

BC Liquor Distribution Branch

2023/24 – 2025/26 Service Plan

February 2023



For more information on the BC Liquor Distribution Branch contact:

3383 Gilmore Way
Burnaby, B.C. V5G 4S1
604-252-7400
communications@bcldb.com

Or visit our website at
www.bcldb.com

Published by BC Liquor Distribution Branch

General Manager and CEO's Accountability Statement



The 2023/24 – 2025/26 BC Liquor Distribution Branch (LDB) Service Plan was prepared under my direction consistent with the *Budget Transparency and Accountability Act*. The plan is consistent with government's strategic priorities and fiscal plan. I am accountable for the contents of the plan, including what has been included in the plan and how it has been reported. I am responsible for the validity and reliability of the information included in the plan.

All significant assumptions, policy decisions, events and identified risks, as of February 13, 2023, have been considered in preparing the plan. The performance measures presented are consistent with the *Budget Transparency and Accountability Act*, LDB's mandate and goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of LDB's operating environment, forecast conditions, risk assessment and past performance.

A handwritten signature in black ink, appearing to read 'R. Blain Lawson', written in a cursive style.

R. Blain Lawson
General Manager and Chief Executive Officer, LDB
February 13, 2023

Table of Contents

General Manager and CEO's Accountability Statement	3
Strategic Direction.....	5
Purpose of the Organization and Alignment with Government Priorities.....	5
Operating Environment.....	6
Annual Economic Statement.....	7
Performance Planning.....	8
Financial Plan	19
Appendix A: Mandate Letter from the Minister Responsible	24

Strategic Direction

In 2023/24, public sector organizations will continue working to make life better for people in B.C., improve the services we all rely on, and ensure a sustainable province for future generations. Government will focus on building a secure, clean, and fair economy, and a province where everyone can find a good home – whether in a rural area, in a city, or in an Indigenous community. B.C. will continue working toward true and meaningful reconciliation by supporting opportunities for Indigenous Peoples to be full partners in an inclusive and sustainable province. The policies, programs and projects developed over the course of this service plan period will focus on results that people can see and feel in four key areas: attainable and affordable housing, strengthened health care, safer communities, and a secure, clean and fair economy that can withstand global economic headwinds.

This 2023/24 service plan outlines how the Liquor Distribution Branch (LDB) will support the government’s priorities and selected action items identified in the most recent [LDB Mandate Letter](#).

Purpose of the Organization and Alignment with Government Priorities

In British Columbia, the LDB is one of two branches of government that provide oversight for the beverage alcohol and non-medical cannabis industries; the other is the Liquor and Cannabis Regulation Branch (LCRB). The LDB is responsible for the wholesale distribution and retail sale of beverage alcohol and non-medical cannabis.

The [Liquor Distribution Act](#) (LDA) gives the LDB the sole right to purchase beverage alcohol both within B.C. and from outside the province, in accordance with the federal [Importation of Intoxicating Liquors Act](#). The LCRB licenses private liquor stores, restaurants, pubs and manufacturers and enforces regulations under the [Liquor Control and Licensing Act](#).

The [Cannabis Distribution Act](#) (CDA) establishes a government wholesale distribution model for non-medical cannabis, public cannabis retail stores and a public-run e-commerce retail channel. The LCRB licenses private cannabis stores and enforces some aspects of the regulations under the [Cannabis Control and Licensing Act](#).

Accountable to the Minister of Public Safety and Solicitor General, the LDB:

- Has a General Manager and Chief Executive Officer who is responsible for administering the LDA and the CDA, subject to direction from the Minister of Public Safety and Solicitor General;
- Oversees a province-wide mixed public-private retail and public wholesale beverage alcohol and non-medical cannabis business model;
- Distributes liquor products through two distribution centres located in Delta and Kamloops, and non-medical cannabis products through a distribution centre located in Richmond;

- Provides online ordering systems for wholesale customers of beverage alcohol and non-medical cannabis;
- Operates 198 BCLIQUOR stores (BCL) and 36 BC Cannabis Stores (BCCS);
- Operates an e-commerce retail channel for non-medical cannabis under the BCCS brand; and
- Employs approximately 5,600 full- and part-time employees.

As part of B.C.'s mixed public-private retail and public wholesale beverage alcohol and non-medical cannabis business model, the LDB is committed to focusing on customer needs, which includes providing an expansive product selection and offering exceptional customer service.

The LDB and LCRB have a shared mandate to encourage the responsible consumption of beverage alcohol and cannabis and work closely together to coordinate policies and programs to that end.

The LDB is committed to government's goals of making life better for people in B.C., improving services, and ensuring a sustainable province for future generations. The revenue generated by the LDB helps fund essential public services like health care, education, and other community programming.

The LDB will continue to help government advance lasting and meaningful reconciliation, for example by supporting Indigenous nations' participation in the cannabis industry through the cannabis direct delivery program and B.C. Indigenous Cannabis Product program, which promote greater visibility of Indigenous cannabis producers and their products to both wholesale and retail customers.

Operating Environment

The wake of the COVID-19 pandemic has impacted LDB operations across all lines of business. Supply chain challenges, labour market pressures, inflation, and unexpected extreme weather events remain a considerable risk to operations. As a result, several performance targets in this year's service plan for 2023/24 and beyond have been adjusted. This has been highlighted in the footnotes and explained further in discussion sections throughout this document.

The LDB recognizes that with the increasing frequency of disruptions to its operating environment, the organization must revisit its approach to business planning to support greater adaptability and flexibility. In the coming fiscal year, the LDB will continue to implement initiatives that better prepare the organization for managing unexpected impacts and support customers and suppliers impacted by disruptions, while meeting government's net income targets to support the delivery of essential public services.

