

HANSARD

NOVA SCOTIA HOUSE OF ASSEMBLY

COMMITTEE

ON

PUBLIC ACCOUNTS

Wednesday, July 14, 2021

Video Conference

**Nova Scotia Liquor Corporation, Phase I -
June 2020 Report of the Auditor General**

**Nova Scotia Liquor Corporation, Phase II -
May 2021 Report of the Auditor General**

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Public Accounts Committee

Kim Masland (Chair)
Hon. Gordon Wilson (Vice-Chair)
Hon. Karen Casey
Hon. Leo Glavine
Bill Horne
Rafah DiCostanzo
Tim Halman
Lisa Roberts
Susan Leblanc

[Hon. Gordon Wilson was replaced by Hon. Lloyd Hines.]
[Hon. Karen Casey was replaced by Hon. Geoff MacLellan.]

In Attendance:

Kim Langille
Legislative Committee Clerk

Gordon Hebb
Chief Legislative Counsel

Kim Adair-MacPherson,
Auditor General

Andrew Atherton,
Assistant Auditor General

Ashley Richardson
Audit Principal

WITNESSES

Nova Scotia Liquor Corporation

Greg Hughes,
President & CEO

George McLellan,
Chair - Board of Directors

Dave DiPersio,
Senior VP - Corporate Services

Department of Finance and Treasury Board

Kelliann Dean,
Deputy Minister

Lilani Kumaranayake,
Executive Director - Fiscal Policy, Economics and Budgetary Planning

Michael Ingram,
Director - Policy and Fiscal Planning



HALIFAX, WEDNESDAY, JULY 14, 2021

STANDING COMMITTEE ON PUBLIC ACCOUNTS

9:00 A.M.

CHAIR

Kim Masland

VICE-CHAIR

Hon. Gordon Wilson

THE CHAIR: I'd like to call the meeting of the Standing Committee on Public Accounts to order. My name is Kim Masland, and I am the Chair of Public Accounts.

A few reminders before we start the meeting this morning: please keep your video on during the meeting; please keep your microphones muted until you are called upon to speak; wait until after I have recognized you to unmute your mic; and please indicate if you wish to speak by raising your hand, that's very important, so that I can acknowledge; and remind all of you to make sure that you have your phones on silent or vibrate.

Now I will ask the committee to introduce themselves. We will start with the Honourable Leo Glavine.

[The committee members introduced themselves.]

THE CHAIR: On today's agenda, we have officials with us from the Nova Scotia Liquor Corporation and the Department of Finance and Treasury Board to discuss Phase I and Phase II of the Nova Scotia Liquor Corporation audits conducted by the Auditor General. I would like to ask the witnesses to introduce themselves, beginning with Greg Hughes.

[The witnesses introduced themselves.]

THE CHAIR: I invite Mr. Hughes to make some opening comments and then we'll go on to Ms. Dean to make her opening comments.

GREG HUGHES: Good morning again, everyone, Madam Chair and the members of the committee. Thank you for this opportunity and as mentioned earlier, I'd like to welcome two other members of the NSLC team, George McLellan, who is our Chair and Dave DiPersio, who is here as a witness as well. Dave is the Senior Vice President of Corporate Services here at the NSLC.

With respect to the work done by the Auditor General, we do have a proven track record of taking their advice and implementing it, and we would see nothing different with the Phase I and Phase II reports that have recently been conducted here at the NSLC. Some of the recommendations related to the local industry in particular are taking a little bit longer than we anticipated. There are some outdated policies that we're working on, which we'll give the committee an update on, I'm sure, throughout the morning. As well, the pandemic, Wave 3 in particular, was a bit of a challenge for us to just engage local to the level that we wanted to. The local industry is a big one here and we want to make sure that we're doing everything the right way.

I am pleased to announce today that we do have seven of the 22 recommendations already complete, and the rest will be completed in short order.

At the NSLC, we take pride in providing Nova Scotians with exceptional customer service while balancing the social responsibilities that we are mandated to perform as well. We are 100 per cent owned and operated by Nova Scotians and all the profits and proceeds that we generate go straight back to the province.

It's an absolute privilege for me to work with such a great team. We have over 1,800 employees throughout all of the communities in Nova Scotia. We have 108 corporate stores. We have 62 agency stores, four private stores, and, of course, we promote local as well.

We look at our mandate and what our responsibility is as a retailer. Again, one of the most important functions that we have is our social responsibility and the part of that mandate that we play. Obviously, we do contribute a significant amount of revenue back to the Province. I'm delighted to say that we actually returned \$274 million back to the Province from our last fiscal year. We do play a significant generator of economic growth and again part of our mandate is to promote local, which we'll get into later on this morning as well.

In closing, I'd like to say that we respect the comments made by the Auditor General and they have been a pleasure to work with to this point, and we will close all the outstanding issues in short order.

THE CHAIR: Thank you, Mr. Hughes, for your opening comments. We'll now move on to Ms. Dean, please.

KELLIANN DEAN: Good morning, committee members. Thank you for this opportunity. I would also like to welcome Finance and Treasury Board staff who are here with me today: Lilani Kumaranayake, Executive Director of Fiscal Policy; and Michael Ingram, our Director of Policy and Fiscal Planning.

The Minister of Finance and Treasury Board is responsible for oversight of the Nova Scotia Liquor Corporation. The NSLC is both retailer and regulator of alcohol products. It's responsible for the receipt, distribution, regulation and control of beverage alcohol in Nova Scotia. In 2018, the NSLC's mandate was expanded to include cannabis, as they have the experience with controlled substances needed to sell cannabis products safely.

The NSLC's specific legislative objectives related to alcohol are:

- the promotion of social objectives regarding responsible drinking;
- the promotion of industrial or economic objectives regarding the beverage alcohol industry in the province;
- the attainment of suitable financial revenues to government; and
- the attainment of acceptable levels of customer service.

The objectives related to cannabis are:

- to promote social objectives respecting the responsible consumption of cannabis; and
- to control and carry out the purchase, possession, distribution, and sale of cannabis in accordance with the legislation.

