

TO: CITY MANAGER 2002 AUGUST 7

FROM: DIRECTOR PLANNING AND BUILDING

**SUBJECT: PROPOSED NEW PROVINCIAL LIQUOR LICENSING SYSTEM
PROPOSED PRIVATIZATION OF GOVERNMENT LIQUOR STORES**

PURPOSE: To provide Council with an update on the Province's liquor policy review process, and to provide information on the recently announced privatization of provincial liquor stores.

RECOMMENDATIONS:

1. **THAT** Council reaffirm the objections to the proposed new provincial liquor licencing system and associated policy review process, as outlined in Section 2.0 of this report.
2. **THAT** a UBCM resolution supporting Recommendation #1 be approved, as outlined in **Appendix 1**, and forwarded to the UBCM on an emergency basis for consideration at their annual conference in 2002 September.
3. **THAT** a copy of this report be forwarded to the Solicitor General, the Honourable Rich Coleman, and the Minister of Competition, Science and Enterprise, the Honourable Rick Thorpe, as well as to Burnaby's MLAs.

R E P O R T

1.0 BACKGROUND

On 2002 April 29, Council received a report from this department regarding the provincial liquor policy review and adopted the recommendations contained therein. One of the recommendations included a request that local governments be given the opportunity to review and comment on the draft regulations amending the *Liquor Control and Licensing Act and Regulations (1976)* prior to their approval by the province. The aforementioned report also indicated that staff would continue to monitor the liquor policy review process and report back to Council as necessary. Staff have recently learned that the above regulations, are expected to be approved in the very near future without consultation with local governments. This report is in response to this information, and is intended to apprise Council of the impending announcements regarding new regulations governing the sale and serving of liquor in BC.

Related to the above, this report will also present information for Council regarding the

2.0 UPDATE ON THE LIQUOR POLICY REVIEW PROCESS

Council may recall that the province, at an open meeting of Cabinet on 2002 March 15, announced significant changes to the way in which liquor will be sold and served in BC. The province's four part strategy generally consists of:

- Permitting the sale of spirits in cold beer and wine stores effective 2002 April 02. To provide room for new products, cold beer and wine stores will also be able to apply to increase their maximum floor space from 90 to 180 m² (1,000 to 2,000 sq. ft.).
- Streamlining the number of licensing categories for liquor-serving establishments from nineteen to two – “food primary,” for businesses such as restaurants and cafes; and “liquor primary,” for businesses like pubs, bars, lounges and cabarets. It is also proposed that the latter be able to serve alcohol until 4:00 a.m., subject to local government and the Liquor Control and Licencing Branch's (LCLB) approval.
- Lifting the current moratorium on new cold beer and wine stores in B.C., subject to community and local government input. The moratorium has been in place since 1992.
- Amending rural agency store provisions to increase liquor retail choice in small communities.

As indicated, staff have recently learned that the regulations implementing this strategy are close to being approved by a Corridor Order – a method of approbation by which the Premier gives approval on behalf of Cabinet. Staff's previous report to Council outlined a number of aspects of the proposed new system to which, it was specifically recommended, Council should express its concern. These are:

- The concept of blending all straight drinking establishments into one licensing classification. This broader licence classification could make the essential character of different types of liquor facilities, such as neighbourhood pubs, hotel pubs, and cabarets, undefinable. As the current system allows adequate distinctions to be made between the various types of establishments, each with their different operating parameters, and in consideration that the proposed changes do not appear to offer significant gains in efficiency, it is this department's view that the current system ought not to be collapsed into just two classes.
- The proposal to allow dual licenses which allow restaurants to act as neighbourhood pubs during evening/late night hours. The nature of local government input and the proposed operating parameters relating to this proposal remain unclear. Should local government involvement include the ability to require public consultation or certain locational or operating criteria (as with the current process for neighbourhood pub

approvals), then dual licencing may be more supportable. However, given the potential impact this proposal may have on Burnaby, opposition to this policy direction should be expressed at this time, in light of the lack of clarity regarding its intent and in the absence of draft legislation available for review by local governments.

- The proposal to extend the closing time for liquor establishments to 2:00 a.m., without municipal government approval.
- The passage of regulations implementing the new liquor licensing system without adequate input from local governments and first nations regarding policy directions and proposed regulatory amendments.