The LDB regularly reviews market conditions, sales trends, and any shifts in policy or regulatory approaches and incorporates this information into future forecasts. Based on an analysis of market trends, the LDB expects sales volumes to shift back to historical averages and a continued decline in gross margins as liquor and non-medical cannabis products with lower margins continue to enter the market and build market share. Forward-looking targets

also incorporate the cost of future wage increases and information systems improvements which will support the LDB in modernizing its operations.

Since April 2018, government has been engaged with the Business Technical Advisory Panel (BTAP) to discuss and inform liquor policy reform. In response to the COVID-19 pandemic and in consultation with BTAP, government introduced a number of both temporary and permanent policy reforms to support the liquor manufacturing and hospitality industries. The LDB, with other government agencies, continues to engage BTAP as a forum to share information and seek feedback on policy and regulatory improvements to support informed decision making.

The LDB is the sole wholesale distributor and public retailer of non-medical cannabis and will continue to support an efficient and resilient supply chain for B.C. cannabis producers, including Indigenous Nations, and support for private cannabis stores entering and operating in the marketplace.

The legal cannabis marketplace is still in its early phases of development, and cannabis, as an agricultural product, is subject to variability of volume and quality among harvests. While cannabis licensed producers have made improvements in the four years since legalization, the LDB continues to face regular product shortages on a variety of popular products from licensed producers. The LDB faces unique challenges within the cannabis industry as the mix of suppliers, vendors and retailers continues to evolve.

Annual Economic Statement

B.C.'s economy has been resilient to pandemic, geopolitical and climate-related disruptions. However, higher interest rates are expected to weigh on the economy in the coming years. Following a rapid recovery from the economic impacts of the COVID-19 pandemic, high inflation led to successive interest rate increases from the Bank of Canada in 2022. The impact of higher interest rates has been evident in housing markets and there is uncertainty over its transmission to the rest of the economy in B.C. and among our trading partners. B.C. is heading into this challenging period in relatively strong position, with a low unemployment rate. The Economic Forecast Council (EFC) estimates that B.C. real GDP expanded by 3.0 per cent in 2022 and expects growth of 0.5 per cent in 2023 and 1.6 per cent in 2024. Meanwhile for Canada, the EFC estimates growth of 3.4 per cent in 2022 and projects national real GDP growth of 0.5 per cent in 2023 and 1.5 per cent in 2024. As such, B.C.'s economic growth is expected to be broadly in line with the national average in the coming years. The risks to B.C.'s economic outlook center around interest rates and inflation, such as the risk of further inflationary supply chain disruptions, the potential for more interest rate increases than expected, and uncertainty around the depth and timing of the impact on housing markets. Further risks include ongoing uncertainty regarding global trade policies, the emergence of further COVID-19 variants of concern and lower commodity prices.

Performance Planning

Goal 1: Sustain net returns to the Province of B.C.

The LDB is committed to optimizing its financial performance to deliver its expected financial results to the Province of B.C. The LDB is a significant generator of government revenue which supports public services that British Columbians rely on every day. To achieve this goal, the LDB will be looking for opportunities to enhance sales and increase efficiencies.

Objective 1.1: Optimize LDB's financial performance

The success of the LDB's wholesale and retail lines of business are key to this objective.

Key Strategies

- Improve the management of liquor and cannabis inventory, forecasting and on-hand inventory, and ongoing collaboration and communication with suppliers to address slow-moving stock keeping units (SKU).
- Upgrade business processes and technology systems to improve efficiencies, support resilient operations, and enhance the liquor wholesale customer experience.
- Improve retail product assortment, merchandise planning, and product knowledge and customer service training of employees at BCL and BCCS to enhance sales.
- Modernize BCL retail systems to reflect customer expectations of a modern retailer, specifically increasing efficiencies to benefit customers and ensuring a customer-centric experience overall.

Discussion

To support sales growth, the LDB is focused on continuing to build out a robust beverage alcohol and non-medical cannabis wholesale supply chain that is reflective of customer needs. Its network of BCL and BCCS is committed to improving retail customer experience and continuously reviewing market trends to enhance product selection.

To prepare for any potential future disruptions and support greater resiliency, the LDB is focused on building a modern organization in which processes and technology are nimble in responding to customer needs. Continued efforts to enhance wholesale and retail product assortment, including support for BC-based producers and businesses, and to improve the processes through which wholesale customers receive product, will support greater organizational efficiency and better allow the LDB to respond to evolving market conditions and disruptions within its operating environment.

Performance Measures

Performance Measures	2022/23 Forecast	2023/24 Target	2024/25 Target	2025/26 Target
1.1a Net income (in \$ millions) ^{1,2}	\$1,178.6	\$1,150.3	\$1,170.4	\$1,194.2
1.1b Liquor distribution centres inventory turnover per year ³	13.6	13.6	13.6	13.6
1.1c Cannabis distribution centre inventory turnover per year ⁴	9.0	9.0	9.0	9.0
1.1d BCL sales per square foot ^{5,6}	\$1,484	\$1,497	\$1,512	\$1,519
1.1e BCCS sales per square foot ⁷	\$800	\$800	\$800	\$800

¹ Data source: BCL and BCCS sales data are collected from point-of-sale cash register systems and stored in Head Office databases. Sales made directly to customers by authorized representatives on behalf of the LDB are transmitted to the LDB and stored in databases. LDB financial statements are audited annually by the Office of the Auditor General. LDB expense data is captured, stored, and reported by the LDB's financial system.

² 2023/24 and 2024/25 targets have been updated to reflect the projected industry outlook for both liquor and cannabis of reverting to historical averages.

³ Data source: Inventory data is collected from applications at LDB's liquor distribution centres in Delta and Kamloops designed for this purpose and stored in Head Office databases. Inventory turnover is calculated by dividing the duty paid cost of shipments from LDB's liquor distribution centres to customers (including BCL) by the average inventory in the same period.