Nova Scotia continues to have a public retail model to keep alcohol and cannabis out of the hands of youth and ensure Nova Scotians have the information they need for the safe use and consumption of their products. The department works closely with the NSLC to shape public policy, ensure it reflects government's priorities and trade obligations, ensure objectives are met in a safe and responsible manner, and to foster collaboration with local industry.

This requires balance. COVID-19 has been difficult for local craft brewers, wineries, distilleries, and restaurants and bars that rely in part on alcohol sales to remain profitable. The industry has also grown exponentially over the past five years, and as was

highlighted in the Auditor General's Report, this has meant policies and plans needed to be adapted to better reflect and promote the industry.

Government also has a responsibility to meet its trade obligations, and that means complying with agreements that Canada has entered into, specifically treating local and international businesses in the same way as we would expect our companies to be treated in other countries with whom we have agreements. As I am also Deputy Minister responsible for Trade, I can assure you that government continues to work with partners to improve opportunities for our local industry to compete in other markets, and to ensure policies are consistent with trade requirements related to alcohol.

Nova Scotia was recently challenged by Australia through the World Trade Organization, and while none of the NSLC's policies were deemed to be non-trade compliant, it clearly highlights the importance of our trade obligations. As a result of that challenge and the settlement reached between Australia and Canada, the Province is committed to the elimination of the Emerging Wine Region Policy and looking at implementing other trade-compliant ways to meet the NSLC's legislative mandate to promote and develop our local industry.

I'd like to close by reminding the committee that 100 per cent of NSLC's profits flow to the Province's general revenue fund. As Greg mentioned, last year NSLC reported \$274.5 million in net income, which is higher than the previous year due to the pandemic and cannabis expansion. This revenue helps fund programs and services that Nova Scotians need.

Madam Chair, I look forward to your questions today and the opportunity to share more about how the department works collaboratively with the NSLC.

THE CHAIR: I'd also like to acknowledge we have Minister Hines who has joined us. Good morning, Mr. Hines. Nice to see you.

We'll now move on to the first round of questions, and I would like to remind all members to please indicate who their questions are being addressed to. I'm new in this Chair role and trying to find my way through, so if you could please acknowledge who your question is going to be directed to so that I can acknowledge that, that would be great.

First round of questions will be to the PC caucus for 20 minutes. Mr. Halman.

TIM HALMAN: Mr. Hughes, Deputy Minister Dean, thank you very much for your opening remarks to the Public Accounts Committee. Welcome to staff from the Nova Scotia Liquor Corporation, and of course we have staff back from the Department of Finance and Treasury Board. To the Department of Finance and Treasury Board, thank you for the ongoing work that you're doing on behalf of Nova Scotians.

This is a very interesting audit we received from the Auditor General. My understanding is it has been 20 years since the last audit of NSLC, so certainly some very important key recommendations that come through this audit. Certainly in the last number of years we've seen big changes to the market here in Nova Scotia with respect to our craft beer market. If I've understood the Report of the Auditor General, we're seeing in this report some key themes emerge, and certainly a few of them are a lack of defined processes and a lack of definitions of certain roles within the NSLC. Certainly I'd like to focus in on that.

As an MLA, I've heard concerns from the craft beer industry over the past number of years. The Official Opposition has called for the NSLC to stop delisting local craft beer during the pandemic. We see in this Auditor General Report that it clearly shows the practice not only continued throughout the pandemic, but there were also major issues with how the decisions to delist products are being made. Again, I bridge back to some of the key findings of the report, lack of defined processes, lack of defined certain roles within the corporation.

Mr. Hughes, could you outline what changes the corporation is making to ensure local producers are being treated fairly?

[9:15 a.m.]

GREG HUGHES: Very good question. I'd like to point out, as well, just for the committee, that I had the opportunity on my very first day on the job - May 31, 2019, four hours into my new position - to sit down with the Auditor General team. I didn't see that to be a bad process. Actually, for a new CEO coming in and having that luxury after not being audited for 20 years, what a great way to leap into a new role and have that kind of support in terms of what needs to be fixed and accelerated.

I appreciate the question. I will focus a little bit on the craft beer part of your comments. Typically for the NSLC, our product decisions and what comes into our stores is picked a year in advance, and non-performing products in particular - we look at a three-year trend. We look at global trends. We look at local trends. We're able to see if the customers are embracing the product, and really, ultimately it is the customer who is picking what stays on our shelves. They want a product that tastes great and is also at a fair price point. That's what we really strive to do.

I can't speak, again, to what's happened in the report from 2017 to 2019 previous to my leadership here, but I can tell you that we've engaged local, in particular with the Craft Brewers Association of Nova Scotia. We spent a lot of one-on-one time with that association and a lot of their vendors. During the pandemic, when we received some feedback, we have actually pushed out any delistings for another fiscal year, which is very helpful.

TIM HALMAN: You've indicated that these decisions are often picked a year in advance. I just think of some of the conversations I've had with various local craft beer companies and one of the most common things I've heard is that there's sort of an unfair playing field and that has to be changed. How does the NSLC respond to that criticism?

GREG HUGHES: I would beg to differ a little bit in terms of an unfair playing field. I think it's very fair and transparent. After the Auditor General Report, we actually have started the process of collaboration with local vendors to come up with a more transparent process in terms of how we price, how we put the products on the shelf.

I would also caution the committee a little bit in terms of the explosion - which is a good problem to have - of local products and our customers embracing them. It would be a disadvantage for up-and-coming and/or groups or vendors that are doing extremely well to have products left on our shelves that are not performing. It's a bit of a balancing act for us to make sure with limited shelf space in stores that we're able to keep the products on our shelves that customers want.

TIM HALMAN: To that end, about attempts being made to be more fair and transparent - you indicated that there are ongoing discussions about how NSLC determines the pricing. Can you expand on that, Mr. Hughes, in terms of efforts being made to be more fair and transparent to this sector?

