BC Liquor Distribution Branch

2016/17
ANNUAL SERVICE PLAN REPORT

For more information on the BC Liquor Distribution Branch contact:

2625 Rupert Street

Vancouver, BC V5M 3T5

604-252-3000

communications@bcldb.com

or visit our website at

www.bcldb.com

General Manager and CEO's Accountability Statement

The *BC Liquor Distribution Branch 2016/17 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *2016/17 – 2018/19 Service Plan.* I am accountable for those results as reported.

R. Blain Lawson
General Manager and Chief Executive Officer

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General Manager and CEO's Report Letter

The BC Liquor Distribution Branch (LDB) has continued to make improvements to the way we do business to help us keep pace with the ever changing liquor industry in B.C. We continue to enhance the retail experience for our customers by rolling out customer service training, extended hours, refrigeration and a new conceptual layout throughout our store network. All the while, we continue reinforcing responsible alcohol consumption through the corporate social responsibility programs we run throughout the year.

As directed in the 2016/17 Mandate Letter, the LDB worked with an executive project board, composed of senior executives from across government, on a warehousing solution for the Vancouver Distribution Centre. The lease for the current location will expire in 2019. In February 2017, the LDB entered into an agreement to lease a warehouse facility in Delta for a term of 10 years, with two, five-year renewal options. This will ensure that the LDB continues to provide high-quality and timely service to our wholesale customers. We expect to move into the new facility in spring 2018.

We support small business owners and make it easier for businesses to work with the LDB. We continue to improve our Wholesale website and make our Web Store more user-and-business-friendly. We also launched a new process so that B.C. craft beer producers receive payment in a much more streamlined and timely fashion – improving their cash flow so they can more easily invest in operating their businesses. This new remittance process will continue to roll out to other B.C. manufacturer types in the upcoming year.

The LDB exceeded revenue targets set by Government, contributing $1.08 billion in 2016/17 to help fund Government services in B.C.

Underpinning all of the LDB's actions in 2016/17 is the organization's commitment to the Taxpayer Accountability Principles of cost consciousness (efficiency), accountability, appropriate compensation, service, respect and integrity, as well as the strategic priorities set out in the 2016/17 Mandate Letter.

As a branch of the Ministry of Small Business and Red Tape Reduction and Responsible for the Liquor Distribution Branch, the LDB is fully integrated with respect to the Taxpayer Accountability Principles. These priorities have been incorporated into orientation and training for the LDB's executive leadership. The LDB will continue to work with the Ministry to prioritize accountability and cost control, while maintaining a focus on exceptional customer service for small business clients and customers.

R. Blain Lawson
General Manager and Chief Executive Officer

Purpose of the Organization

In British Columbia, the LDB is one of two branches of Government responsible for the beverage alcohol industry. The *Liquor Distribution Act* 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 Liquor Control and Licensing Branch (LCLB) licenses private liquor stores, restaurants, pubs and manufacturers, and enforces regulations under the *Liquor Control and Licensing Act*.

Reporting to the Minister of Small Business, Red Tape Reduction and Responsible for the Liquor Distribution Branch, the LDB:

- Operates a province-wide, retail/wholesale beverage alcohol business, within a mixed public-private model;
- Is responsible for the importation and distribution of beverage alcohol in B.C.;
- Has a workforce of approximately 4,000 full- and part-time employees;[1]
- Operates 198 BC Liquor Stores (BCLS), a Head Office, two Wholesale Customer Centres and two Distribution Centres; and,
- Has a General Manager and CEO who is responsible for administering the *Liquor Distribution Act*, which includes the oversight of BCLS, subject to direction from the Minister.

As part of B.C.'s mixed-model retail system, the LDB is committed to providing customers with an enhanced shopping environment, an expansive product selection and a high level of service.

The LDB and LCLB have a shared responsibility to encourage the responsible consumption of beverage alcohol and work closely together to coordinate policies and programs to this end. Visit www.bcldb.com and click on "Who We Are" for more information about the LDB.

For information on the LDB's corporate governance structure and an organizational overview, see Appendix B.

Strategic Direction and Context

The LDB's 2016/17 – 2018/19 Service Plan was informed by the 2016/17 Mandate Letter and the Taxpayer Accountability Principles (TAP). Together, the Mandate Letter and TAP provide strategic direction to the LDB and direct the organization to take specific actions in accordance with Government policy. Along with economic and market trends, these principles and mandate are factored into the LDB's business decisions.

Beverage alcohol is a discretionary consumer product and sales are affected by economic conditions. As the economy continues to improve and consumer confidence rebuilds, liquor sales have also improved across all categories – beer, wine, spirits and refreshment beverages. This is an indication that consumers enjoy a wide range of tastes and a greater

[1] As of March 31, 2017.

variety of products. In 2016/17, the LDB continued to closely monitor trends in sales and expenses to make adjustments to forecasts and budgets as necessary.

Increasing competitive marketplace
The LDB continued to carefully monitor the impact on more grocery stores entering the marketplace and liquor retailers becoming more accustomed to the changes in the industry, and made the appropriate business adjustments to respond to overall economic and industry trends.

Separation of the LDB's Retail and Wholesale operations
The LDB continued to update its business systems and organizational structures to reflect the LDB's new business reality in the ever changing B.C. liquor industry, including enhancing its operations and tools to provide more streamlined service to the LDB's Retail and Wholesale divisions and their customers. These changes also helped the organization to better support both the Wholesale and Retail divisions.

Warehouse Relocation
The LDB entered into an agreement to lease a warehouse facility in Delta and is working to improve warehouse management processes, material handling equipment and a new computerized warehouse management system. This larger facility will allow the LDB to provide higher-level customer service to its wholesale customers.

Report on Performance

The LDB's Report on Performance describes how the organization implemented its strategies in order to meet its performance goals. It illustrates how the LDB balanced its financial obligations with the non-financial activities outlined in its mandate. The strategies presented are in alignment with the Government's expectations as outlined in the 2016/17 Mandate Letter and the TAP. As a means of evaluating the organization's overall health and performance – and ensuring performance aligns with TAP – the LDB executive management engages in ongoing dialogue and reporting with the Ministry to re-examine goals, performance measures and strategies.

Benchmarking
The LDB's business structure changed significantly on April 1, 2015 which resulted in the creation of two distinct operations: Retail and Wholesale. With the introduction of the new wholesale model in 2015, trends experienced in prior years may no longer be relevant. As such, the LDB's regular benchmark study – which measures the LDB against a number of other organizations, including provincial liquor boards, non-Canadian Government liquor authorities, private distribution organizations and private retailers – will be deferred until more information is available. The LDB had nine 2016/17 targets as established in its 2016/17 – 2018/19 Service Plan, of which the organization achieved or exceeded four of the targets and were below target on the remaining ones.

Goals, Strategies, Measures and Targets

The LDB regularly re-examines its goals, performance measures, strategies and targets with the Ministry to ensure they reflect critical aspects of the LDB's performance, align with its key strategic directions, and reflect the organization's commitment to the TAP as laid out by Government.

Goal 1: Financial Performance

Meet financial objectives approved by Government.

Strategy

- Grow sales and effectively manage operating expenses.

Performance Measure 1: Net Income

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Net income (in $millions)	877.0	935.2	1,031.3	983.3	1,083.2	1,053.6	1,059.8

Data source: BCLS sales data is collected from computerized 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 by the Office of the Auditor General annually. LDB expense data is captured, stored and reported by the LDB's financial system.

Discussion

Net income is the contribution made to the provincial government by the LDB from the total sales of beverage alcohol in the province and is audited by the B.C. Auditor General. LDB net income is a significant contributor to provincial government revenues, and reflects the organization's commitment to the TAP of cost consciousness (efficiency) and accountability.

Provincial liquor sales were $3.33 billion in fiscal 2016/17, which was 6.5 per cent over the target of $3.13 billion for this fiscal year. This was an increase of 5.5 per cent, or $174.5 million, compared to sales in fiscal 2015/16.

Sales increases – and the resulting positive impact on net income – are the result of a number of factors including weather, holiday weekends, supplier promotions, and changes in sales mix. A shift in consumer product consumption from beer to wines results in higher average prices as wine generally has a higher unit price than beer. As well, consumption has been shifting towards specialty products, especially in the beer category, resulting in higher average prices.