⁴ Data source: Inventory data is collected from applications at LDB's cannabis distribution centre designed for this purpose and stored in Head Office databases. Inventory turnover is calculated by dividing the duty paid cost of shipments from LDB's cannabis distribution centre to customers (including BCCS and BCCannabisStores.com) by the average inventory in the same period.

⁵ Data source: BCL sales data is collected from point-of-sale cash register systems and stored in Head Office databases.

⁶ 2023/24 and 2024/25 targets have been adjusted to represent an increase in total square footage due to store relocations and expansions.

⁷ Data source: BCCS sales data is collected from point-of-sale cash register systems and stored in Head Office databases. It is based on total square footage, not sales floor space.

Discussion

1.1a Net Income

Net income represents the LDB's contribution to the Province from the sale of beverage alcohol and cannabis in B.C. LDB's finances are audited by the BC Auditor General.

The LDB is forecasting to meet the Budget 2022 target for fiscal year 2022/23 assuming no significant sales impacts due to external factors. However, the fiscal year 2022/23 forecast reflects a decrease in net income of 0.9 per cent compared to the prior year of \$1,189 million due to lower gross margins on product sales and slightly higher operating expenses anticipated. Future year targets for 2023/24 and 2024/25 are lower than last year's Service Plan as they reflect anticipated shifts in sales back to historical levels and higher operating costs due to increases in employee wages and facility-related costs.

For a list of the assumptions used in LDB's forecast, please see "Key Forecast Assumptions, Risks and Sensitivities" section of this report.

1.1b and 1.1c Inventory Turnover

A new performance measure in the LDB's 2023/24 – 2025/26 Service Plan, the distribution centre inventory turnover rate, is an indicator that wholesale product assortment is aligned with market demands. It measures the number of times inventory has been shipped to wholesale customers (including BCL and BCCS) and replaced within a fiscal year.

Liquor

The LDB's baseline and target of 13.6 for wholesale liquor inventory turns per year supports a stable supply of liquor to serve the size of B.C.'s market. The liquor distribution centres operate at an optimal on-hand inventory level of three to four weeks to buffer against supply chain disruptions and sustain customer service levels. The LDB collaborates with suppliers to optimize product availability, as well as address slow-moving products and onboard fast-moving ones to serve its customers.

The target remains the same through to fiscal year 2025/26 to take into account the pressure on this target as a result of external impacts to operations.

Cannabis

The LDB's baseline and target of 9.0 for cannabis wholesale inventory turns per year enables the LDB to provide sufficient inventory for customers while maintaining business efficiency and managing financial risks. The target of 9.0 inventory turns represents approximately 40 days of on-hand inventory at the LDB's cannabis distribution centre to support a reliable supply of cannabis products to serve its customers. The legal cannabis marketplace is still in its early phases of development and the LDB continues to face regular product shortages on a variety of popular products from licensed producers. As such, the LDB carries a sufficient amount of product in its cannabis distribution centre to mitigate short-term supply shortages.

The target remains the same through to fiscal year 2025/26, but as B.C.'s cannabis industry and marketplace continue to mature, the LDB will continually evaluate and adjust inventory turn targets with the aim of optimizing a reliable supply of cannabis for businesses across B.C.

1.1d and 1.1e Sales per Square Foot

The amount of sales per square foot of retail space is an indicator of BCL and BCCS operating efficiency. The LDB regularly reviews its sales per square foot performance to optimally layout its stores with product assortment, space planning, and merchandising.

Liquor

The LDB anticipates steady sales-per-square-foot growth for BCL over the course of this plan attributable to various marketing strategies to drive store traffic, space planning and merchandising efforts, as well as promotional sale campaigns to remain competitive in the retail marketplace.

However, year-over-year growth is expected to be more gradual compared to the significant growth experienced between 2015/16 and 2019/20, which was driven by higher customer spending, growth of refreshment beverage and craft beer categories, and improved assortment/space planning and refrigeration in BCL. As such, the targets for fiscal years 2023/24 and 2024/25 have been adjusted to reflect a more realistic growth trend over the course of this plan.

Cannabis

The LDB anticipates flat sales-per-square-foot performance for BCCS over the next three years due to the persistent competition by ongoing illicit market activity and the continued entry of new private cannabis retailers into the market. Additionally, as the cannabis industry continues to mature, the average price per gram is expected to continue declining, impacting total sales and retail gross margin.

To sustain its operating effectiveness, the LDB continues to review BCCS customer purchasing patterns by location and region to improve product assortment and merchandise planning and introduce new product categories as they come to market with the goal of better serving existing and attracting new customers.

Goal 2: Improve customer experience with the LDB

As the province's sole wholesale distributor of beverage alcohol and non-medical cannabis and the public retailer of these products, the LDB is committed to providing best-in-class service to meet the needs of British Columbians and demonstrate its value and reliability to stakeholders.

Objective 2.1: Improve retail and wholesale customer satisfaction

Delivering a high standard of service and maintaining customer satisfaction are critical priorities for the LDB.

Key Strategies

- Enhance liquor and non-medical cannabis wholesale customer service through efficient order management processes.
- Continue to implement BCL's multi-year brand modernization strategy, which includes efforts to optimize product assortment and placement and the creation of a consistent omni-channel customer experience.
- Build on the LDB's customer-centric culture through employee training.

Discussion

Major events over the past several years (e.g., global COVID-19 pandemic, extreme weather events, global supply chain constraints) have impacted the LDB's operations across all lines of business, which has resulted in a decline in customer satisfaction. In this context, the LDB recognizes the need to re-focus on building a resilient and agile organization that can respond to customer needs, including during challenging times.