GREG HUGHES: Very fair and transparent. Again, I think the question's a good one, because if we go back to the Auditor General's Report, a lot of this information is a little outdated. If I look back at the trend of the last three to five years, and local craft beer in particular, this is actually a very good news story. They have seen growth of 313 per cent in that industry.

TIM HALMAN: Just moving into the trade agreements, certainly this is highlighted in the audit and I think perhaps Deputy Minister Dean is best to discuss this. It indicates that there are issues with the trade agreements. Deputy minister, could you clarify which trade agreements and what's the ongoing work going on to ensure compliance?

KELLIANN DEAN: What you're referring to is a trade challenge. Australia basically challenged Nova Scotia and questioned the fairness of the markup structure that we had under the Emerging Wine Region Policy, and they claimed that it discriminated against Australian wines. What that meant then is that Nova Scotia had to defend its position, and these are international trade agreements, so we work with Canada, and Canada provides the defence through Global Affairs Canada.

Throughout that process, we maintained that our policy was fair to any region, as long as the wine was an emerging wine. We did not maintain that there was discrimination, and we worked very closely with our partners in Canada to prepare the defence. At the end of the day, where we wound up is that the WTO decision allowed us a four-year transition

period to phase out the Emerging Wine Regions Policy. That gives us time to look at how we could transition.

I think, if I go back to trade, we can't be perceived to be providing a benefit to a company that wouldn't be provided to one internationally. That means that we have to take a look at these policies. We will be working with industry to develop a range of options as we transition off of this, but it's a complex environment in terms of trade law, and our desire is to ensure that we are compliant. There will be considerable work done in this area over the coming months and into the next two years as we continue to transition our Emerging Wine Regions Policy.

TIM HALMAN: These issues with trade agreements - how much of a threat are they to our growing wine sector? Obviously if this has been highlighted in the AG Report, it sounds like a lot of work is being done. Certainly in terms of a risk assessment, is it correct to say that this is a potential risk to the sector, these ongoing disputes?

KELLIANN DEAN: I would say that we're fully aware of the obligations and that actually, all jurisdictions are looking at this. I think it's something that we just need to be mindful of. We do not want to incite a trade challenge in any sector. We look at trade implications across sectors. The alcohol and beverage sector is not the only one that obviously is subject to trade agreements, so this is part of our work. I don't see it as a risk to growth or the success of the industry; I think it's something that we have to ensure we monitor as we move forward. There are certainly ways to adapt practices in order to be trade compliant, and those are the kinds of things that we're working on now.

TIM HALMAN: As you know, one of the parts that is highlighted in this report is the lack of a defined process, and the AG Report outlines a disconnect between communication of government directives to NSLC, that there needs to be improvement for documentation communication. Could you update Nova Scotians as to what steps are being taken to improve that communication between the Department of Finance and Treasury Board and NSLC?

KELLIANN DEAN: Really, there is a governance framework that is in place currently that defines the relationship between the department and the NSLC. The NSLC has a five-year strategic plan, and from that strategic plan flows their business plan. We would work collaboratively with them in terms of the objectives in their business plan. That business plan is approved by the minister and the board of directors, and there are regular meetings between the CEO and the chair of the board, as well as the minister.

I sit on the board now in my role as Deputy Minister of Finance and Treasury Board so that there's an opportunity to discuss government policies and to collaborate or to discuss any issues or opportunities as they arise. I would say that that governance model within the business plan provides the path forward in any given year for the activities of the corporation.

Now sometimes through the year, there are changes in policies or direction, and those are communicated to the board of directors and in the past, they may have been discussed at the board meeting and we acknowledged that we could do a better job of providing written direction, and we have endeavoured to do that.

So in the future - well, in the past, actually, if there has been any decision or directive that is being provided by government, then we will ensure that that is documented. Those discussions, as I said, would have happened on a regular basis at the board of directors meeting or in conversations with the CEO and the Chair of the board and the minister.

The other piece in this, too, is that the minister has regular meetings. That ensures, along with the business plan framework, that the overall objectives of government are being respected and followed throughout the NSLC. I'm not sure if George McLellan would like to elaborate on that from his perspective as the Chair.

GEORGE MCLELLAN: From our end here, Mr. Halman, we've looked, obviously, at the report and we recognize that we have probably here, as the board, and with the executive here, we've got a responsibility to probably step up a bit. If you look at this kind of crucible now with your questions - some of the issues with the trade agreement, with regard to the growth of local, with regard to the social issues coming out of COVID and all of the different things that seem to be kind of crystallizing - I think it's a responsibility on our part, we recognize - and we're going to deal with it at our next meeting in August - to not to be perhaps as passive.

I think we supposedly being experts in this area, not just of retailing and regulation but also experts in the business and having the closest relationship, maybe, with the industry - I think there's a responsibility on our part to become a little more proactive on helping the government and the department with regard to setting policy and stepping in and stepping up and being a little bit more helpful with what we know.

In that regard, we do know a lot of the conditions on the ground. We do know a lot of the relationships and things, and I think we've got to probably step up and be a little bit more active in that regard. I just wanted to add that from our point of view along with what the deputy minister provided in her response.

TIM HALMAN: Mr. McLellan, I think we all appreciate that. So much of this we recognize is often these personal relationships we build interagency. My understanding here is creating a formal process where directives can be executed by written communication, so that's more formal.

Deputy, is there a timeline attached to have directives more formally communicated, creating a better process as outlined by the Auditor General for communication of government directives? Is there a timeline associated with that?

[9:30 a.m.]

KELLIANN DEAN: I would say we're doing it now. We committed to providing written directives if there was a change or if there was something throughout the year that was not anticipated or not part of the current business plan. I would say that is absolutely being adopted and implemented as we speak. The work is being done and the process of designing the business plan and working through that process and getting approvals - that is there. I think the issue was the documentation of any specific issues outside of that, and we're absolutely implementing that recommendation.

TIM HALMAN: How much time do I have left, Madam Chair?

THE CHAIR: About three minutes.