As a result of higher sales, the LDB's net income for the year was $1.08 billion, 10.2 per cent higher than target and 5.0 per cent higher than the previous year. The LDB revised its 2017/18 and 2018/19 targets in its 2017/18 – 2019/20 Service Plan published in February

2017. Targets were increased since the 2016/17 Service Plan to reflect the latest sales trends, product mix, and inflation.

Goal 2: Workplace Quality and Employee Excellence

Create a work environment that encourages greater employee engagement.

Strategies

- Enhance staff skills and engagement through management development, employee training and increased communication.
- Implement Strategic Leadership Development for the organization.
- Provide a safe, healthy and harassment-free workplace.

Performance Measure 2: Employee Engagement

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Employee engagement	69	N/A	71	N/A	N/A	71	N/A

Data source: Workplace Environmental Survey conducted by BC Stats for the LDB.

Discussion
The LDB measures employee engagement every two years through the Workplace Environment Survey (WES) by asking employees about their work environment – a performance measure that reflects the organization's commitment to the TAP of respect. The LDB believes maintaining a WES score of 71 will be a challenging target, given the significant organizational changes that have occurred in the past few years. However, the LDB remains committed to this target. The next WES will be conducted in fall 2017.

Goal 3: Customer Experience

Maintain a high level of retail and wholesale customer satisfaction.

Strategies:

- Continuously refresh the store network.
- Continuously provide enhanced customer service.

Performance Measure 3.1: Retail Customer Satisfaction

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Retail customer satisfaction	N/A	98%	N/A	80%	83%[1]	N/A	80%

Data Source: The LDB contracts with professional survey companies to conduct the retail and wholesale customer service surveys.

[1] Starting in 2016/17, BCLS now examines different data to determine its retail customer satisfaction levels, which will make it more challenging to maintain previous performance levels in the 98 per cent range.

Discussion

BC Liquor Stores' (BCLS) retail customers are surveyed every two years by a professional survey company to determine customer satisfaction, reflecting the organization's commitment to the TAP of service. Due to the importance of customer satisfaction to the LDB's success, targets have, in the past, been set in the 90 per cent range for retail customers. Actual results in the two surveys prior to this fiscal year have exceeded these targets at 98 per cent.

The 2016/17 actual result of 83 per cent is a reflection of the time and employee training spent to develop, deliver and reinforce customer service consistently at all BCLS (greeting customers, helping them find the products they are looking for and providing other services as requested), as well as increased product selection. In addition, the rollout of refrigeration to more stores was well received by customers.

Historically, the Retail Customer Satisfaction performance measure has been based on customers who rated their experience as "good," "very good" or "excellent." In 2016/17, BCLS determined that the measure reported will be based only on customers who rate their experience as "very good" or "excellent." This reporting change will enable the organization to obtain more meaningful metrics with greater potential for improvement, but it will also reduce the quantitative customer satisfaction score from 2016/17 onward.

Performance Measure 3.2: Wholesale Customer Satisfaction

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Wholesale customer satisfaction	N/A	N/A	N/A	90%	68%	N/A	90%

Data Source: The LDB contracts with professional survey companies to conduct the retail and wholesale customer service surveys.

Discussion
Every two years, the LDB's wholesale customers (BCLS and private retail stores, bars and restaurants) are surveyed by a professional survey company to determine customer satisfaction. This measure aligns with the LDB's commitment to the TAP of service. Setting a consistently high bar for customer satisfaction ensures the LDB maintains its customer-centric focus.

Since the separation of LDB's Retail and Wholesale divisions, there remains some confusion in the industry over the relationship between the two divisions. In order to reduce this confusion, the Wholesale division is committed to improving and building relationships with its customers and working to better understand customers' perspectives and needs under the new pricing model.

In 2016/17, the Wholesale division met with and listened to many industry associations, buying groups, retail stores and hospitality customers. Overall survey ratings were lower than forecasted, in part due to an expanded survey base as the Wholesale division was servicing a more diverse customer base, which included customers with smaller and more labour-intensive orders. Other factors included new and additional questions that were added to the survey to get a broader understanding of service levels, and the significant changes impacting the industry since the separation of the Retail and Wholesale divisions.

With the separation of Retail from Wholesale, the direct shipping customer accounts serviced by the Wholesale division, outbound case picks, bottle picks and deliveries have all been increasing. These increases occurred within the existing constrained Vancouver Distribution Centre. The Wholesale division has been addressing specific areas of opportunities that were identified through the survey results to respond to the ongoing needs of customers. The division also continued to implement many process improvements and changes across customer service, vendor and item set up, in-stock improvements, order assembly and delivery quality. The Wholesale division introduced a new wholesale and hospitality website in 2016 and will continue to make efforts to improve the customer satisfaction rating.

Goal 4: Business Effectiveness

Maintain operating efficiencies in a climate of constant change.

Strategies

- Maximize the potential efficiencies available through improved distribution operations.
- Increase the use of current and cost-effective technology.

Performance Measure 4.1: BC Liquor Store Sales per Square Foot

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
BC Liquor Store sales per square foot	$1,222	$1,236	$1,327	$1,189	$1,380	$1,389	$1,409

Data Source: BCLS sales data is collected from computerized 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 by the Office of the Auditor General annually.

Discussion
BCLS sales per square foot is based on the annual dollar sales of the store system divided by total store system square footage, which measures how well the LDB converts its floor space into sales. This performance measure reflects the LDB's commitment to the TAP of cost consciousness (efficiency), accountability and service.

Counter sales continued to increase at BCLS in 2016/17. BCLS sales per square foot was $1,380, compared to $1,327 in 2015/16. This increase is due in part to more customer visits in this fiscal year, compared to 2015/16, a wider selection of products available and a change in buying behaviour as customers purchase more specialty products, such as B.C. Vintners Quality (VQA) wines and craft beer.

Now that the new wholesale pricing model has been operational for two years, the LDB revised its 2017/18 and 2018/19 targets in the 2017/18 – 2019/20 Service Plan published in February 2017.

Performance Measure 4.2: Distribution Centre Labour Cost per Case Shipped

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Distribution Centre labour cost per case shipped	$1.68	$1.70	$1.81	$1.76	$1.86	$1.77	$1.77

Data Source: Orders and shipments processed by the LDB Distribution Centres are captured and stored by computer applications designed for this purpose.

Discussion
The Distribution Centre labour cost per case shipped aligns with the LDB's commitment to the TAP of cost consciousness (efficiency), accountability and service. This productivity measure is calculated by dividing Distribution Centre labour expenses by total case shipments.

The actual results in the 2016/17 fiscal year did not meet the 2016/17 target due to the current constraints at the Vancouver Distribution Centre, smaller, more labour intensive orders, increased bottle picks and movement of some low cost products to other distribution routes.

Since April 2015, there has been a 30 per cent increase in new customers to the Wholesale division with much smaller and more labour intensive orders, due to the split between the Retail and Wholesale divisions and the fact that all private liquor stores and rural agency stores must now order directly from the Wholesale. In 2016/17, the Wholesale division made adjustments to some of its order fill procedures and have trained employees to better handle these smaller orders more efficiently to ensure the cost per case shipped is manageable.

Performance Measure 4.3: Distribution Centre Order Fill Rate

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Distribution Centre order fill rate	93%	91.5%	91%	93%	91%	93%	93%

Data Source: Orders and shipments processed by the LDB Distribution Centres are captured and stored by computer applications designed for this purpose.

Discussion

This measure reflects the percentage of each order filled completely by the LDB Distribution Centres (Vancouver and Kamloops) and is calculated by dividing the number of ordered items that are filled completely by the total number of items ordered. This measure reflects the LDB's commitment to the TAP of cost consciousness (efficiency), accountability and service.

While the target for this measure was not met, the Wholesale division continues to partner with retailers and vendors to improve forecasting and planning, and to address inventory and space shortages to ensure product can be supplied to meet the needs of customers.

The actual results for 2016/17 were below target due to supplier shortages, manual forecasting and planning, extraordinary winter weather, constraints at the Vancouver Distribution Centre, and limited space.

In 2016/17, the Wholesale division was able to achieve an annual increase in the order fill rate throughout the spring and summer of 2016. However, the difficult winter weather conditions during the winter months prevented a significant amount of product from arriving on time for assembly and delivery, resulting in a lower performance than prior years and negating the gains made in the spring and summer.

Goal 5: Corporate Social Responsibility

Encourage the responsible use of beverage alcohol and minimize the impact of operations on the environment.