Several key initiatives, including updates to functionalities of the LDB’s liquor warehouse management system and other process improvements are already underway. When completed, these initiatives are anticipated to help stabilize and sustain customer service levels. The LDB will also implement improvements to the functionality of its cannabis warehouse management system to increase efficiency, reduce errors, and provide greater tracking capabilities with third-party freight carrier partners to improve order visibility for customers. These improvements are under development and are expected to be implemented in early 2023.

To further enhance customer service and support a more resilient cannabis supply chain, the LDB launched a cannabis direct delivery program in 2022. The purpose of the program is to better support the participation of BC Indigenous and small-scale producers in the legal cannabis market, as well as improve the product assortment available in cannabis stores to better serve consumers. Over the coming years, the LDB will continually review and improve its processes to ensure producers and consumers benefit from the value of the direct delivery model with the goal of strengthening customer satisfaction and access to a broad array of legal cannabis products.

To strengthen BCL retail customer satisfaction, the LDB will continue to execute its multi-year brand modernization strategy, implement an enhanced GREAT (Greet, Rapport, Evaluate, Action, Thank) service training for new and existing BCL employees, and piloting a mobile product search tool that helps sales associates on the retail floor better assist customers in finding specific products. Additionally, the LDB plans to conduct a consumer research study in 2023/24 to inform further progress and development of its brand strategy. The findings of the study will be used to inform changes that create and maintain a consistent, engaging, relevant brand and customer experience at BCL, differentiated from its competitors.

Performance Measures

Performance Measures	2022/23 Forecast	2023/24 Target	2024/25 Target	2025/26 Target
2.1a Liquor Wholesale on-time delivery ¹	80.0%	95.0%	95.0%	95.0%
2.1b Cannabis Wholesale on-time delivery ²	97.5%	98.0%	98.5%	99.0%
2.1c Liquor Wholesale accurate delivery ³	98.8%	98.8%	98.8%	98.8%
2.1d Cannabis Wholesale accurate delivery ⁴	93.0%	95.0%	96.0%	97.0%
2.1e BCL retail customer satisfaction ⁵	86.0%	n/a	87.0%	n/a

¹ Data source: Delivery data is collected by LDB’s own fleet of freight vehicles and third-party freight carriers and audited against bill of lading documents signed by the customer, confirming arrival times for accuracy of data.

² Data source: Delivery data is collected by third-party freight carriers through their Proof of Delivery systems and audited against customers’ reports of late deliveries.

³ Data source: Based on an audit of four per cent of orders and shipments processed by the LDB’s liquor distribution centres.

⁴ Data source: Based on an audit of all orders and shipments processed by LDB’s cannabis distribution centre.

⁵ Data source: The LDB contracts with a professional survey company bi-annually to conduct the BCL retail customer service surveys. This Performance Measure is a measurement of the proportion of respondents who expressed an overall satisfaction with BCL.

Discussion

2.1a and 2.1b Wholesale On-Time Delivery

In lieu of reporting on the overall results of a wholesale customer satisfaction survey that is conducted every two years, the LDB is shifting its approach to focus on objective, real-time measurement of its on-time delivery rate as an indicator of wholesale customer service levels. A new performance measure in the LDB's 2023/24 – 2025/26 Service Plan, wholesale on-time delivery measures the number of orders that arrive at a customer's location within a pre-determined delivery window. On-time delivery allows customers to plan labour more effectively and is a key driver of wholesale customer satisfaction. Data to determine on-time delivery is collected from LDB's fleet of freight vehicles and third-party freight carriers and audited against bill of lading documents signed by the customer, confirming arrival times for data accuracy.

Liquor

The LDB has a benchmarked performance target of 95 per cent for liquor wholesale delivery, which is consistent with industry standards. The 2022/23 forecast reflects the impact that occurred to on-time delivery between September and mid-November 2022 as the LDB worked to restore its operations following the job action that spanned August 15 to 30, 2022. During this timeframe, on-time delivery was recorded as zero per cent. Immediately following the job action, the LDB's wholesale operations worked to address the backlog of orders and return to normal service levels as quickly as possible.

Cannabis

The LDB's cannabis distribution centre has managed on-time delivery performance above 98.5 per cent in previous years. However, highway closures due to major floods in fiscal 2021/22 and job action occurring in fiscal 2022/23 have had a negative effect on the LDB's performance against this measure. As such, the LDB forecasts a 97.5 per cent result for 2022/23. The LDB is adding secondary carriers to supplement primary carriers to return to and sustain optimal service levels. Also, as the cannabis retail landscape continues to develop, the LDB will regularly review trucking routes and delivery windows to optimize where possible.

2.1c and 2.1d Wholesale Accurate Delivery

In addition to reporting on-time delivery rates as noted above, the LDB is monitoring its accurate delivery rate as an indicator of wholesale customer satisfaction. A new performance measure in the LDB's 2023/24 – 2025/26 Service Plan, wholesale accurate delivery, measures the accuracy of orders that are fulfilled and delivered to a customer without error. A higher order accuracy rate allows customers to operate their business more efficiently by allowing them to quickly get their product to market and strengthens wholesale customer satisfaction while reducing the LDB's labour cost associated with having to correct inaccurate orders. To maintain its wholesale delivery accuracy, the LDB regularly reviews its audit and quality

assurance records to identify, investigate, correct, communicate, and prevent through employee education the causation of errors upstream in the order picking process.

Liquor

The accurate delivery rate for liquor wholesale is based upon an audit of four per cent of cases shipped and processed and includes both accuracy of product and quantity. The 2022/23 forecast of 98.8 per cent is consistent with previous years' performance. The LDB's baseline and target of 98.8 per cent is sustainable year over year.

Cannabis

The LDB's cannabis distribution centre uses an order error tracker to collect, monitor and report data on cannabis order accuracy as part of their quality control process. As the LDB's cannabis line of business continues to mature, the LDB anticipates year over year improvement in its accurate delivery of cannabis products from the 2022/23 forecast of 93 per cent to a target of 97 per cent by 2025/26.