TIM HALMAN: Mr. Hughes, the shelf management process hasn't been updated since 1999. What are the plans to update the shelf management process?

GREG HUGHES: Well under way. Again, we took the Auditor General Report to be very serious, and you are 100 per cent correct. It definitely needs to be updated, and it needs to be fairly transparent - actually 100 per cent transparent, especially for local vendors in particular. I think of the new start-ups, and we deal with a lot of them, the ones that are getting into business for the first time. Again, if you go back to the last strategy plan that we had five years ago, there was only a handful of local vendors. Now there are hundreds of permits that are out there, spanning all different categories.

I think that's something we should be proud of as Nova Scotians, and I also believe that our business model needs to evolve to make sure that we can be promoting these products in a successful way and giving them a fair opportunity to be on the shelves just as much as all the other bigger players that are out there as well, but in a fair and transparent way.

TIM HALMAN: Is there a committee tasked with reviewing the shelf management process, and if so, to what extent? If that's the case, how are they being fair and transparent? There are a lot of stakeholders here who are very much interested in the shelf management process and the review. If you could provide a little more detail regarding that, Mr. Hughes.

GREG HUGHES: Absolutely. There is a team of executives who are looking at this new process. We also have engaged local industry. I will point out to the committee, we've actually had 37 formal touch-base points with local vendors since the AG Report has been released. I think that's probably the most they've ever been engaged. Not to get into a crazy amount of detail here, but I will let you know we've even engaged process engineers to help us in terms of redefining what our shelf space would look like.

Prime space on a shelf is top and middle. You can't have everything on the top and middle. If I put myself in a vendor's position or shoes, I would want to know how I get to that prime territory - again, to make it fully fair and transparent.

THE CHAIR: The time allotted for the PC caucus has now expired. We'll move on to the NDP caucus. We will be starting with Ms. Roberts.

LISA ROBERTS: There's quite a lot covered in two different audits. I want to go back to some of the recommendations and discussion from the May 2020 audit first specifically related to the interprovincial agreement on treatment of craft brewery products from New Brunswick, Prince Edward Island, and Nova Scotia. There's a number of different issues there, and they don't all have to do with shelf space, because some of them are actually around sales directly to restaurants and bars.

Mr. Hughes, you can update me if this has changed at all, but my understanding is that currently, craft breweries in Nova Scotia that sell kegs directly to bars and restaurants are required to pay a retail sales markup allowance of, I believe, 5 per cent of wholesale cost to NSLC, while craft breweries from New Brunswick and Prince Edward Island are not. It actually puts Nova Scotian breweries at a disadvantage compared to New Brunswick and P.E.I. craft breweries.

I haven't heard about that particular discrepancy, but I've certainly heard about discontentment with that need to pay NSLC for transactions that don't directly pass through NSLC's distribution channels. I wonder if you could just discuss and update us based on what's happened since that May 2020 audit happened.

GREG HUGHES: For the committee, in terms of the number, there's about a handful of vendors that would cross borders, in particular to beer, into Nova Scotia and vice versa into New Brunswick. I can't speak to what happened before May 31, 2019, but I can tell you that we're very open and collaborative right now with the province of New Brunswick.

Obviously, the models are not the same, but there are some similarities, and there definitely is a kinship there in terms of Maritime provinces and Atlantic provinces working together. There's a big opportunity for us to seize that opportunity even further.

In terms of where we're at with interprovincial trade, I would ask the deputy to maybe comment on that.

KELLIANN DEAN: As Greg said, we do look for ways to work with our Maritime partners around these trade issues, these alcohol issues with trade, and we are still having those conversations to see if there are ways that we can kind of level the playing field. Maybe what I'll do is ask Lilani, who's here with me, to just talk a little bit about that cross-border issue just to provide some clarity around the retail sales markup.

THE CHAIR: Can I address you as Ms. Lilani? (Laughter) Ms. Lilani, please.

LILANI KUMARANAYAKE: There will be a test at the end. (Laughter) I think as Deputy Dean said, it is a little bit more complex once you start to delve into it. The original letter agreement between New Brunswick and Nova Scotia was that producers who are producing under 15,000 hectolitres would be treated the same.

There are a couple of things that have happened. First of all, in New Brunswick, craft brewers have to go through their liquor corporation, ANBL, to sell to restaurants. Whereas Nova Scotia allows for the craft brew producers to sell directly to restaurants or licensees without the markup that you have in New Brunswick, but are charged the five per cent retail sales markup allocation. So rather than 43 per cent, they're charged 5 per cent.

That's the gist of the problem, because the letter committed to treat producers the same way. So if New Brunswick producers are selling to Nova Scotia restaurants, have they been treated the same way, which is part of the issue.

What we're trying to do is now look at what we can do to solve this issue not just for our producers but as Greg said, to look at more of a Maritime perspective, so trying to get to a point where New Brunswick, Nova Scotia and P.E.I. are doing the same thing. That requires a little bit more discussion when you start to have three provinces in the mix, but that's where we see the pathway through the future.

The current problem stems from the fact that because we're allowing our brewers to not have to go through the NSLC, they are actually not being penalized, whereas New Brunswick requires their producers to sell through their liquor corporation.

LISA ROBERTS: That was a helpful conversation for me, I think. I appreciate that it's not the largest issue but I think in the case of craft brewers, which are often relatively small, sometimes small issues actually matter a lot.

To go back to the bigger or more general finding from the 2020 audit, one of the findings was that the NSLC did not have an adequate strategic plan for supporting the local beverage alcohol industry. I guess I'm wondering if at this point, is it the NSLC that has or should have a mandate in terms of economic development related to the craft brewing industry? Or does that actually lie elsewhere in government and NSLC's job is more so around the regulation and control and maintaining the even playing field? I don't know if Mr. Hughes or Mr. McLellan or Deputy Minister Dean would be best to respond to that.

GEORGE MCLELLAN: I raised my hand because this is something that I've been challenged with since I've been in this role. The NSLC really, there are some inherent contradictions here, in the sense that we're the retailer and we're a regulator of sorts, and we also, to put it crassly and this is probably going to change soon, we provide economic

development through the cash register. These things don't always blend, but this has been the case ever since. This is something that we have had to deal with.

