia, in which both the public and private sectors play a significant role, has evolved over the last century. Key events:

- ❑ *Canada Temperance Act (1917)*, which moved Canada into a short period of prohibition
- ❑ *Government Liquor Act (1921)* permitted distribution of liquor through government stores **in British Columbia**
- ❑ From the **1920s** to the **1970s**, there was a gradual expansion of government liquor stores as communities grew. In the **1930s**, hotels were granted off-sales privileges

- ❑ By the early **1970s**, the public was seeking liberalization of liquor control and consumption regulations. Neighbourhood pubs, with off-sales privileges, were allowed in British Columbia
- ❑ In **1975**, a Rural Agency model was established to provide access to liquor in rural areas
- ❑ In **1976**, British Columbia Government enacted the *Liquor Distribution Act* and the *Liquor Control and Licensing Act* to segregate the revenue function, the Liquor Distribution Branch (LDB), from the licensing function, the Liquor Control and Licensing Branch (LCLB)
- ❑ In **1977**, breweries, wineries and distilleries were permitted to operate retail outlets at the production site for the sale of their own products
- ❑ **1985** saw two key initiatives in liquor distribution:
 - ❑ Pubs and hotels with off-sale privileges permitted to open stores ('licensee retail stores' or LRSs) for the sale of British Columbia-produced beer, cider, wine and coolers. Later, imported products were permitted to be sold through these stores
 - ❑ British Columbia estate and commercial wineries were permitted to operate stores away from their production sites for the sale of their own products. Some of these evolved into private wine stores offering a selection of wines by other manufacturers
- ❑ In **1992**, a regulatory moratorium was imposed on the creation of new LRSs
- ❑ In **1996**, the British Columbia Wine Institute was granted licenses to open VQA wine stores
- ❑ In **2002**, Licensee Retail Stores were permitted to sell spirit products thereby becoming full service private liquor stores. The selection criteria for Rural Agency Stores were relaxed to permit more of these outlets in rural communities.

Increased Private Sector Retail Involvement:

As a result of the Core Services Review, we envisage the number of privately owned and operated liquor stores will increase while the number of government operated liquor stores will decrease.

Before any changes to the number of government liquor stores are made, a community-by-community analysis will take place in every community that presently has retail liquor store service to ensure that service will continue in some form. Wherever feasible, there will be competition in retail beverage alcohol service.

At the Open Cabinet Meeting on March 15, 2002 LDB regulations were changed to allow for increased customer service in small and rural communities by allowing for an increase in the number of Rural Agency Stores in the province. At the same meeting regulations were amended to allow Licensee Retail Stores to sell spirits. In addition a decision was made to end the moratorium on new Licensee Retail Stores subject to regulations being amended and approved.

It is hoped that the criteria for new private sector investment in Licensee Retail Stores will be operational no later than September 3, 2002.

Should it be decided that LDB service will be discontinued in any given area, private sector service will be in place prior to the closing of LDB stores.

Warehousing/Distribution:

At present there are 2 LDB Warehouses and 8 privately bonded warehouses in British Columbia. The two LDB owned warehouses are located in Vancouver and in Kamloops.

All British Columbia and imported wine, cider, wine coolers and spirits are distributed to government liquor stores from the LDB's two warehouses. Smaller volume breweries are allowed to use the LDB warehouses for the distribution of beer to government liquor stores. In addition, Licensee Retail Stores, agency stores and licensed establishments (hotels, pubs) order beverage alcohol products from government liquor stores.

Alternative distribution methods exist for most British Columbia and imported beer products to all government and private liquor stores and licensed establishments, and for British Columbia wineries to private liquor stores and licensed establishments.

It is expected that changes to the Federal Government's Excise Act, 2001 will be implemented in July 2003. The new act covers all wine and spirits, but not imported beer, which will continue to be covered under the Customs Act. The effect of the act will allow for the establishment of excise bonded warehouses in British Columbia, subject to approval of the LDB. By having an excise warehouse, a registrant will have the ability to store all beverage alcohol and would be able to distribute those products.

The goal of the LDB is to provide for alternative distribution of liquor products by the private sector.

Regulatory & Enforcement Role of the LDB:

In accordance with government's New Era commitment to reduce the overall red tape and regulatory burden by 1/3 over 3 years, the LDB will reduce its present regulatory burden of 700 regulatory requirements by 50% over the next 12 months.

The reduction of the LDB's regulations and red tape will allow the Branch to focus its regulatory role on public safety and revenue collection.

The LDB has an important role to fulfil with respect to overseeing issues of public safety including: sales to minors; over consumption; and illicit sales.

The LDB regulates and audits manufacturers, warehouse operators, distributors, and private retailers to ensure the government receives the full amount of revenue due. Currently, however, the penalty structure for non-compliance is very weak. Offenders are assessed the value they owe, without any penalty for deterrence. This presents a risk to the full collection of revenue due. In order to protect government revenue and enhance public safety there will be significant penalties for non-compliance in the private retail, manufacturing, warehousing and distribution sectors.