2.1e BCL Retail Customer Satisfaction

Every two years, the LDB conducts customer service surveys to gather overall satisfaction with service from BCL customers. Based on historical performance, the LDB forecasts to achieve an 86 per cent BCL customer satisfaction in 2022/23 and has set a higher target of 87 per cent in 2023/34 to reflect its enhanced renewed focus on strengthening customer service.

The LDB plans to modernize its bi-annual customer satisfaction survey, moving away from BCL in-store/in-person surveys, to an online method of gathering customer feedback. This change will allow the LDB to gather more feedback and ensure timely and relevant changes are made to improve customer satisfaction in the future.

Goal 3: Create positive social impact

Social and environmental responsibility is a key element of the LDB's mandate. To support these efforts, the LDB focuses on three themes: reducing the impact its business has on the environment, encouraging and promoting the responsible use of alcohol and cannabis, and giving back to the people and communities it serves.

Objective 3.1: Minimize the impact of LDB operations on the environment

Aligned with the CleanBC Roadmap to 2030 and government's legislated target to reduce greenhouse gas emissions by 40 per cent below 2007 levels by 2030, the LDB is taking concrete steps to move towards net zero emissions from its fleet and buildings and eliminate waste and single-use plastics from entering the landfill.

Key Strategies

- Reduce the overall waste generated by the LDB across all lines of business.
- Begin to replace LDB's fleet of gasoline and hybrid vehicles with electric vehicles and explore alternative fuel options for LDB's diesel-powered freight vehicles.
- Support the CleanBC Roadmap to 2030 by developing and implementing programs that reduce greenhouse gas emissions.
- Continue to report annually on greenhouse gas emissions and purchase carbon offsets as part of B.C.'s Carbon Neutral Government Program.

Discussion

The LDB is continuing to develop contractual requirements for its waste collection service providers across the province to improve the LDB's ability to collect and compare data and produce more precise reports.. Waste services at several BCL and BCCS locations are overseen by property managers who do not currently provide their waste collection and diversion data to the LDB so the diversion rates are not representative of the LDB's entire retail network. As municipalities mandate organics collection, an organics waste stream will be added to BCL and BCCS locations. The LDB is also looking at opportunities to partner with new waste providers to allow cannabis vape pens and other multi-material items to be returned to BCCS.

The LDB will continue to focus on replacing its fleet of light duty gasoline and hybrid vehicles with electric vehicles by 2030 in alignment with the CleanBC Roadmap to 2030. The LDB will continue working closely with its freight providers to support the efficient distribution of liquor and cannabis. This includes exploring contractual levers with our third-party distribution partners to ensure streamlined and efficient routes. Since 2010, the LDB has been measuring its greenhouse gas emissions and purchasing BC-based carbon offsets to become carbon neutral on an annual basis. Starting in 2023, the LDB will be required to report out on the amount of receipt paper it uses across its network of BCL and BCCS locations. This is a new requirement that is expected to increase the amount of carbon offsets the LDB will purchase.

The LDB will work to align with the CleanBC Roadmap to 2030 to support reaching provincial waste targets for 2030. An energy use program will be implemented in fiscal 2023/24 to allow the LDB to closely monitor energy use across its buildings and worksites in order to identify facilities that may require upgrades to improve energy efficiency. Efforts made to reduce emissions and the LDB's annual emissions profiles are captured in the LDB's [Carbon Neutral Action Reports](#) published on its website. The Carbon Neutral Government requirements are set out in B.C.'s [Climate Change Accountability Act](#) and the [Carbon Neutral Government Regulation](#).

Objective 3.2: Encourage the responsible use of beverage alcohol and non-medical cannabis

The LDB will continue to support government's mandate of prioritizing public health and safety and promoting responsible consumption and awareness of the risks associated with consuming liquor and cannabis.

Key Strategies

- Prevent sales to minors or intoxicated persons in BCL and BCCS through employee education and enforcement of ID-checking requirements.
- Reinforce social responsibility and responsible consumption through campaigns and the display of educational and promotional material, signage, and content in BCL and BCCS stores and on BCL and BCCS' social media channels.

Discussion

The LDB is committed to being a responsible retailer of liquor and cannabis. BCL and BCCS will continue ID-checking all customers who appear under the age of 30. Monthly campaigns centered around education and responsible consumption that include themes ranging from planning a safe ride home to consuming in moderation will continue to be implemented across all sales channels. Modern and fresh social responsibility campaigns will continue to be developed in alignment with those led by the LCRB and will be promoted in collaboration with stakeholders and community partners.

Objective 3.3: Increase positive social impact

The LDB already delivers a number of social impact activities across the organization. Going forward, the LDB will build on these existing activities to further affect change from a social, environmental, and economic standpoint and to benefit all British Columbians.

Key Strategies

- Support employees in building respectful, meaningful relationships with Indigenous peoples and help advance reconciliation efforts by delivering on the LDB's multi-year Indigenous learning journey.
- Continue to foster a safe and supportive work environment by developing and implementing a multi-year diversity and inclusion strategy and related employee engagement.
- Support the communities in which the LDB operates by continuing to participate in at least five in-store charitable programs or campaigns in 2023/24 that raise awareness and funds for the LDB's community partners.

Discussion

The LDB is developing a strategy that unifies all efforts across the organization centered on bringing positive change to employees, Indigenous partners, stakeholders, and customers. This includes activities in support of reconciliation, diversity and inclusion, equity and anti-racism, responsible consumption, charitable initiatives, employee engagement and building a respectful workplace.