As we look at the issue about where this responsibility lies, clearly you can see it maybe brought to a head because of the decision on the international trade side. This is something now that we're going to have to develop probably a new approach to. As the Auditor General points out here, we will have a responsibility, simply put, and that's appropriate, because our shareholder is the Province of Nova Scotia. There's no neat way of putting this any different. We are inextricably involved in the solution, no matter whether it's the department or whether it's us. We're not going to be able to walk away from this.

That's what I mentioned earlier, Ms. Roberts, about the need for us to become a little more proactive. We do see the problem. We have seen the problem in terms of these contradictions and how it affects what our performance really should be. We do have a need to be more engaging here, and I think that's what you'll hopefully see from us going forward.

These issues that the Auditor General brings to a head are very appropriate issues to discuss, and your question in terms of economic development is one, believe me, that is very piercing, and one that we have to really reconcile as we go forward.

LISA ROBERTS: I appreciate that there must be some good conversations happening around this, particularly in the context of COVID-19. We know that sales have increased a great deal, and of course you're balancing one of those other mandates, which is social responsibility, including responsible retailing and programs related to promoting responsible drinking. The profits generated by the NSLC flow back to the Province and into the general revenue fund.

Maybe this is best put to Deputy Minister Dean. Is there a requirement that a certain percentage of those revenues be used to offset or address the potential risks associated with alcohol use by funding addiction treatment or other health programs? Is there any actual mechanism that ties that economic development source of funds to what some of the downsides of that economic activity can be in terms of revenue generation through alcohol sales, and now cannabis?

KELLIANN DEAN: I think given that the profits of the NSLC flow into the general revenue fund, that gives the Province the ability to make those strategic decisions and to place its resources where they are needed most. We're not restricted solely by just the profits of NSLC to support mental health addictions, to invest in areas that support issues of addiction and challenges that we may have in that area from our health perspective.

I think it's safe to say that in effect, NSLC is supporting those efforts. Those decisions are made based on broader resources, and NSLC is part of those broader

resources that enable government to provide the supports that are necessary in those very important areas.

[9:45 a.m.]

You mentioned the social responsibility mandate of the NSLC, which is critically important and that was highlighted in the AG Report. We know that the NSLC takes its responsibility very seriously in this area and that improvements to document those efforts have actually been made. I'm wondering if Greg may want to elaborate on that because that is, as George identified, a retailer profit centre, but also a responsibility to do it in a way that doesn't put a substance in the hands of the youth and that protects individuals.

Greg, perhaps you could speak a little bit more about that. It's very important.

GREG HUGHES: We absolutely take the social responsibility part of the NSLC role extremely seriously. It is just as important as, if not more important than, the revenue that we generate. You can see what potential pitfalls can be here if not handled the right way, and I would challenge the committee to look at other jurisdictions that are not set up like Nova Scotia and some of the social balance that they have and the challenges that they have.

At the NSLC, I can tell you - and I'm pleased to tell you - that we've updated our social responsibility scorecard as part of our new five-year strategic plan. We've also increased our budget. In 2020-2021, it was a \$1.19-million budget focused on social responsibility activities. In 2021-2022, we've actually increased that budget to \$1.32 million. We launched a campaign in December of this year that was fully - the actors in the commercial were all NSLC employees, and it was focused on Cheers to Good Choices. Very timely during the holiday season. We engage with the universities every year in terms of the Keep it Social Program.

Our scorecard that we developed is very in-depth, and if anyone on the committee would like to get a copy of that after today's Zoom session, we would be more than happy to share that. It's very detailed, so I won't get into that level of detail, but if you'd like to see it, we can share it. We're also very pleased that we were able to bring on the Nova Scotia Community College this year as well and all of their campuses. We're going to take this even further in terms of not allowing these products, these controlled substances, to get into the hands of youth.

THE CHAIR: Ms. Leblanc.

SUSAN LEBLANC: I'm just going to interject with a question because it's related to this. This is a really interesting conversation about social responsibility, and I'm wondering if that focus comes into the advertising strategy for the NSLC. The reason I'm asking this is that we know that there are jurisdictions and communities in the province

with higher levels of addiction and mental health issues, or at least we know that people are being treated for mental health and addictions in certain communities more than others.

I'm wondering if those metrics come into play when you're looking at where you are doing billboard advertising, bus advertising, that kind of thing, and if there is any philosophy around your choices when it comes to communities where people are experiencing higher levels of addiction.

THE CHAIR: I'm assuming your question is directed, Ms. Leblanc, to Mr. Hughes?

SUSAN LEBLANC: Yes, please.

GREG HUGHES: You'll notice that there's not an obscene amount of advertising when it comes to the NSLC, and it's very strategic in terms of not overpromoting our products that we sell. I would state that to the committee right off the bat. It's one of the most important things that we do, and our staff take it very seriously. They're all trained as well. As of last week, we're at 99 per cent of our 1,800 employees fully trained on this.

We also work with local vendors in terms of their marketing. While we don't oversee all the marketing of their products, before we list products - and I'll point to cannabis as probably the best practice in terms of how Health Canada operates that - you'll see very little to no promotion about those products in our stores. The focus is around the social responsibility and the proper use of those controlled substances.

LISA ROBERTS: I just wanted to understand a little bit more of what we saw during the pandemic. Certainly, it was widely reported and we also know from your own reports that there was an increase in revenue during the pandemic. Again, given that interest in balancing potential for revenue generation with possible health consequences, social consequences from success on the other side of the balance sheet, I wonder, Mr. Hughes, if you could share any insight into what specific changes in purchasing behaviour we saw during the pandemic period. What resulted a bit more specifically in those increases in revenue?

GREG HUGHES: That's a very good question. I think there are a number of different factors that increased the sales here at the NSLC. If you think of Wave 1 during the pandemic, there was a lot of uncertainty even if the NSLC was going to be able to remain open. I wouldn't call it panic buying, but it was no different than toilet paper not being found at Costco or yeast for baking bread at your local grocery store.