The enhancement of regulation around public safety and revenue collection will be fulfilled in conjunction with the Liquor Control and Licensing Branch.

Customer Service in LDB government liquor stores:

The Liquor Distribution Branch will ensure a continued focus on customer service within new budget parameters. Through greater private sector involvement, customer service and choice will be enhanced.

In addition, the LDB will be reviewing and implementing a new approach to container returns. This will be completed with involvement from stakeholders.

Continued financial role of the LDB:

The LDB's budgeted net income is \$640 million for fiscal 2002/03 and \$650 million for the subsequent two fiscal years. It is essential that these revenue targets are met.

In order to achieve these targets the LDB will continue in its role as the importer and wholesaler of record for beverage alcohol sales in British Columbia, as well as continue its role as the collector of revenue from beverage alcohol mark-up and social services taxes.

FISCAL MANAGEMENT CONSIDERATIONS:

The sale of LDB assets may provide a one-time financial gain. The amounts would be determined at the time of the sales.

All costs incurred in the business transition as a result of the strategic shifts will be offset by internal cost savings.

An aggressive review of costs will begin immediately. Corporate and management overhead costs at the LDB will be reduced. Initial steps have already been taken in this regard. On January 17, 2002, in conjunction with the government wide restructuring announcement, a total of 29 FTE's were eliminated in the LDB Head Office in Vancouver. Further steps will be taken in this area as the role of the LDB in retail, warehousing and distribution decreases. When fully implemented it is anticipated that annual cost savings will be in the \$25-\$40 million range.

OPTIONS:

Option 1: Approve the following Core Services Review strategic shifts.

- ❑ From limits to private sector entry and participation to increased private sector involvement;
- ❑ From limits to service to enhanced service;
- ❑ From regulation of the retail network and operation of retail stores to regulation of the retail network;
- ❑ From in-house management of warehouse operations to outsource/exit warehouse operations; and
- ❑ From many regulations, little enforcement to few regulations, strong enforcement.

Advantages:

- ❑ To provide a thoughtful and deliberative transition from the present mixed model of retailing, warehousing and distributing beverage alcohol to a greater private sector involvement and investment;
- ❑ To ensure the transition will enhance, not compromise, public safety issues.
- ❑ To ensure revenues to government from beverage alcohol sales are not compromised through, and after transition; and
- ❑ To increase greater private sector involvement and investment, and increase private sector job opportunities in communities throughout British Columbia.

Evaluation:

This option is recommended because it:

- ❑ Meets core roles of government activity;
- ❑ Allows for the increase of private sector investment and job opportunities in British Columbia; and
- ❑ Focuses government's regulatory efforts on public safety and revenue collection issues.

Option 2: Do not approve the Core Services Review outcomes.

Evaluation:

This option is not recommended because it:

- ❑ Does not meet core roles of government activity;
- ❑ Does not increase private sector investment; and
- ❑ Does not meet our government's New Era deregulation commitment.

SIGNIFICANT IMPLICATIONS:

Legislative changes necessary to implement the recommendations of the Core Services Review outcomes will be minor and administrative in nature.

Regulatory changes necessary to implement the recommendations of the Core Services Review outcomes will reduce the total regulatory burden that presently exists.

Consultations:*Public Consultations*

The Core Services Review of the LDB was widely known throughout stakeholder groups and the general public. Input was received from stakeholders, affected individuals, and the general public. Information received and considered was both solicited and unsolicited.

The Core Services Review outcomes are the continuation of an evolutionary process. Consultation with affected stakeholders and the general public will continue throughout this process.

The British Columbia Government & Service Employees' Union represents the employees of the LDB. The Union will be invited to meet with the Minister and the senior management of the LDB within the next two weeks in order to develop a working partnership between employees, management and government for this transition process.

Inter-Ministry, Inter-Agency and Inter-governmental Consultations

The Ministry of Public Safety and Solicitor General, and in particular, the Liquor Control and Licensing Branch has been consulted on a number of issues arising out of the review. This includes, but is not limited to public safety regulations and private sector beverage alcohol retailing opportunities.

With respect to the Core Services Review, to this point Inter-governmental consultations have been restricted to discussions with the Federal Government on their upcoming legislation on bonded excise warehouses. Under the recently approved regulations for Rural Agency Stores, local communities are asked for their input before decisions are made whether or not to grant a new licence. Through the LDB's community-by-community analysis local and regional governments will be encouraged to contribute to the discussions surrounding retail beverage alcohol opportunities in their communities.

RECOMMENDED DECISION:

Option 1: Approve the Core Services Review reforms of the Liquor Distribution Branch.

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Date

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