As part of its efforts to support lasting and meaningful reconciliation with Indigenous peoples in B.C., the LDB partnered with an Elder-led Indigenous organization to develop the LDB's Indigenous learning journey – a multi-year learning program designed to help employees build cultural awareness and respectful and collaborative relationships with Indigenous

peoples. Education and engagement opportunities and resources will continue to be provided to employees as part of the Indigenous earning journey.

The LDB will also develop and implement a multi-year diversity and inclusion strategy to support a more inclusive, safe and supportive work environment for all employees, including Indigenous peoples, racialized communities, immigrants, persons with disabilities, and 2SLGBTQIA+ communities. In addition to supporting a more engaged and inclusive work environment at the LDB, this strategy will also support government’s overarching commitments related to diversity, anti-racism, gender equity, and reconciliation with Indigenous Peoples.

The LDB’s network of BCL and BCCS regularly support in-store charitable campaigns and programs to raise funds and awareness for community partners and charitable organizations. The LDB will continue to support fundraising campaigns on an annual basis, ensuring the number of campaigns do not overwhelm customers and that the causes supported are consistent with overarching government priorities and values.

Performance Measures

Performance Measure	2022/23 Forecast	2023/24 Target	2024/25 Target	2025/26 Target
3.1a Waste diversion rate ¹	88.0%	89.0%	90.0%	91.0%
3.2a BCL and BCCS store compliance with ID-checking requirements ²	100.0%	100.0%	100.0%	100.0%

¹ Data source: Diversion rates are determined based on measured weights reported by contracted waste and recycling service providers.

² Data source: The Liquor and Cannabis Regulation Branch (LCRB) administers an ID compliance checking program and provides the results of BCLS compliance to the LDB. It is assumed that similar to liquor, LCRB will be administering an ID compliance checking program in cannabis stores and will provide the results of BCCS compliance to the LDB.

Discussion

3.1a Waste Diversion Rate

Waste diversion rates represent the percentage of material diverted from the landfill through composting and recycling. Diversion rates for all LDB worksites, including the Delta Distribution Centre, Kamloops Distribution Centre, Richmond Distribution Centre, Head - Office, and BCL and BCCS locations, are determined based on measured weights reported by contracted waste and recycling service providers.

The 2022/23 forecast represents a combined diversion rate for all LDB worksites, including those noted above, and has been calculated by collecting weight in metric tonnes throughout the fiscal plan period. The figure does not represent BCL and BCCS worksites where waste services are overseen by a property manager and not provided to the LDB.

The incremental increases in the LDB’s target diversion rate are anticipated to be more gradual than previously published. The targets for 2023/24 and 2024/25 have been adjusted to

represent a more balanced progression as the LDB continues to expand recycling streams and strengthen the quality of reporting from contracted waste and recycling service providers with the goal of increasing the diversion of materials from landfill. Incremental increases in the rate of diversion will be accomplished through continued employee education and engagement and the expansion of recycling programs in LDB worksites.

3.2a BCL and BCCS store compliance with ID-checking requirements

BCL and BCCS continue to enforce the ID-checking program through employee training, customer awareness, and store signage. A continuous target of 100 percent has been set to reflect the critical importance to the LDB of preventing sales to minors. BCL compliance in 2022/23 is forecasted to be on target at 100 per cent, based on current to-date compliance data from the LCRB. It is expected that the LCRB will administer a similar ID compliance checking program at BCCS in the near future and provide the results to the LDB.

Financial Plan

Financial Summary

\$millions	2022/23 Forecast	2023/24 Budget	2024/25 Plan	2025/26 Plan
Revenue				
Sales	4,533.9	4,689.7	4,821.4	4,924.2
Cost of Sales	2,819.6	2,920.1	3,012.6	3,084.1
Gross Margin	1,714.3	1,769.6	1,808.8	1,840.1
Expenses				
Operating Expenses - Employment	323.5	369.1	385.1	386.3
Operating Expenses - Amortization	75.5	72.5	72.4	74.3
Operating Expenses- Administration	78.1	107.3	108.4	109.9
Operating Expenses-Bank Charges	41.6	45.6	46.1	47.5
Operating Expenses-Facilities ¹	30.5	32.9	34.1	35.3
Operating Expenses-Lease Financing	6.9	6.9	7.3	7.6
Total Expenses	556.1	634.3	653.4	660.9
Other Income	20.4	15.0	15.0	15.0
Net Income	1,178.6	1,150.3	1,170.4	1,194.2
Capital Expenditures	24.8	28.3	34.0	27.4
Total Debt²	233.9	253.8	262.8	268.6
Accumulated Surplus (Deficit)	-	-	-	-

Note: The above financial information was prepared based on International Financial Reporting Standards.

¹ Facilities costs consist of common area maintenance, property taxes, utilities, repairs and maintenance.

² LDB does not have any loans. Debt consists of lease liabilities as at March 31.

Key Forecast Assumptions, Risks and Sensitivities

There is significant uncertainty surrounding economic forecasts in the short term, with some predictions of a mild recession or an economic slowdown. Key drivers that impact consumer confidence include interest rates and inflation. In the short term, consumers will likely be more price-conscious, focusing on products that provide value for money.

The LDB closely monitors the liquor and cannabis industries, especially the state of supply chains, and continually assesses potential impacts to financial and business operations.

The LDB's forecast includes the following assumptions:

- An overall sales revenue growth of 4.1 per cent in fiscal 2022/23 over the previous fiscal year, driven primarily by changes in product mix, inflation, and increased cannabis retail locations.

Beverage Alcohol Assumptions

- In fiscal year 2023/24 and future years, beverage alcohol sales dollar increases will be an average of 2.2 per cent primarily due to a small growth of volume in litres sold and higher costs.
- The stabilization of the liquor wholesale customer market share in fiscal year 2022/23 with minimal changes in future years.
- The beverage alcohol product mix remaining relatively stable through fiscal year 2023/24 and reverting to historical trends in future years.
- The volume of beverage alcohol measured in litres is expected to increase slightly in fiscal years 2023/24 from 2022/23 levels and remain stable in future years.
- As cannabis sales increase there will be no significant impact on liquor sales.