Strategies

- Prevent sales to minors or intoxicated persons in BCLS through staff education and enforcement of ID-checking requirements.
- Promote awareness of responsible use by continuing cooperative programs with suppliers and other stakeholders.
- Reduce the impact of operations on the environment by reducing waste, increasing recycling rates and achieving carbon neutrality on an annual basis.

Performance Measure 5.1: Store Compliance with ID-Checking Requirements

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Store compliance with ID-checking requirements	82%	85%	83%	100%	96%	100%	100%

Data Source: LCLB administers an ID compliance checking program and provides the results of the BCLS compliance to the LDB.

Discussion

The LDB continued its long-term commitment to corporate sustainability and social responsibility by minimizing minors' access to alcohol through stringent ID-checking procedures. This measure reflects the LDB's commitment to the TAP of accountability. The legal age to purchase liquor in B.C. is 19.

The LDB sets a target of 100 per cent to ensure the organization strives to achieve perfection and to reflect the significance it places on this performance measure. In addition to the LCLB's ID compliance checking program, the LDB administers a 'Check-30' program, introduced in 2015, which requires all customers who appear to be under the age of 30 to provide two pieces of identification. If a BCLS does not pass the ID compliance checking program, follow up action and training is taken with the store to ensure employees are aware of the ID checking requirement and the importance of not selling to minors.

Although actual results were lower than target in 2016/17, this was a significant increase from the 2015/16 actual of 83%. In 2016/17, the LDB increased training and awareness programs for employees on the importance of ID compliance checking and continued the 'Check-30' program.

Performance Measure 5.2: Customer Awareness of LDB Corporate Social Responsibility Programs

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Customer awareness of LDB corporate social responsibility programs	N/A	93%	N/A	90%	89%	N/A	90%

Data Source: The LDB contracts with professional survey companies to conduct the retail and wholesale customer satisfaction surveys. The retails customer satisfaction survey includes questions on customer awareness and recall of LDB's corporate social responsibility programs.

Discussion

The LDB places posters and other promotional materials in all of its 198 BCLS locations that encourage the responsible use of beverage alcohol – an action that reflects the organization's commitment to the TAP of accountability. The themes in these materials, such as the prevention of drinking and driving or underage drinking, change every month. The LDB supports awareness campaigns by stakeholders and associations, such as Preventable BC campaigns, Operation Red Nose and CounterAttack, that promote responsible alcohol consumption.

Every second year, the LDB measures customer recall of these promotional materials through the same customer survey the LDB uses to rate its retail customer satisfaction (see performance measure 3.1).

The actual results of 89% for 2016/17 was very close to the target of 90%. Although the target for this measure was not met, the actual result shows that the LDB continues to develop impactful and relevant messaging that catches the attention of customers.

In early 2017, the LDB added more signage at BCLS, particularly at checkouts, to increase customer exposure to social responsibility messaging. The signage was also updated to focus on more direct, simple messaging to generate greater awareness and impact.

Performance Measure 5.3: Waste Diversion Rate at Head Office and Vancouver Distribution Centre

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Waste Diversion Rate at Head Office and Vancouver Distribution Centre	N/A[1]	79%	85%	80%	80%	80%	85%

Data Source: Waste diversion rates represent the weight of material diverted from the landfill through composting and recycling as a percentage of the total weight of waste material generated. Rates are determined based on measured weights reported by a contracted waste and recycling service provider.

[1] This performance measure was introduced in 2014/15.

Discussion

<u>Waste Diversion</u>

Waste diversion is a measure of total material recycled as a percentage of all waste material generated. Over the past three fiscal years, the LDB has measured waste diversion rates for two specific workplaces – Head Office and the Vancouver Distribution Centre. This measure demonstrates the LDB's commitment to the TAP of accountability and integrity.

Through the LDB's *Waste Reduction and Recycling Strategy*, launched in 2014/2015, which focused on recycling mixed paper, food scraps, plastics and metal containers, and the rollout of a comprehensive recycling and education program at Head Office and the Vancouver Distribution Centre, the organization continues to focus on diverting as much recyclable material from landfills as possible. The goal was to recycle more cardboard, plastic and scrap wood, in addition to other recyclable materials.

For 2016/17, the LDB contracted a new waste service provider and required that recycled and landfilled material be weighed at every pick-up. Other materials that had not been accounted for in the last fiscal audit, such as scrap metal, polystyrene, and electronic waste, were measured as well. This provided a more complete and accurate diversion metric for the LDB's Head Office and Vancouver Distribution Centre. Despite its achievement of 85 per cent diversion in 2015/16, the LDB established a conservative target of 80 per cent for 2016/17 with the knowledge that a new measurement method would be used.

Also in 2016/17, the LDB expanded its *Waste Reduction and Recycling Strategy* to BCLS by introducing organic collection to 29 BCLS locations in Metro Vancouver. Further to that, the Kamloops Distribution Centre adopted a more comprehensive program for the recycling of wood scraps.

Finally, the LDB also measures the total annual weight of cardboard, plastic and paper material that it sends directly to recycling plants from BCLS. Combined with the Vancouver Distribution Centre and Kamloops Distribution Centre, this amounted to 2,799 metric tonnes of this material diverting from landfills. This does not include material picked up by recycling service providers directly from BCLS.

Carbon Neutrality
Since 2010, the LDB has been measuring its greenhouse gas emissions as much as possible and purchasing B.C.-based carbon offsets in order to become carbon neutral on an annual basis. Efforts made to reduce its emissions and its annual emissions profile can be viewed in the LDB's Carbon Neutral Action Reports.

Financial Report

Discussion of Results and Financial Report Summary Table

Actual 2016/17 financial results compared to 2015/16 actual results

Provincial liquor sales were $3.33 billion in fiscal 2016/17, which was 6.5 per cent over the target of $3.13 billion for this fiscal year. This was an increase of 5.5 per cent, or $174.5 million, compared to sales of $3.16 billion in fiscal 2015/16, and was the result of strong sales in all product categories and an overall volume increase of 1.7 per cent.

Gross profit for the year was $1.41 billion, an increase of $62.5 million, or 4.6 per cent, when compared to 2015/16. As a percentage of revenues, gross profit declined slightly from 42.7 per cent to 42.3 per cent when compared to the prior year. The decline was due to a combination of higher product costs and mark up changes benefiting breweries.

Operating expenses were 10.2 per cent of sales for the year and consistent with the previous year. The LDB continues to maintain its expenses as a percentage of sales by carefully managing its discretionary expenses and staffing in all areas of operations.

Expenses were $338.5 million, $12.5 million higher than in fiscal 2015/16. The largest changes in expenses occurred in the following areas:

- Employment expenses increased by $7.1 million due to a combination of negotiated rate increases and more labour hours in the distribution centres to support the higher sales volumes. Overall, the employment rate was 5.9 per cent of sales, consistent with previous years.
- Rent expenses increased by $2.2 million due to rent renewals, store relocations and new store openings.
- Bank charges increased by $2.3 million due to increased use of credit cards and higher merchant fees.
- Professional services increased by $3.1 million due to targeted experience needed and retained to support business and systems changes during the year.

- Other operating expenses totalled $55.4 million, slightly lower than the 2015/16 expenses of $57.6 million. Administrative expenses include repairs and maintenance, utilities, amortization, data processing and merchandising.

For 2016/17, the LDB's net income and contribution to Government was $1.08 billion. This was an increase of $52 million compared to the previous year, and $100 million higher than budgeted.

The LDB operates separate Retail and Wholesale divisions. BCLS are a customer of the Wholesale division and operate under a retail margin like any other retailer. For information on BCLS operating results, please see Appendix A of this document. In order to avoid double counting, all transactions between BCLS and the Wholesale division have been eliminated from the LDB financial results.