These concerns were expressed in the City's submissions made to the Province in 2002 May. Copies of the 2002 April 29 report were also forwarded to Burnaby Members of the Legislative Assembly and the General Manager, Liquor Control and Licensing Branch.

Despite the foregoing, staff have been informed that submissions made by local governments, including Burnaby's, were given consideration, however the substantive nature of the regulations will nevertheless reflect the province's original strategy outlined above. Furthermore, it is evident that local governments will not be given the opportunity to comment on the draft regulations. Appearing elsewhere on tonight's agenda is a piece of correspondence from the Mayor of Coquitlam which states the City's objections to the proposed dual licencing system. As well, it puts forth an emergency resolution for consideration at the upcoming UBCM conference targeted at the Province to undertake meaningful consultation with the UBCM and member municipalities before changes to liquor licence legislation are introduced. Given the foregoing and in light of the fact that Coquitlam's resolution appears targeted specifically at the issue of dual licencing, it is considered appropriate that Burnaby put forth a broader resolution which reflects Council's stated objections to the proposed new licencing system to be considered at the UBCM conference next month (*see Appendix 1*). Implementation of the new regulations is expected to occur by the end of this year.

3.0 PRIVATIZATION OF GOVERNMENT LIQUOR STORES

At its 2002 July 24 open meeting, Cabinet approved a long-term strategy to increase private sector involvement in the selling, distribution and warehousing of liquor in BC. The impetus for this shift in policy is a result of conclusions arising from the Core Services Review which recommended reforming the role and functions associated with the Liquor Distribution Branch (LDB). More specifically, the Core Services Review tests for the LDB concluded that involvement in the warehousing, distribution and sale of beverage alcohol products could not be considered a core service of government. However, the Core Services Review did reveal that the LDB ought to continue its role in regulating access to and socially responsible use of beverage alcohol, and also act as the importer and wholesaler of record and, the collector of revenue for the province.

The general strategic shifts for the Liquor Distribution Branch include:

- from limiting private sector entry and participation to increased private sector involvement and jobs;
- from limiting service to enhancing service;
- from regulating and operating the retail network to regulating the retail network;
- from in-house management of warehouse operations to outsourcing/exiting warehouse operations; and
- from many regulations, little enforcement to few regulations and strong enforcement.

The LDB is governed by the *Liquor Distribution Act*, and administers/operates the government's 224 liquor stores throughout BC. The LDB also regulates 144 Rural Agency Stores that provide service in small rural communities, 86 BC manufacturer agency stores at wineries and breweries, and private wine agency stores that sell BC and imported wines. The LDB and the Liquor Control and Licencing Branch (LCLB) also regulates Licensee Retail Stores (LRS's) – Cold Beer and Wine Stores – which are licensed under the *Liquor Control and Licensing Act*. Currently, there are 768 retail stores selling beverage alcohol in BC. Of these 768 stores, 11 are located in Burnaby (7 LDB stores and 4 LRSs).

With respect to increased private sector involvement in the market and arising from the Core Services Review, it is anticipated that the number of privately owned and operated liquor stores will increase, while the number of LDB operated stores will decrease. However, it is noted that, until the applicable regulations have been prepared, the exact form and extent of private sector development is unknown at this time. One aspect of the proposed privatization is the desire, where possible, to create competition in the market for retail beverage alcohol service.

Council may also recall from the 2002 April 29 staff report, that this process of privatization actually began earlier in the year with the announcement at the 2002 March 15 Open Meeting of Cabinet that LRSs (cold beer and wine stores) would be allowed to sell spirits, and that a decision was made to end the moratorium on new LRSs, subject to the applicable regulations being amended and approved. In this regard, staff have been informed by the Province that the criteria for new private sector involvement/investment in LRSs will be enacted by 2002 September 03, with implementation to occur immediately thereafter.

Regarding warehousing and distribution, it is noted that currently there are two LDB warehouses (Vancouver and Kamloops) and eight privately bonded warehouses in BC. All of BC's imported alcohol products are distributed to LDB stores from its two warehouses.

Anticipated changes to the Federal Government's *Excise Act, 2001*, are expected to take effect in 2003 July, which would permit the establishment of "excise bonded" warehouses in BC, subject to LDB approval. Overall, this would have the effect of allowing the private sector to warehouse and distribute all forms of beverage alcohol. This is consistent with the goal of the LDB to have an alternative distribution network for beverage alcohol products provided by the private sector.