Cannabis Assumptions

- An increase in cannabis sales as more private retailers enter the legal marketplace, product selection increase with innovation, and growth in the direct delivery channel allows for improved access to products.
- BCCS completing its planned store rollout of fiscal 2022/23 by Spring 2023.
- The cannabis legal market will continue expanding although at a slower rate.
- Product margins will shift as new products are introduced, and consumers consumption patterns change.

Capital requirements reflect expenditures for opening and renovating government retail stores, operating equipment, vehicles, updating technology-related hardware and on-going equipment replacements.

Future projects include updating existing information technology to ensure robust, secure systems, and moving to a cloud or software-as-a-service (SaaS) solution where possible. The LDB will continue investing in retail and wholesale operations to support efficient and timely delivery of products while complying with regulatory requirements.

Sensitivity Analysis

Beverage alcohol and non-medical cannabis are highly regulated products and their consumption can be influenced by many factors, including regulatory changes, government policy, economic shifts, demographics, changes in climate, and the timing of statutory holidays.

Government policies and decisions can have a significant impact on LDB revenue. For example, the introduction and relaxation of Provincial health orders throughout the pandemic changed where products could be purchased and consumed which influences sales patterns at the LDB. Policy changes for the cannabis industry have included the introduction of a direct delivery program in August 2022 which better supports the participation of BC Indigenous and small-scale producers in the legal marketplace, as well as a Producer Retail Store (PRS) license to allow eligible licensed producers to sell non-medical cannabis products from stores located, on-site, at their cultivation site.

Municipal government decisions and regulations around the operation of cannabis retail stores in their communities also influence revenues and costs for the LDB's cannabis line of business – municipal rules can determine the location and number of retail stores permitted, as well as the timing within which they open for business.

The LDB's financial performance is also affected by economic conditions:

- Environmental factors – severe weather causing fires, floods, and drought can impact the supply chain and cause business disruptions;
- COVID-19 and future pandemics – this could impact LDB operations, industry, and consumer behaviour;
- Changes in the marketplace – which product types, and where consumers purchase their products (private or public stores) will impact LDB revenues;
- Availability of products – constraints on the supply chain can impact the LDB's ability to sell to retail and wholesale customers;
- Consumer price sensitivity – in an inflationary economic environment in which the costs of basic goods and services are high, consumers will become more price sensitive; and
- Beverage alcohol and non-medical cannabis are discretionary consumer products and sales are affected by economic conditions. Consumer confidence in the economy impacts the level of entertainment dollars spent on beverage alcohol and cannabis.

Cultural shifts and demographics also influence purchasing patterns. Current trends in liquor continue to reflect shifting preferences as consumers shift away from beer towards other products. Beverage alcohol consumption also tends to decrease as the median age increases with the aging population. Additionally, in January 2023, the Canadian Centre for Substance Use and Addiction (CCSA) updated its alcohol consumption guidelines, lowering its recommended weekly consumption of standard drinks and increasing awareness of the health risks associated with liquor. The impact on consumer behaviour as a result of the CCSA's new recommendations at this time, remain unknown.

Weather patterns and the timing of statutory holidays are other factors that influence LDB revenue. A hot, dry summer and long weekends result in increased sales, particularly in the refreshment beverage and beer categories. Conversely, colder/wetter weather conditions have a negative impact on liquor sales. The timing of statutory holidays during the week also has an impact on sales – when these holidays fall on Mondays or Fridays, sales are much stronger than when they fall on Tuesdays or Wednesdays.

The LDB monitors all of these factors using the best information available to ensure sound decisions are made with respect to product mix, supply, and staffing.

Product Margins

The LDB has different margins on products and changes in product mix impact net income. Each percentage change in the product cost across the wine, spirit, refreshment, and cannabis categories have a cumulative effect on net income of approximately \$22.4 million, due to the percentage-based mark-up in place for these products.

Beer has a volume-based mark-up and therefore the same margin dollars is generated regardless of supplier prices. The LDB derives more margin dollars when there is a volume increase in beer sales.

Increased sales of lower margin products and less sales of higher margin products will result in lower LDB product margins overall and a flattening of revenue to government over time.

BC VQA wines and wines produced from 100 percent B.C. grapes also generate lower gross margin dollars, in general. As these two categories grow in relation to other product categories, the LDB's margin as a percentage of sales will decrease.

Management's Perspective on Financial Outlook

Like many other industries, the economic outlook for the beverage alcohol and cannabis sectors is uncertain. Inflation, supply chain issues, labour shortages, and decreasing economic consumer confidence continue to challenge the LDB in 2022/23 and are forecasted to last well into 2023/24. The continued risk of new COVID-19 variants and changing weather conditions continue to create risk to the LDB's operations and, therefore, uncertainty to the LDB's financial forecasts.

In its liquor operations, the LDB will continue to focus on business efficiencies and adapting to the needs of its wholesale and retail customers. In BCL operations, future initiatives will focus on enhancing the customer shopping experience. In wholesale operations, pricing and supply chain processes and systems continue to be reviewed and streamlined to gain efficiencies and more flexibility.

October 17, 2022, marked the four-year anniversary of cannabis legalization. As the legal cannabis industry in B.C. continues to mature, the LDB will focus on maintaining efficient distribution operations, including the newly introduced direct delivery model, to support BC Indigenous and small-scale producers and improve consumer access to products. The LDB will

work with licensed producers to provide a variety of high-quality products and to expand product offerings with a focus on having the right product at the right price. On the retail side, the LDB will continue to operate BCCS locations to service the needs of the community and promote safe, responsible consumption while making necessary adjustments to align with government policy changes when required.