Table 1: Financial Resources Summary Table
For the five fiscal years ended March 31, 2017

$ millions	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Budget[1]	2016/17 Actual	2016/17 Variance	2015/16 Variance
Sales	2,745.5	2,877.9	3,157.0	3,127.9	3,331.5	203.6	174.5
Cost of Sales	1,594.3	1,683.3	1,809.6	1,798.5	1,921.6	123.1	112.1
Gross Profit	1,151.2	1,194.6	1,347.5	1,329.4	1,409.9	80.5	62.4
Operating Expenses - Employment	162.8	172.0	187.8	196.3	194.9	(1.4)	7.1
Operating Expenses - Rent	39.7	42.5	44.3	47.9	46.5	(1.4)	2.2
Operating Expenses - Administration	84.3	93.3	93.9	109.4	97.0	(12.4)	3.1
Operating Income	864.4	886.8	1,021.4	975.8	1,071.5	95.7	50.1
Net Income	877.0	935.2	1,031.3	983.3	1,083.2	99.9	51.9
Gross Margin (%)	41.9%	41.5%	42.7%	42.5%	42.3%	-0.2%	-0.4%
Operating Expenses to Sales (%)	10.4%	10.7%	10.3%	11.3%	10.2%	-1.1%	-0.1%
Net Income to sales (%)	31.9%	32.5%	32.7%	31.4%	32.5%	1.1%	-0.2%
Inventory Turnover	18	18	17	N/A	17	-	-
Capital	12.9	25.2	23.1	64.7	26.7	38.0	3.6
Debt	0	0	0	0	0	0	0
Retained Earnings	0	0	0	0	0	0	0

[1] In 2015/16, the LDB changed is accounting policy regarding outbound freight costs and now include these costs in the cost of goods sold. The impact of this change was to increase the cost of sales and decrease administration (transportation) expenses by the same amount. There was no impact on net income. The 2016/17 budget, as presented in the 2016/17 – 2018/19 Service Plan, has been restated to reflect this policy change.

Capital expenditures of $26.7 million were slightly higher than the $23.1 million spent in the previous year (see Table 1). Capital expenditures were related to ongoing operational capital requirements such as vehicle and equipment replacements, information systems hardware and licences, store tenant improvements, upgrades to the Oracle financial systems, and Wholesale and Retail systems.

During 2016/17, the retail customer count at BCLS increased 1.8 per cent to 40.3 million customers, an increase of 172,000 customers over the prior year. The average retail customer transaction value at BCLS increased 3.1 per cent, from $34.59 to $35.66. The higher average transaction value reflects BCLS' improved product selection, as well as changes in customer purchases towards unique and specialty products like B.C. Vintners Quality Alliance (VQA) wines and craft beer.

The LDB holds inventory on average for 21 days with an annual inventory turn rate of 17. This inventory turn rate is consistent with previous years and reflects the close management of LDB inventories.

Product Categories

LDB sales totalled $3.33 billion, an increase of 5.5 per cent compared to the previous year. The higher sales reflect the higher volumes sold in the province and higher average selling prices.

Table 2: Sales by Major Category ($000s)

For the five fiscal years ended March 31, 2017

						Change vs. Previous Year (2016/17 vs. 2015/16)	
	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**$**	**%**
Spirits	719,542	703,755	726,108	786,803	832,180	45,377	5.8
Wine	887,197	905,951	967,132	1,074,860	1,154,041	79,181	7.4
Refreshment	118,526	131,926	151,937	180,366	196,485	16,119	8.9
Beer	1,027,395	1,002,051	1,030,616	1,112,911	1,146,431	33,520	3.0
Other	1,426	1,842	2,125	2,099	2,395	296	14.1
Total Sales	2,754,086	2,745,525	2,877,918	3,157,039	3,331,532	174,493	5.5

Data Source: LDB Oracle Financial System.

As with prior years, the beer and wine categories contributed to the majority of LDB sales. The refreshment beverage category had the highest growth, increasing by 8.9 per cent, or $16.1 million. This was followed by increases of: wine by 7.4 per cent or $79.2 million; spirits by 5.8 per cent or $45.3 million; and beer by 3.0 per cent or $33.5 million.

The product sales mix shifted in 2016/17 as sales continued to shift towards wines and refreshment beverages, and beer sales decreased as a percentage of total LDB sales. Refreshment beverages continue to be very popular as consumers appear to be straying away from beer products. As the LDB has different mark-up rates on products, as shifts occur between product categories, this impacts the LDB gross profit.

Driven by the continued growth in the B.C. wine industry, wine sales exceeded beer sales for the first time. Spirits continue to have sales growth in both sales dollars and volume, reversing several previous years of stagnant sales.

Historically, the beer category has the highest volume of sales followed by wines, refreshment beverages and spirits. This trend continued in 2016/17 with the product mix shift in litres being consistent with the shift in sales dollars. More of the sales are coming from wines, spirits and refreshment beverages, and less from beer.

Table 3: Sales by Major Category in Litres (000s)

For the five fiscal years ended March 31, 2017

						Change vs Previous Year (2016/17 vs. 2015/16)	
	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**Litre**	**%**
Spirits	24,188	24,161	24,602	25,810	26,478	668	2.6
Wine	63,408	65,803	69,302	73,805	75,871	2,066	2.8
Refreshment	27,551	31,476	35,245	40,300	43,364	3,064	7.6
Beer	270,524	272,643	283,857	292,574	293,986	1,412	0.5
Other	120	138	148	156	206	50	32.2
Total Sales	**385,791**	**394,221**	**413,154**	**432,645**	**439,905**	**7,260**	**1.7**

Data Source: LDB Oracle Financial System.

There was an overall volume increase of 1.7 per cent compared to the previous year. The refreshment beverage category had the largest volume increase at 7.6 per cent, followed by wine at 2.8 per cent, spirits at 2.6 per cent and beer at 0.5 per cent when compared to last year.

Customer Sales

With fiscal 2015/16 being the first year of implementation of the 2013 Liquor Policy Review recommendations, the marketplace saw a significant transformation of the liquor landscape. In 2016/17, the marketplace settled as evidenced by the more comparable customer sales dollars mix. Grocers, who are included under ‘other customers’, continue to enter the marketplace, but are currently relatively small in number.

Table 4: Provincial Sales by Customer based on Dollar Sales
For the five years ended March 31, 2017

(as a percentage of total dollar sales)	2012/13	2013/14	2014/15	2015/16	2016/17
BCLS counter customers	43.4	42.9	41.7	43.7	43.0
Licensee Retail Stores	31.1	31.1	31.8	30.6	30.8
Licensed Establishments	17.0	17.2	17.2	16.9	16.8
Other customers	5.2	5.7	6.3	6.1	6.7
Agency Stores	3.3	3.1	3.0	2.8	2.7
Total Sales (%)	100.0	100.0	100.0	100.0	100.0

Data Source: LDB Oracle Financial System.

Table 5: Provincial Sales by Customer based on Litre Sales
For the five years ended March 31, 2017

(as a percentage of total litre sales)	2012/13	2013/14	2014/15	2015/16	2016/17
BCLS counter customers	34.1	33.9	32.8	34.4	33.6
Licensee Retail Stores	40.4	40.5	41.5	39.9	40.5
Licensed Establishments	19.1	18.9	18.6	18.3	18.2
Other customers	2.2	2.6	3.0	3.4	4.0
Agency Stores	4.2	4.1	4.1	4.0	3.7
Total Sales (%)	100.0	100.0	100.0	100.0	100.0

Data Source: LDB Oracle Financial System.

Table 6: Customer Sales Change
For the five years ended March 31, 2017

	2012/13	2013/14	2014/15	2015/16	2016/17
BCLS counter customers	0.6	-1.5	1.9	14.8	4.0
Licensee Retail Stores	3.1	-0.1	6.9	5.6	6.4
Licensed Establishments	-1.4	0.8	5.0	7.5	5.0
Other customers	23.2	8.1	16.4	6.4	14.9
Agency Stores	-1.0	-6.0	1.3	1.9	3.4
Total Sales (%)	**1.9**	**-0.3**	**4.8**	**9.7**	**5.5**

Data Source: LDB Oracle Financial System.

We experienced sales growth in all customer categories compared to the prior year with the largest percentage increase in the ‘other customer’ category. This category was led by the increased number of B.C. manufacturer on-site stores. BCLS continue to adjust operations to compete in the marketplace similar to other private stores. This healthy competitive environment has resulted in sales increases for BCLS of 4.0 per cent and 6.4 per cent for licensee retail stores.

Remittances to Government agencies

The LDB paid $1.45 billion to various Government agencies during fiscal 2016/17. Due to the timing of remittance payments, 11 payments occurred in the 2016/17 fiscal year.