It is claimed that the LDB's reduced role in the retail sale, warehousing and distribution of beverage alcohol products will enable it to focus on public safety issues, such as: sales to minors, over consumption, and illicit sales. It is anticipated that the new regulations will enable the LDB to levy significant fines which will have a dual role: deterrence against non-compliance with LDB regulations, and protection of government revenue sources. Moreover, to ensure that the LDB's projected net income of \$640 million for the 2002/2003 fiscal year, and \$650 million for the subsequent two fiscal years is achieved, the LDB will continue its role as the importer and wholesaler of record for beverage alcohol products, in addition to maintaining its continued role as the collector of revenue from beverage alcohol mark-up and social services taxes.

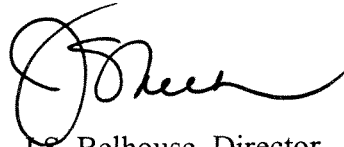
This strategic shift is also intended to reduce overhead costs for the LDB. Thus, in terms of fiscal management measures, an aggressive campaign to reduce corporate and management overhead has begun. It is noted that, on 2002 January 17, a total of 29 full-time-equivalent employees were "eliminated" in the LDB head office in Vancouver. More such cuts are expected in the near future. The LDB expects an annual cost savings in the range of \$25 to \$40 million as a result of reductions in overhead costs (e.g., salaries, rents and other operating expenses).

4.0 CONCLUSION

This report is intended to update Council on both the provincial liquor policy review process and the proposed privatization of government liquor stores. In terms of the province's liquor policy review, it was noted that the new regulations implementing the significant changes outlined in Section 2.0, and in more detail in the 2002 April 29 staff report, are expected to be approved by Corridor Order within the next few weeks. Furthermore, it is not expected that local governments will be given the opportunity to review the draft regulations prior to their approval, despite the City of Burnaby, and other municipalities, making submissions which made such a request. As a result, it is recommended that Council adopt the resolution contained in *Appendix 1* of this report and that it be forwarded to the UBCM as an emergency resolution at their 2002 annual conference.

With respect to the province's initiative to privatize a number of functions currently held by the LDB, including the sale of liquor, it was noted that this strategic shift resulted from the province's New Era commitment to reduce overall red tape and regulatory burden by one third over three years. Specifically, it is anticipated that the LDB will have its current regulatory burden of over 700 regulatory requirements cut by one half over the next year.

Conclusions arising from the Core Services Review supported this notion, and suggested that the sale and distribution of beverage alcohol is not a role for government. Therefore, according to the province, the strategic shift is justified on the grounds that it: meets “core roles” of government; allows for the increase of private sector investment and job opportunities in BC; and, focuses efforts on public safety and revenue collection.



J.S. Belhouse, Director
PLANNING AND BUILDING

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Attachments

cc: Officer-in-Charge, R.C.M.P.
Chief Licence Inspector
City Solicitor

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**UBCM Emergency Resolution
City of Burnaby
Objection to Proposed Provincial Liquor Licensing System**

Whereas the Provincial Government is pursuing significant changes to the current liquor licensing system, namely:

1. Collapsing the number of licensing categories for liquor-serving establishments from nineteen to two – “food primary” for businesses such as restaurants and cafes, and “liquor primary” for businesses like pubs, bars, lounges and cabarets;
2. Extending theoretical operating hours for liquor primary establishments until 4:00 a.m.; and
3. Lifting the current moratorium on new Licensee Retail Stores (cold beer and wine stores) in BC.

Whereas the Province’s liquor policy review process has not afforded local governments adequate consultation, including the opportunity to review and provide comment on the draft regulations.

And whereas the impacts of the proposed changes to the current liquor licencing system could have significant social, economic and land use impacts on communities of an adverse nature.

Therefore be it resolved THAT UBCM members express opposition to the Province’s proposed amendments to the current liquor licensing system and related regulations (the Liquor Control and Licensing Act, 1976, and the Liquor Distribution Act, 1976), and

THAT the UBCM request that the Province engage in a process of inclusive consultation with the UBCM and member municipalities prior to introducing changes to liquor licensing regulations.