Appendix A: Mandate Letter from the Minister Responsible



276776

R. Blain Lawson
General Manager and Chief Executive Officer
BC Liquor Distribution Branch
Ministry of Finance
3383 Gilmore Way
Burnaby BC V5G 4S1

Dear Mr. Lawson:

On behalf of Premier Horgan and the Executive Council, I would like to extend my thanks to you for the dedication, expertise and skills with which you serve the people of British Columbia.

Every public sector organization is accountable to the citizens of British Columbia. The expectations of British Columbians are identified through their elected representatives, the members of the Legislative Assembly. Your contributions advance and protect the public interest of all British Columbians and through your work, you are supporting a society in which the people of this province can exercise their democratic rights, trust and feel protected by their public institutions.

You are serving British Columbians at a time when people in our province face significant challenges as a result of the global COVID-19 pandemic. Recovering from the pandemic will require focused direction, strong alignment and ongoing engagement between public sector organizations and government. It will require all Crowns to adapt to changing circumstances and follow Public Health orders and guidelines as you find ways to deliver your services to citizens. This mandate letter, which I am sending in my capacity as Minister responsible for the BC Liquor Distribution Branch (LDB), on behalf of the Executive Council, communicates expectations for your organization. It sets out overarching principles relevant to the entire public sector and provides specific direction to the LDB about priorities and expectations for the coming fiscal year.

.../2

I expect that the following five foundational principles will inform your agency's policies and programs:

- **Putting people first:** We are committed to working with you to put people first. You are uniquely positioned to advance and protect the public interest and I expect that you will consider how the LDB's decisions maintain, protect and enhance the public services people rely on and make life more affordable for everyone.
- **Lasting and meaningful reconciliation:** Reconciliation is an ongoing process and a shared responsibility for us all. Government's unanimous passage of the *Declaration of the Rights of Indigenous Peoples Act* was a significant step forward in this journey – one that all Crown agencies are expected to support as we work in cooperation with Indigenous peoples to establish a clear and sustainable path to lasting reconciliation. True reconciliation will take time and ongoing commitment to work with Indigenous peoples as they move towards self-determination. Guiding these efforts, Crown agencies must also remain focused on creating opportunities that implement the Truth and Reconciliation Commission through your mandate.
- **Equity and anti-racism:** Our province's history, identity and strength are rooted in its diverse population. Yet racialized and marginalized people face historic and present-day barriers that limit their full participation in their communities, workplaces, government and their lives. The public sector has a moral and ethical responsibility to tackle systemic discrimination in all its forms – and every public sector organization has a role in this work. All Crown agencies are expected to adopt the Gender-Based Analysis Plus (GBA+) lens to ensure equity is reflected in your operations and programs.
- **A better future through fighting climate change:** Announced in December 2018, the CleanBC climate action plan puts our province on the path to a cleaner, better future by building a low-carbon economy with new clean energy jobs and opportunities, protecting our clean air, land and water and supporting communities to prepare for carbon impacts. As part of the accountability framework established in CleanBC, and consistent with the *Climate Change Accountability Act*, please ensure your organization aligns operations with targets and strategies for minimizing greenhouse gas emissions and managing climate change risk, including the CleanBC target of a 50% reduction in public sector building emissions and a 40% reduction in public sector fleet emissions by 2030. Your organization is expected to work with government to report out on these plans and activities as required by legislation.

- **A strong, sustainable economy that works for everyone:** I expect that you will identify new and flexible ways to achieve your mandate and serve the citizens of British Columbia within the guidelines established by the Provincial Health Officer and considering best practices for conducting business during the pandemic. Collectively, our public sector will continue to support British Columbians through the pandemic and economic recovery by investing in health care, getting people back to work, helping businesses and communities, and building the clean, innovative economy of the future. As a public sector organization, I expect that you will consider how your decisions and operations reflect environmental, social and governance factors and contribute to this future.

As the Minister Responsible for the LDB, I expect that you will make substantive progress on the following priorities and incorporate them in the goals, objectives and performance measures in your 2021/22 Service Plan:

- Continue to work with government and Business Technical Advisory Panel (BTAP) members to evaluate and implement permanent and temporary policy and regulatory changes to support sectors impacted by the COVID-19 pandemic.
- Continue to identify and deliver greater benefits to consumers and industry by implementing the approved recommendations from the BTAP report received by government on April 30, 2018, and by finding efficiencies at the LDB liquor distribution centres.
- Continue to establish LDB Cannabis Operations wholesale and retail lines of business and support government's key priorities of protecting public health and safety, promoting social responsibility and eliminating the illicit market.
- In collaboration with stakeholders, continue to reinforce BC Liquor Stores' focus on corporate social responsibility by promoting awareness of the risks associated with alcohol misuse.
- Optimize the LDB's financial performance and sustain net returns to the Province of British Columbia in accordance with government policy, Treasury Board directives and the appropriate legislation and regulation.

The signed Mandate Letter is to be posted publicly on your organization's website in spring 2021.

I look forward to continuing to work with you to build a better B.C.

Sincerely,



Selina Robinson
Minister

April 9, 2021

Date: _____



R. Blain Lawson
General Manager, LDB

Date: April 12, 2021

cc: Honourable John Horgan, Premier

Lori Wanamaker, Deputy Minister to the Premier, Cabinet Secretary and Head of the BC Public Service

Heather Wood, Deputy Minister and Secretary to Treasury Board, Ministry of Finance

Douglas S. Scott, Deputy Minister, Crown Agencies Secretariat, Ministry of Finance

Mary Sue Maloughney, Assistant Deputy Minister, Liquor and Cannabis Regulation, Ministry of Public Safety and Solicitor General