Table 7: Remittances to Government Agencies
(in $000s)

	2012/13	2013/14	2014/15	2015/16	2016/17
FEDERAL GOVERNMENT					
Custom Duties and Excise Tax	141,460	140,481	141,946	157,656	146,486
GST	162,186	71,056	65,264	68,636	73,310
Total	**303,646**	**211,537**	**207,210**	**226,292**	**219,796**
PROVINCIAL GOVERNMENT					
LDB Net Income	929,559	876,979	935,233	1,031,271	1,083,246
Social Services Tax	-	112,369	127,726	137,565	146,327
Liquor Control and Licensing	420	419	421	422	424
Total	**929,979**	**989,767**	**1,063,380**	**1,169,258**	**1,229,997**
MUNICIPAL GOVERNMENT					
Property Taxes	1,200	1,283	1,179	912	1,019
Business Licenses	37	35	33	36	38
Total	**1,237**	**1,318**	**1,212**	**948**	**1,057**
Total Remittances	**1,234,862**	**1,202,622**	**1,271,802**	**1,396,498**	**1,450,850**

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the British Columbia Liquor Distribution Branch have been prepared by management in accordance with International Financial Reporting Standards. Any financial information contained elsewhere in the annual report has been reviewed to ensure consistency with the financial statements.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial records are properly maintained to facilitate the preparation of financial statements in a timely manner.

The Office of the Auditor General of British Columbia has performed an independent audit of the financial statements of the Liquor Distribution Branch. The Auditor's Report outlines the scope of this independent audit and expresses an opinion on the financial statements of the Liquor Distribution Branch.

R. Blain Lawson
General Manager and Chief Executive Officer

Roger M. Bissoondatt, CPA,CA, CMA
Chief Financial Officer

Vancouver, British Columbia
May 15, 2017

OFFICE OF THE
Auditor General
of British Columbia

INDEPENDENT AUDITOR'S REPORT

To the Minister of Small Business, Red Tape Reduction and Responsible for the Liquor Distribution Branch, Province of British Columbia

I have audited the accompanying financial statements of the British Columbia Liquor Distribution Branch, which comprise the statement of financial position as at March 31, 2017, and the statement of comprehensive income, statement of due (to) from the Province of British Columbia, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In my view, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the British Columbia Liquor Distribution Branch as at March 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Victoria, British Columbia
May 15, 2017

Russ Jones, FCPA, FCA
Deputy Auditor General

OFFICE OF THE Auditor General of British Columbia

BC LIQUOR DISTRIBUTION BRANCH

Statement of Comprehensive Income
(in thousands of dollars)

For the years ended March 31, 2017 and 2016

	Note	2017	2016
Sales	4	$ 3,331,532	$ 3,157,039
Cost of sales		(1,921,582)	(1,809,582)
Gross Profit		1,409,950	1,347,457
Operating Expenses:			
Administration	5, 14	(331,990)	(320,318)
Marketing	5	(5,150)	(4,551)
Transportation	5	(1,339)	(1,153)
		(338,479)	(326,022)
Net operating income		1,071,471	1,021,435
Other income		11,775	9,836
Net income and comprehensive income		$ 1,083,246	$ 1,031,271

The accompanying notes are an integral part of these financial statements.

BC LIQUOR DISTRIBUTION BRANCH

Statement of Due (to) from the Province of British Columbia
(in thousands of dollars)

For the years ended March 31, 2017 and 2016

	2017	2016
Balance beginning of year	$ (12,434)	$ 3,608
Net income and comprehensive income	(1,083,246)	(1,031,271)
Payments to the Province of British Columbia	1,067,170	1,015,229
Balance end of year	$ (28,510)	$ (12,434)

The accompanying notes are an integral part of these financial statements.

BC LIQUOR DISTRIBUTION BRANCH

Statement of Financial Position
(in thousands of dollars)

For the years ended March 31, 2017 and 2016

	Note	2017	2016
Assets			
Current assets:			
Cash		$ 23,671	$ 17,690
Accounts receivable	6	8,784	12,737
Prepaid expenses	7	7,594	5,015
Inventories	8	112,357	98,983
		152,406	134,425
Non-current assets:			
Prepaid expenses	7	759	1,855
Intangible assets	9	32,697	20,128
Property and equipment	10	47,788	48,792
		81,244	70,775
Total assets		$ 233,650	$ 205,200
Liabilities			
Current:			
Accounts payable and accrued liabilities	11, 14, 15	$ 174,566	$ 164,551
Due to Province of British Columbia	12	28,510	12,434
		203,076	176,985
Non-current liabilities:			
Other long-term liabilities	13, 14, 15	30,574	28,215
		30,574	28,215
Total liabilities		$ 233,650	$ 205,200

The accompanying notes are an integral part of these financial statements.

Approved for issue on May 15, 2017 by:

R. Blain Lawson
General Manager and Chief Executive Officer

Roger M. Bissoondatt, CPA, CA, CMA
Chief Financial Officer

BC LIQUOR DISTRIBUTION BRANCH

Statement of Cash flows
(in thousands of dollars)

For the years ended March 31, 2017 and 2016

	Notes	2017	2016
Cash provided by (used in):			
Operating:			
Net income and comprehensive income		$ 1,083,246	$ 1,031,271
Items not involving cash:			
Depreciation and amortization		14,815	16,661
Loss (gain) on retirement/disposal of property and equipment		330	(45)
Rent and lease amortization		372	(336)
Accrued employee benefits		2,011	2,008
Change in non-cash operating working capital:			
Long term assets		1,096	(34)
Working capital		(2,009)	(7,866)
		1,099,861	1,041,659
Investing:			
Acquisition of property and equipment	10	(11,478)	(13,088)
Acquisition of intangible assets	9	(15,258)	(10,040)
Proceeds from disposal of property and equipment		26	107
		(26,710)	(23,021)
Financing:			
Payments to the Province of British Columbia	12	(1,067,170)	(1,015,229)
Payment of capital leases		-	(4)
		(1,067,170)	(1,015,233)
Increase in cash		5,981	3,405
Cash, beginning of year		17,690	14,285
Cash, end of year		$ 23,671	$ 17,690

The accompanying notes are an integral part of these financial statements.

1. Description of operations

The British Columbia Liquor Distribution Branch (the LDB) is one of two branches of the Province of British Columbia (the Province) responsible for the beverage alcohol industry in British Columbia and reports to the Ministry of Small Business and Red Tape Reduction.

The LDB obtains its authority for operation from the British Columbia Liquor Distribution Act (the Act). As stated in Section 2 of the Act, the LDB has the exclusive right to purchase liquor for resale and reuse in the Province in accordance with the provisions of the Importation of Intoxicating Liquors Act (Canada).

The LDB is reported in the public accounts on a modified equity basis, in a manner similar to a commercial Crown corporation. The LDB does not reflect any equity on its balance sheet as all net income is returned to the Province of British Columbia.

The LDB is exempt from Canadian federal and British Columbia provincial income taxes.

2. Basis of accounting

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis. The accounts have been prepared on a going concern basis.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the LDB’s functional currency. All financial information has been rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the LDB’s accounting policies. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

2. Basis of accounting (continued)

(d) Use of estimates and judgments (continued)

In determining and applying accounting policies, judgment is often required where the choice of specific policy, assumption or account estimate to be followed could materially affect the reported results or net position of the LDB, should it later be determined that a different choice would be more appropriate.

Management considers the following to be areas of significant judgment and estimation for the LDB due to greater complexity and/or being particularly subject to the exercise of judgment:

(i) Property and equipment

The determination of the useful economic life and residual values of property and equipment is subject to management estimation. The LDB regularly reviews all of its depreciation rates and residual values to take account of any changes in circumstances, and any changes that could affect prospective depreciation charges and asset carrying values.

(ii) Employee benefits – Retiring allowances

Employees who are eligible to retire and receive pension benefits under the Public Service Pension Plan are granted full vacation entitlement for the final calendar year of service. The LDB recognizes a liability and an expense for retiring allowances when benefits are earned and not when these benefits are paid. These obligations are valued by independent actuaries.

3. Significant accounting policies

The accounting policies below have been applied consistently to all periods presented in these financial statements, unless otherwise indicated.

(a) Foreign currency translation

The LDB in the normal course of business purchases product in foreign currency. Any foreign currency transactions are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Any foreign currency denominated monetary assets and liabilities are stated using the prevailing rate of exchange at the date of the statement of financial position. The resulting foreign currency gains or losses are recognized on a net basis within administrative expenses in the statement of comprehensive income.

3. Significant accounting policies (continued)

(b) Financial instruments

Financial assets are recognized when the LDB has rights or other access to economic benefits. Such assets consist of cash or a contractual right to receive cash or another financial asset. The LDB derecognizes a financial asset when the contractual rights to the cash flows from the asset have expired or have been transferred and all the risks and rewards of ownership are substantially transferred.