When we got through that wave, it was extremely challenging. Our focus during the pandemic was to keep our employees safe and our customers safe. I think we did a tremendous job as a leading retailer in that space in mobilizing quickly.

In terms of the basket size and transaction volume, those have already started to normalize if I look at Q1 here where we're trending at the NSLC. Keep in mind, we ask people to come in, be quick, be safe, and a lot of folks had fewer trips to the NSLC but purchased perhaps a little bit more just in terms of to get people in and out. If you remember what we looked like in Phase 1, we were only allowing five customers in our store at any given time.

LISA ROBERTS: Again, going back to the conversation about the revenues generated on one side, the revenues are then going into the general revenue of the government, and then hopefully are invested in ways that redress or repair some of the potential harms done through the sources of that revenue generation, including by investing in mental health and addictions.

We saw in this last budget, Deputy Minister Dean, that the government business plan says there are plans to conduct a recovery review in 2021 to ensure that existing programs are affordable, as well as improving the wellbeing of Nova Scotia and projects a decrease of more than \$200 in departmental expenses next year.

For the Department of Finance and Treasury Board, at this point, what can you project about what programs and departments should expect to see funding cuts in order to achieve a two per cent reduction?

KELLIANN DEAN: As you did point out, this recent budget did actually commit to increased spending in the areas of mental health and addictions. In fact, I think we . . .

THE CHAIR: Order. The time allotted for the NDP caucus. I'm so sorry. Maybe we can hold that for the next round. I now would ask for the Liberal caucus to ask questions. Who will be starting? Ms. DiCostanzo, please.

RAFAH DICOSTANZO: Ms. Dean can continue if she would like, and then I will start my questions.

KELLIANN DEAN: What I was going to share is that in the last budget, we did increase the budget for spending on mental health and addictions, so there was \$1.5 million to establish the Office of Mental Health and Addictions, and in fact this year the Province will invest a total of \$336.5 million to expand and also sustain the mental health services and supports. I think that's an illustration of the magnitude of the investment that is being put in this area to deal with a variety of issues that would address mental health - addictions would be part of that.

In terms of the question with respect to the recovery and review, it's very difficult at this stage to predict what that's going to look like. Departments will be undertaking that work. We will be working collaboratively over the next several months, so it's a bit

premature right now for me to be able to say exactly what that will look like, but we'll obviously be happy to report on that in the future.

RAFAH DICOSTANZO: My questions are going to be in regard to cannabis, but before I start, I just wanted to say a thank you, I guess. I had dealt with the NSLC before my time in politics. I was a supplier. They were my clients who purchased a product, I think it was in 2007-2008. I imported a product from Europe, the basket with the four wheels and two handles. It was new in Europe and I was a distributor for Canada.

The experience I had with your procurement department was exceptional, honestly. My product was a little more expensive than what was coming out from China at the time. They were so detailed on the quality of the product and how important that was, and all the details, the colour - whatever that was required - and they went with something a little more expensive because of quality. The professionalism that I received was incredible and my product was just removed from your stores, I think it was last year, so it lasted more than 12 years. It was definitely a good decision to be made for quality. You went for quality.

Hopefully I can relate that to the next question in regard to cannabis. Cannabis was something I really struggled with in 2018 when Canada was legalizing cannabis and I had to inquire a lot about how is that going to be, and I was so happy that it was distributed through NSLC because of my experience and also knowing that government can control that.

Maybe you can describe to us how the rollout now has - I know it's been very positive and we've heard very little negative in the rollout, but maybe you can give us some outlines of how the rollout took place since 2018. I guess Mr. Hughes or Mr. McLellan. Whoever.

GEORGE MCLELLAN: I'm really pleased that Greg is answering all the questions. This has been great for me. The poor guy wasn't really there at the time, so I'll ask Greg if he can supplement my attempt at an answer.

I started my role exactly at that time. I think some people here would remember this, but nobody really knew how this was going to go. The federal government left it up, Ms. DiCostanzo, to everybody, to every province to make their own decisions. I was brought in as the Chair just prior to it, but I think there was certainly knowledge that this was the direction we were going. I think everybody was concerned about what the impact of this would be, and of course, if you remember, a large segment of the population was not in favour of it at all.

Personally, I had the approach that everybody can have an opinion, but only a few people are actually accountable at the end of the day, and I certainly had no idea as to where this would go. We did take a minimalist approach. As I mentioned, everybody can complain, but we did try and control it initially so we had a better understanding. That led

to a limited number of outlets: one standalone, and a number of places that were combined in stores where we thought we had the room and we could dismiss a couple features that we had, like bottle-your-own-wine-type stuff at the time. We used some capacity in stores where we did all of this. The lineups were there.

[10:00 a.m.]

I used to think sometimes that we were like the tallest short person in the federal room in this regard. Nobody really did well, nobody stood out, but we were a little bit better at the end. We diversified our procurement contracts. We didn't rely on a few. Turns out everybody supplying overestimated their capability. Everybody got disappointed, including us, but we had a little bit better success at bringing the product on. It led to lineups, we had fewer stores, and we had procurement problems. Other places had more stores and they had no less of a procurement problem, probably a greater one.

In time, and we supported those companies in Nova Scotia that were local producers, brought them along and allowed procurement capacity so that when they came along we could bring them into the stream. We did that. This was not pretty. It was not anywhere, but over time we began to understand it, so our control has become less. We've increased the number of outlets dramatically in the last few years - Greg can speak to that - and we've come to understand it much better. I think Nova Scotians have been a lot safer because of the approach we took.

Also, I want to mention that just as a public citizen - this means nothing - allowing Ms. Roberts's question to be answered by Ms. Dean, I thought, was classy. With that I'll turn it over to you, Greg.

GREG HUGHES: As George mentioned, we started out with 12 stores originally. We started to look at other models in the country quite quickly, and some of them were struggling a little bit with high square footage prices and were having a hard time on procurement. We then challenged the NSLC team to make this more efficient and how can we roll it out to make it profitable for the Province and safe.