All of the LDB's financial assets are designated as loans and receivables and deposits. The LDB initially recognizes loans and receivables and deposits on the date that they originate.

Financial liabilities are recognized when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset. Financial liabilities are derecognized when they are extinguished.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the LDB has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The LDB has the following categories of financial assets and financial liabilities:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the LDB provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities of greater than 12 months after the statement of financial position date which are classified as non-current assets. Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any provision for impairment. Any resulting income or expense is recognized in the statement of comprehensive income. Loans and receivables include accounts receivable, cash on hand and bank deposits in transit.

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

Loans and receivables (continued)

(i) Accounts receivable

Accounts receivable are recognized initially at the invoice amount, which approximates the fair value.

A provision for impairment of trade receivables is established when there is objective evidence that the LDB will not be able to collect all amounts due according to the terms of the receivables. The carrying amount of accounts receivable is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of comprehensive income. The amount of the provision is the difference between the asset's carrying value and the present value of the estimated future cash flows discounted at the original effective interest rate. Subsequent recoveries of amounts previously written off are credited to other income.

(ii) Cash and cash equivalents

Cash and cash equivalents include cash on hand and bank deposits in transit and bank overdrafts. Bank overdrafts are shown as bank indebtedness in current liabilities on the statement of financial position.

Financial liabilities held at amortized cost

Financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method and include accounts payable, tenant improvement loans and bank indebtedness. Any resulting income or expense is recognized in the statement of comprehensive income.

(i) Accounts payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the payment is due within one year or less and non-current liabilities if the payment is due more than one year from the statement of financial position date.

(ii) Bank indebtedness

Bank indebtedness is shown in current liabilities and included within cash and cash equivalents on the statement of cash flows as it forms an integral part of the LDB's cash management.

3. Significant accounting policies (continued)

(c) Property and equipment

Property and equipment are measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the LDB and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(i) Construction in process

Construction in process is carried at cost less any impairment loss. Cost includes professional fees, materials, direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. When these assets are ready for their intended use, they are transferred into the appropriate category. At this point, depreciation commences on the same basis as the other property and equipment.

(ii) Assets held under finance leases

Refer to note 3(f).

(d) Intangible assets

Where computer software is not an integral part of a related item of property and equipment, the software is capitalized as an intangible asset.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring them into use. Direct costs associated with the production of identifiable and unique internally generated software products controlled by the LDB that will generate economic benefits exceeding costs beyond one year are capitalized. Direct costs include software development employment costs including those of contractors used. Where assets are under construction over a period of time, these costs are recorded in a construction in progress account until put into use.

Costs associated with maintaining computer software programs are recognized as an expense as incurred.

3. Significant accounting policies (continued)

(d) Intangible assets (continued)

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Intangible assets acquired by the LDB that have finite lives and are measured at cost less accumulated amortization and accumulated impairment losses.

(e) Depreciation of non-financial assets

No depreciation is provided on land or assets in the course of construction. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Asset	Rate
Buildings	2.5 - 5% per annum
Leasehold improvements	a minimum of 10% per annum or a rate sufficient to amortize the cost over the remaining life of the respective lease
Furniture, fixtures, vehicles and equipment	10 - 25% per annum
Information systems	25% per annum
Computer software development costs	25% per annum

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each date of the statement of financial position.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive income.

3. Significant accounting policies (continued)

(f) Leases

When assets are financed by leasing agreements that transfer substantially all of the risks and rewards of ownership to the LDB (finance leases), the assets are treated as if they had been purchased outright, and the corresponding liability to the leasing company is included as an obligation under finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables and current payables, as appropriate. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

All other leases are operating leases and the costs are recorded on a straight-line basis over the lease term. The value of any lease incentive received to take on an operating lease (for example, rent-free periods and tenant allowances) is recognized as deferred income and is recognized over the life of the lease.

(g) Inventories

The LDB's inventories are valued at the lower of cost and net realizable value. Inventories are determined on a weighted average cost basis. Cost of inventories comprises of cost of purchase to bring inventories to a LDB distribution centre and includes supplier invoiced value, freight, duties and taxes. Net realizable value represents the estimated selling price for inventories less the costs to sell.

(h) Impairment of assets

Assets that are subject to depreciation and amortization are reviewed at each statement of financial position date to determine whether there is any indication that assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (the "cash-generating unit", or "CGUs"), which are based on the LDB's individual stores.

3. Significant accounting policies (continued)

(h) Impairment of assets (continued)

Non-financial assets that suffered an impairment loss are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. This reversal would be recognized immediately in the statement of comprehensive income.

(i) Employee benefit plans

The LDB and its employees contribute to the Public Service Pension Plan in accordance with the Public Service Pension Plans Act. Defined contribution plan accounting is applied to the jointly trusteed pension plan because sufficient information is not available to apply defined benefit accounting. Accordingly, contributions are expensed as they become payable. Employees are also entitled to specific retirement benefits as provided for under collective agreements and terms of employment. These benefits are accounted for as an expense and a liability in the period incurred.

(j) Provisions

Provisions are recognized if, as a result of a past event, the LDB has a legal or constructive obligation upon which a reliable estimate can be made, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are calculated on a discounted basis where the effect is material to the original undiscounted provision. The carrying amount of the provision increases in each period to reflect the passage of time and the unwinding of the discount.

(k) Revenue recognition

Reported revenue represents the fair value of consideration received or receivable in exchange for goods and services provided to third parties in the course of ordinary activities.

Revenue is recognized when the risks and rewards of ownership are substantially transferred.

Revenue is stated net of discounts, commission, estimated returns and excludes provincial sales tax, federal goods and services tax, container recycling fees and container deposits.

3. Significant accounting policies (continued)

(l) Other income

Revenue that is ancillary to the sales of beverage alcohol is recognized as other income. Other income includes revenue from beverage container handling fees, border point collections and customs clearing administrative fees.

(m) Recent accounting developments

New standards, interpretations, and amendments of standards adopted by the LDB

On April 1, 2016, the LDB adopted the following new standard that was issued by the International Accounting Standards Board (IASB).

(i) *IAS 16 Property, Plant, and Equipment* and *IAS 38 Intangible Assets* – clarifies when the method of depreciation or amortisation based on revenue may be appropriate. The amendment to IAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate. The amendment to IAS 38 establishes that amortisation of an intangible asset based on revenue generated by using the asset is appropriate only in certain limited circumstances.

Standards and interpretations issued but not yet effective and not yet adopted by the LDB

The following new IFRS standards, amendments and interpretations to existing standards have been published by the IASB and are relevant to the LDB. They are not yet effective and have not been early adopted. The impact on the financial statements has not yet been assessed.

(i) *IFRS 9, 'Financial Instruments'*

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard also introduces additional changes relating to financial liabilities; amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment; and a new general hedge accounting standard which aligns hedge accounting more closely with risk management.

The standard is effective for accounting periods beginning on or after January 1, 2018 with early adoption permitted.

3. Significant accounting policies (continued)

(m) Recent accounting developments (continued)

Standards and interpretations issued but not yet effective and not yet adopted by the LDB (continued)

(ii) IFRS 15, 'Revenue from Contracts with Customers'

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

The standard is effective for accounting periods beginning on or after January 1, 2018, with early adoption permitted.

(iii) IFRS 16 ' Leases'

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The standard is effective for accounting periods beginning on or after January 1, 2019. Earlier application is permitted, but only in conjunction with IFRS 15.

(Tabular amounts in thousands of dollars)

4. Sales

Total sales reported include sales to various customers including retail customers, licensed establishments, licensee retail stores and agency stores. These amounts do not include subsequent resale by hospitality establishments, licensee retail stores and agency stores.

	2017	2016
Retail customers	$ 1,433,076	$ 1,378,329
Licensee retail stores	1,027,230	965,851
Hospitality customers	559,172	532,500
Other customers	221,190	192,480
Retail agency stores	90,864	87,879
Total sales	$ 3,331,532	$ 3,157,039

5. Operating expenses

The LDB’s operating expenses are comprised of:

	2017	2016
Administration costs	$ 331,990	$ 320,318
Marketing	5,150	4,551
Transportation	1,339	1,153
	338,479	326,022
Salaries, wages and benefits	194,938	187,804
Rents	46,494	44,340
Bank charges	29,747	27,429
Other administrative expenses	18,409	17,871
Depreciation and amortization	14,815	16,661
Professional services	10,995	8,000
Data processing	8,237	8,569
Repairs and maintenance	5,754	7,399
Marketing	5,150	4,551
Loss prevention	2,601	2,245
Transportation	1,339	1,153
Total operating expenses	$ 338,479	$ 326,022

(Tabular amounts in thousands of dollars)

6. Accounts receivable

	2017	2016
Trade accounts receivable and other items	$ 8,835	$ 13,357
Provision for doubtful accounts	(51)	(620)
Accounts receivable and other items - net	$ 8,784	$ 12,737

Receivables past due but not impaired are $0.4 million (2016 - $0.3 million). During the year the LDB expensed $65 thousand (2016 - $30 thousand) in bad debts expense.

7. Prepaid expenses

Prepaid expenses include insurance, software maintenance and wine futures. The LDB purchases select products up to three years in advance to secure future delivery of these products as part of its ongoing business practices. These products are normally purchased in foreign currency and are translated to Canadian dollars at the spot exchange rate in effect at the transaction date. At March 31, 2017, the LDB has recorded $5.0 million (2016 - $3.3 million) of prepaid wine futures for delivery in fiscal years 2018 to 2020.

	2017	2016
Wine futures	$ 5,027	$ 3,257
Other prepaid expenses	3,326	3,613
	8,353	6,870
Less long term portion	(759)	(1,855)
Current portion	$ 7,594	$ 5,015

8. Inventories

	2017	2016
Store inventory	$ 62,083	$ 58,698
Warehouse inventory	50,274	40,285
Total inventory	$ 112,357	$ 98,983

During the year, inventories that were recognized as cost of sales amounted to $1.9 billion (2016 - $1.8 billion).

(Tabular amounts in thousands of dollars)

9. Intangible assets

		Intangible assets		Construction in process		Total
March 31, 2016						
Opening net book value	$	7,449	$	7,215	$	14,664
Assets reclassified (note 10)		379		-		379
Additions		103		9,937		10,040
CIP Capitalization		911		(911)		-
Amortization charge		(4,955)		-		(4,955)
	$	3,887	$	16,241	$	20,128
Cost		24,595		16,241		40,836
Accumulated amortization		(20,708)		-		(20,708)
Net book value	$	3,887	$	16,241	$	20,128
March 31, 2017						
Opening net book value	$	3,887	$	16,241	$	20,128
Additions		551		14,707		15,258
CIP Capitalization		3,441		(3,441)		-
Disposals (cost)		51		(402)		(351)
Amortization charge		(2,338)		-		(2,338)
	$	5,592	$	27,105	$	32,697
Cost	$	28,638	$	27,105	$	55,743
Accumulated amortization		(23,046)		-		(23,046)
Net book value	$	5,592	$	27,105	$	32,697

(Tabular amounts in thousands of dollars)

10. Property and equipment

	Land & land improvements	Buildings & building improvements	Leasehold improvements	Furniture fixtures vehicles & equipment	Held assets under finance leases	Information systems	Construction in process	Total
March 31, 2016								
Opening net book value	644	668	24,801	9,532	-	9,185	3,021	47,851
Assets reclassified (note 9)	-	-	(16)	109	(111)	(361)	-	(379)
Additions	-	65	156	2,713	-	1,732	8,422	13,088
CIP Capitalization	-	-	7,036	484	-	103	(7,623)	-
Disposals (cost)	-	-	(3)	(862)	(94)	(173)	-	(1,132)
Disposals (accumulated amortization)	-	-	-	803	94	173	-	1,070
Depreciation charge	(2)	(50)	(5,976)	(3,162)	111	(2,627)	-	(11,706)
	642	683	25,998	9,617	-	8,032	3,820	48,792
Cost	647	5,882	73,687	43,300	3,695	87,772	3,820	218,803
Accumulated depreciation	(5)	(5,199)	(47,689)	(33,683)	(3,695)	(79,740)	-	(170,011)
Net book value	642	683	25,998	9,617	-	8,032	3,820	48,792
March 31, 2017								
Opening net book value	642	683	25,998	9,617	-	8,032	3,820	48,792
Additions	-	158	4	1,908	-	1,704	7,704	11,478
CIP Capitalization	-	9	7,171	455	-	-	(7,635)	-
Disposals (cost)	-	-	-	(331)	-	(294)	-	(625)
Disposals (accumulated amortization)	-	-	-	327	-	293	-	620
Depreciation charge	(2)	(54)	(6,528)	(3,302)	-	(2,591)	-	(12,477)
	640	796	26,645	8,674	-	7,144	3,889	47,788
Cost	647	6,049	80,862	45,332	3,695	89,182	3,889	229,656
Accumulated depreciation	(7)	(5,253)	(54,217)	(36,658)	(3,695)	(82,038)	-	(181,868)
Net book value	640	796	26,645	8,674	-	7,144	3,889	47,788

(Tabular amounts in thousands of dollars)

11. Accounts payable and accrued liabilities

	2017	2016
Trade payables	$ 96,862	$ 103,322
Accrued liabilities	73,862	57,473
Other payables	3,344	3,283
Current portion of deferred lease liabilities (note 15)	498	473
	$ 174,566	$ 164,551

12. Due to/from Province of British Columbia

The LDB uses the Province's financial and banking systems to process and record its transactions. The amount due from the Province represents the accumulated net financial transactions with the Province. During the year, the total receipts from the Province were $2.41 billion (2016 - $2.35 billion) and the total payments to the Province were $3.48 billion (2016 - $3.37 billion).

13. Other long-term liabilities

The LDB's other long-term liabilities are comprised of:

	2017	2016
Retirement benefit obligation (note 14(b))	$ 16,373	$ 15,902
WorkSafe BC claims accruals (note 14 (c))	10,700	9,500
Long-term portion of deferred lease liabilities (note 15)	1,994	1,647
Other	1,507	1,166
	$ 30,574	$ 28,215

14. Employees' benefit plans and other employment liabilities

(a) Public Service Pension Plan

The LDB and its employees contribute to the Public Service Pension Plan, a jointly trusteed pension plan. The Public Service Pension Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of the assets and administration of benefits. The plan is a multi-employer contributory pension plan. Basic pension benefits are based on a formula. The Plan has about 58,000 active plan members and approximately 45,000 retired plan members.

The latest actuarial valuation as at March 31, 2014, indicated a funding surplus of $194 million for basic pension benefits. The next valuation will be March 31, 2017, with results available in early 2018.

Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting).

This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan. The total amount paid into this pension plan by the LDB for the year ended March 31, 2017 was $12.2 million for employer contributions (2016 - $11.8 million), which was recorded in administration expenses. At this time, the LDB does not expect significant fluctuations in the future contributions to the plan.

(b) Retirement benefits

Employees are entitled to specific non-pension retirement benefits as provided for under collective agreements and terms of employment. The future liability for this obligation amounts to $16.4 million (2016 - $15.9 million), which represents future employees' retirement benefits outside of the Plan and is included in other long-term liabilities. The amount expensed in the current year was $0.5 million (2016 - $1.1 million).

(c) WorkSafe BC outstanding claims

The LDB self-funds worker's compensation claims. The LDB recognizes a liability and an expense for claims that are in progress at the year-end. This liability of $10.7 million (2016 - $9.5 million) is valued by independent actuaries.

(Tabular amounts in thousands of dollars)

15. Deferred lease liabilities

Deferred lease liabilities are as follows:

		2017		2016
Deferred rent	$	2,492	$	2,071
Deferred tenant allowances		-		49
		2,492		2,120
Less current portion		(498)		(473)
Long term portion	$	1,994	$	1,647

16. Contractual commitments

(a) Leases

Future commitments for operating leases for LDB premises are as follows:

		2017		2016
Total future minimum rental payments under non-cancellable operating leases expiring:				
Not later than one year	$	36,483	$	33,309
Later than one year and not later than five years		90,767		72,654
Later than five years and not later than 25 years		55,642		15,443
	$	182,892	$	121,406

The LDB leases various stores, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The minimum lease expenditures charged to the statement of comprehensive income during the year is $35.2 million (2016 - $33.4 million).

(b) BC liquor store fees

The LDB pays the Liquor Control and Licensing Branch an annual license fee based on the annual sales in each BC Liquor Store. The LDB paid $0.4 million (2016 - $0.4 million) for license fees during the year.