We are at 32 stores now. We have an additional 14 on our radar for this fiscal year to open up. Our strategy has been to look at literally holes in the map of Nova Scotia and also complement that with our corporate stores, out of the 108 corporate stores that we have to find cost-effective ways to put it in.

We've evolved quite a bit to make it continue to be safe, but to do it in an economic way that's very financially viable. You'll see some of our corporate stores are about 200 square feet all the way to 1,000 square feet and carrying our top SKUs of cannabis products.

I really would want to acknowledge the great work of the local vendors that we have when it comes to cannabis. If it wasn't for those local vendors that started on the

journey with the NSLC early days, I don't know if we'd be in the exact same position we are today. We do share our insights with many other jurisdictions as they see Nova Scotia as best practice.

RAFAH DICOSTANZO: I'm very happy that the rollout out went kind of smoothly. As you said, it wasn't that easy, but it's serving what was meant to - is to get rid of the black market as much as possible and to make sure that our youth are consuming responsibly.

I also wanted to understand - I'm really not very knowledgeable about the product myself at all, but how is the supply? Is it similar to alcohol? How do you put it on the shelf or in the cabinet? How do you choose? Is there a lot of supply from outside the country? Is there a lot of competition, similar to wine and beer? If you could explain that to me as well.

GREG HUGHES: There's a little bit of a play here with Health Canada as well. For vendors to even be chosen to come on our shelves, they have to hit some pretty intensive criteria through Health Canada. They go through a vetting process. It's really intensive, and I won't get into all the details with the committee on that, and then we look at what the price per gram is, the quality. Is it something that we don't currently have in our inventory today? Early days, it was extremely challenging to get inventory. I can tell you now the NSLC is more in control in terms of picking exactly what we want on our shelves in a safe way.

I would want to acknowledge to the committee that our price per gram has dropped considerably. If you look at where we were in Phase I into Phase II of the rollout of cannabis, we are down to, in some cases, a value of \$6 per gram, and when we started it was probably closer to \$12. Again, the quality has improved, and it's safe.

What we saw during COVID is the illicit market in particular took quite a hit on their supply. During COVID, we know our customers wanted to know exactly where the cannabis came from. If you purchased cannabis through the NSLC, it's all SKU and bar code, and we can literally go from seed to sale if there was ever a recall, perhaps, or an issue with the health and safety for Nova Scotians.

RAFAH DICOSTANZO: Thank you for that explanation. Last question on cannabis I have is on the edibles. How are we doing with that and how do we make sure that labelling - and I believe or else heard that edibles are much stronger than the smoking - and how important is it to notify and to explain that to the public?

GREG HUGHES: The edible phase - Phase 2, which had some other products in there as well - has gone very favourably. I will let the committee know that 80 per cent of our market share with cannabis is still in the flower category, so it would mirror what other jurisdictions are seeing.

If you've been to any of our stores or have seen the products that we sell - Phase 2 products - you will see that there's no marketing on the packaging. It almost looks like something that would be from a pharmacy in terms of just contents and detail. In terms of strength, it is all tested - again, through the Health Canada protocol - and none of the products that we sell in terms of what you've mentioned would exceed a 10-milligram percentage of cannabis.

RAFAH COSTANZO: This has been very educational for me. I do have one more question, but I believe my colleague Mr. Glavine has a question also related to cannabis, so I'll let him go and if there's time remaining then I'll ask my question.

HON. LEO GLAVINE: Actually, my question is not concerning cannabis but I'll go ahead now anyway.

One of the big changes that I have seen during my time in public office representing rural communities, and there are few probably more rural than East Dalhousie - as I've seen the population grow and in a full-time manner around the lakes. For example, take Lake Torment, which is very close to the little community of East Dalhousie. They are now 150 to 200 residents on that one lake alone.

I use this as kind of a microcosm of some other areas in the province, and I'm just wondering how the NSLC - both in terms of the CEO and board - are looking at the criteria and the selection of other agency stores when we look at some of the distances that will need to be travelled to obtain those NSLC products and the fact that we actually are hoping to cut down on people's travel where possible while at the same time providing a good service. If I could have a comment, perhaps, from both the board and CEO, that would be much appreciated.

GREG HUGHES: Good question. You're referring to our agency store model. We have 62 agency stores. I will also want to acknowledge in this public forum that they were a key player in helping us get through the waves of the pandemic, and we partner very closely with them. That model has also evolved considerably over time.

In terms of the criteria, there aren't too many gaps in the map, if you will. If you look at the NSLC policy that we have, it has to be within a certain kilometre radius of an NSLC store and/or another agency store. Then we don't actually pick a specific vendor, so what would happen is we would actually go to RFP. We also have a network team that would be in that community kind of sourcing the amount of opportunities.

So if you're looking at a general convenience store, perhaps, in a rural setting, you would like to identify one or two if possible, maybe three, and then really the community is awarded via the RFP process an agency store model.

GEORGE MCLELLAN: I don't get out much anymore, but maybe the name Torment doesn't help me. From our standpoint and the board point of view, we are now looking to, as you know, home delivery as well, as an option. I'm sure everybody's aware of that and that's taking shape now and we're now in discussions through Greg and his team on the rollout of that in the upcoming year.

LEO GLAVINE: I was wondering what the relationship of NSLC is with what to me is a private distributor like Bishop's Cellar at Bishop's Landing. I'm just wondering what that relationship is and, if there is one there, is it one that will also be part of the future?

GREG HUGHES: As I mentioned in my opening comments, there are four private stores. We partner very closely with those stores. I can tell you definitely during the pandemic, we kept open communication lines to make sure that we could support each other. They follow a very strict protocol. They also follow our model around social responsibility as well, which is very important, and then we also audit them to make sure that they're doing what they say they're doing and they're doing it in a safe manner.

In terms of the model itself, I think we're always evaluating what works for the Nova Scotia customer and our shareholder.