(Tabular amounts in thousands of dollars)

16. Contractual commitments (continued)

(c) Payroll processing

The LDB has an agreement with the BC Public Service Agency for payroll processing. The LDB paid $0.9 million (2016 - $0.9 million) for processing services. The agreement expires in November 2019.

Other contractual commitments have been disclosed elsewhere in the notes to the financial statements.

17. Contingent items

The LDB is the sole importer of beverage alcohol in the Province. The LDB, as the importer of record, has the future liability for customs duty on import beer of $0.9 million (2016 - $0.9 million) based upon the value of the agents' inventories at March 31, 2017.

The LDB is the defendant in legal actions and it is not expected that the ultimate outcome of these claims will have a material effect on the financial position of the LDB.

18. Capital management

The LDB does not retain any equity. Net income is returned to the Province. The LDB has no externally imposed capital requirements.

19. Related party transactions

(a) Province of British Columbia

All transactions with the Province of BC and its ministries, agencies, and Crown corporations occurred in the normal course of business are at arm's length, which is representative of fair value, unless otherwise disclosed in these notes.

(b) Key management compensation

The LDB's executive management committee is defined as key management. At March 31, 2017, there were 7 (2016 - 7) members on the executive committee.

	2017	2016
Salaries and short term benefits	$ 1,066	$ 1,085
Post-employment benefits	79	79
Fees for services	207	188
	$ 1,352	$ 1,352

Other related party transactions have been disclosed elsewhere in the notes to the financial statements.

20. Fair value of financial instruments

The fair value of a financial instrument is the amount of consideration that could be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. In certain circumstances, however, the fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market-based inputs. The fair values of the LDB's assets and liabilities were determined as follows:

(a) Current assets and liabilities:

The carrying amounts for cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these items.

(b) Non-current financial liabilities:

The fair-value of the Public Service Pension Plan and WorkSafe BC liability approximate their fair values based on independent actuarial valuation. Retirement benefits are calculated based on pensionable earnings and rates provided by the Public Service Pension Plan which approximates the fair value of the liability (Note 14).

21. Financial risk factors

The LDB is exposed to the following risks related to its financial assets and liabilities:

- Credit risk
- Liquidity risk
- Market risk

It is management’s opinion that the LDB is not exposed to significant credit, liquidity or market risk arising from these instruments.

(a) Credit risk

Credit risk is the risk of financial loss to the LDB due to customer inability to pay for product or a counterparty to a financial instrument failing to meet its contractual obligations. The LDB’s exposure to credit risk is related only to the value of accounts receivable in its normal course of business, and the LDB manages this risk by minimizing the amount of transactions which require recovery.

Credit risk is the risk of financial loss to the LDB arising from its cash held at financial institutions and the failure of a tenant or other party to meet its contractual obligations related to lease agreements, including future lease payments. See accounts receivable note 3(b) for further disclosure on credit risk.

As at March 31, 2017, the cash balances are held with a major Canadian bank and therefore not exposed to significant credit risk.

21. Financial risk factors (continued)

(b) Liquidity risk

Liquidity risk is the risk that the LDB will be unable to meet its financial obligations as they become due.

The LDB manages liquidity risk primarily by monitoring cash flows and by maintaining the ability to borrow funds through the Province.

(c) Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the LDB's income or the value of its financial instruments.

While the majority of the LDB's transactions are in Canadian dollars, the LDB also transacts in Euros and US dollars. These transactions are in the normal course of business. The LDB's exposure to foreign currency risk could impact the accounts payable of the LDB. A 10% movement in the exchange rate between the Canadian dollar and the other currencies listed above would not have a material impact on the LDB.

The LDB currently does not hold any debt or equity securities and as such is not exposed to interest rate risk. As the LDB has no significant interest-bearing assets and liabilities, the LDB's income and operating cash flows are substantially independent of changes in market interest rates.

Major Capital Projects

Major Capital Projects	Targeted Completion Date (Year)	Approved Anticipated Total Cost of Project ($ millions)	Project Cost to March 31, 2017 ($ millions)
Warehouse Relocation The LDB worked closely with the executive project board on a warehousing solution for the Vancouver Distribution Centre. The lease for the current location will expire in 2019. In February 2017, the LDB entered into an agreement to lease a warehouse facility in Delta for a term of 10 years, with two, five year options to renew. The capital cost outlined is funding for material handling equipment, racking and conveyors, as well as a new computerized warehouse management system for the LDB's Vancouver Distribution Centre warehouse.	**2018/19**	**57.1**	**0.1**

Appendix A - BC Liquor Stores Operating Results

With the implementation of the new wholesale model in fiscal 2015/16, the LDB separated its Retail and Wholesale divisions. Table 1 reflects the BCLS operating results as a customer of the Wholesale division, like any other private store operator. For 2016/17, BCLS net income was 9.8 per cent of sales.

Table 1: BCLS financial results
(in $millions)

	2015/2016	% sales	2016/2017	% sales
Sales	1,390.0	100.0	1,444.4	100.0
Gross Margin	238.7	17.2	287.0	19.8
Expenses	146.2	10.5	149.3	10.3
Other Income	2.0	0.1	3.4	0.2
Net Income	**94.5**	**6.8**	**141.1**	**9.8**

BCLS sales include sales to all customers (e.g. counter customers and private stores) occurring in the stores, However, it does exclude sales and related gross margin to licensed establishments (hospitality) and the costs related to these sales as they are attributed to the Wholesale division.

The gross margin reflects the retail mark-up added to the wholesale price of product transferred from the Wholesale division.

The financial results do not include any Head Office expense allocations.

Appendix B - Additional Information

Organizational Overview

The LDB's organizational overview and corporate governance structure can be found here.

Vision, Mission And Values

Vision

That our customers have the opportunity to discover, enjoy and share the evolving world of beverage alcohol.

Mission

To be a customer-centric, profitable retailer and wholesaler of beverage alcohol dedicated to innovation, exemplary service, helpful product knowledge and corporate responsibility.

Values

Exemplary Service
We take pride in the quality of our work. We strive for excellence in serving customers and coworkers.

Corporate Social Responsibility
We encourage and support the responsible use of beverage alcohol and minimize the impact of our operations on the environment.

Integrity
We take responsibility and are fully accountable for our actions, decisions and behaviour. We are open, honest and fair.

Respect
We treat all individuals with fairness, dignity and respect.

Teamwork
We support one another to achieve corporate goals.

Innovation
We encourage our people to find innovative and creative ways to improve our business.

Contact Information

For more information, please contact the LDB Communications team:
Email: communications@bcldb.com
Mail: 2625 Rupert Street, Vancouver, BC V5M 3T5

Appendix C - LDB Mandate and Actions Summary

In the 2016/17 Mandate Letter from the minister responsible, the LDB received direction on strategic priorities for the 2016/17 fiscal year. These priorities and the LDB's resulting actions are summarized below:

Mandate Letter Direction	LDB's Action
1. Continue work and provide a Business Case to the Minister to bring forward to Treasury Board a plan for the successful transition to an appropriate warehousing solution to replace the current Vancouver Distribution Centre that supports growing capacity demands, while realizing efficiencies to increase productivity.	The LDB worked with the executive project board, composed of senior executives from across government, on a warehousing solution. In February 2017, the LDB entered into an agreement to lease a warehouse facility in Delta for a term of 10 years, with two, five-year options to renew. The new Distribution Centre will support growing capacity demands and help the LDB provide high quality and timely service to wholesale customers. The intent is to move into the new facility in spring 2018.
2. Continue to modernize the LDB Retail and Wholesale systems to reflect the changed liquor environment in B.C., improve effectiveness, and to ensure separation between the LDB's wholesale and retail operations – developing proposals for the Minister and Treasury Board about these matters as required.	Since the introduction of the wholesale pricing model and the separation of LDB's Retail and Wholesale divisions, the LDB has been working to modernize its operations with the purpose of continuing to provide a high level of service to is retail and wholesale customers. The LDB has been introducing new business tools and making improvements to its IT systems to streamline its operations and improve efficiencies, such as rolling out a new point-of-sale system at all 198 BCLS.
3. Optimize the LDB's financial performance and sustain net returns to the Province in accordance with government policy, Treasury Board directives, the appropriate legislation and regulation, and in alignment with the Taxpayer Accountability Principles.	As a result of higher sales, the LDB exceeded revenue targets set by Government by 10.2 per cent, contributing $1.08 billion to help fund vital services to British Columbians.