LEO GLAVINE: That's exactly what I was trying to determine here by the question, so I think perhaps for this round we're very close now to our last few seconds.

THE CHAIR: Yes, we are. We want to move on to the second round and we will start with the PC caucus. Mr. Halman, please.

TIM HALMAN: I'd like to return to the Auditor General's audit, specifically the failure rate to request ID. It's my understanding that it's policy that anyone 30 or under should be asked for ID. The data I have here is that the failure rate to request ID at breweries was 60 per cent, 37 per cent at private wine and beer stores, 12 per cent at corporate stores, and 19 per cent at agency stores.

I have two parts to my question: what is the process by which you track these numbers, and what is the plan to improve ensuring that more folks are ID'd if they appear to be under age 30?

GREG HUGHES: Very good question, and I would say that this always is extremely serious. We take it very seriously at the NSLC. Again, I can value what the report says but I can't comment on the actions that were taken during that time period.

I can tell you, though, in the recent years we are still doing the age verification process with our partners as well. We are auditing that process and we also have a third party that audits the process to make sure that we're doing what we're supposed to do. Last

year, we did 2.2 million ID checks and I believe the number is around 23,000 that would have been rejected at the cash. I think we've evolved even further on this relative to the report that was done quite some time ago.

THE CHAIR: Before you proceed, just a reminder that this second round will be about 11 minutes for each caucus so we can provide some time for wrap-up and be ready to move on. Mr. Halman.

TIM HALMAN: One of the most common topics that has come before Public Accounts Committee in the almost three years I've been on this committee is the issue of fraud risk management or fraud risk training. The question is for Mr. Hughes: Can you provide us some information on what's being done to ensure compliance for fraud risk training, fraud risk management?

It has been a major issue in various sectors of government departments, so if you could give us an update on how NSLC is making this mandatory for employees and the manner in which you're implementing that.

[10:15 a.m.]

GREG HUGHES: Great question and good observation as well from the Auditor General's Report. We take it to be very serious. We did not have a well-documented process in place at that time of the report. I can tell you that we do now. The statistic that I had going into this meeting as of this morning is that 83 per cent of our 1,800 employees are fully trained on the fraud aspect of our business. That would be mandatory training that's done for all employees, and then a refresher every number of years.

TIM HALMAN: Does NSLC know how much fraud could potentially cost the corporation in a given year? Are there any data on that?

GREG HUGHES: We do track some of that data. I do not have that available today, but I can certainly send it to the committee as soon as the Zoom call is concluded.

TIM HALMAN: If you could provide that to the committee, that would be greatly appreciated. I think that's information Nova Scotians need to be aware of, and certainly the ongoing improvement of fraud risk management at NSLCs is critical given the nature of the findings of the Auditor General's Report.

I'll switch gears to the sales and earnings of the NSLC. As has been established, in 2019-2020, NSLC had \$726.2 million in sales as we all know and \$247.3 million in earnings. With respect to earnings, can you outline how the NSLC is marketing our world-class products? Can you give us a good summary of what's happened there, how you're using those earnings to promote those world-class products that we have?

GREG HUGHES: I can tell you that in terms of a ballpark dollar amount, it would be about \$13 million annually that would be used to promote local products, and that's a whole host of marketing to what we spoke of earlier around the markup as well. Out of our staff in particular, the staff that run the store models that we have - we go through quite a bit of training on local products. Local vendors are allowed to come in and promote their products with our staff and do educational sessions.

We've also, just before the pandemic and during the pandemic, focused on what we would refer to as retail specialists in our network. We've actually increased or shifted the mix of staff that we would have again so that we can tell that local story. I do think there's a major opportunity coming with our home delivery and also the evolution of our e-channel to continue to promote local and tell that story, because there are some really good stories out there.

GEORGE MCLELLAN: I just wanted to add to Greg's answer, Mr. Halman. I know when I began here in the craft breweries area, there were 53. The population of Nova Scotia might have been 980,000, and there were 53 craft breweries. Right now, I think we're at around 80 craft breweries and the population of Nova Scotia is about 985,000.

The economics and the compression here related to enhancing the industry has to take on a bit of a different look, particularly within our store capability. The practical side, I think it's been, my time as Chair, the number of SKUs increased about 20 per cent, I think. You build the building, you've got that space and you fill it, and everybody wants to have more space - top shelf, middle shelf - as Greg says.

The economics are such here that the challenge is for the local industries as much as it is for us in terms of making distinctions between what we put on the shelf and how much shelf space each gets - since they're proliferating, and we can't make all the buildings bigger - is a matter of choices. That's our issue. How we make those choices, which the Auditor General appropriately took us to task for, is whether or not we have a transparent approach to that. That's really where our job is.

Beyond that, there's definitely an issue beyond us as well in terms of how, let's say, we support exports, how we support direct sales from the producers, which we've been trying to enable and enhance as well so that we're not the bottleneck - no pun intended. So there are some related issues here as well, to Greg's answer, that I think it's incumbent upon us to get involved in some of those different directions as well, in answer to your question.

TIM HALMAN: I've been very fortunate to live in many parts of Canada and one part of Canada I spent a lot of time in my formative years was Montreal. Pre-pandemic, I always used to get a lot of my buddies from Montreal visiting from out of province and aside from the linguistic and cultural differences of French Canada and English Canada,

the most common observation was wine and beer not being sold in stores. It's always the practical that people notice a lot of times, right?

To that end, a question I've received from friends and constituents over the years is, has the government given any consideration towards potentially allowing the sale of Nova Scotian beer and wine in grocery stores? Could you provide us some commentary on that?

KELLIANN DEAN: I just have to say having lived in Montreal myself for six years, I do know what you're speaking of. Yes, obviously there are differences across jurisdictions about how alcohol is sold and where it's sold. We've certainly heard the feedback that you have as well around whether there is an opportunity to change that model.

I would say at this point it isn't something that we've given serious consideration to but as we go down the road and we look at different opportunities, we have to compare ourselves to other jurisdictions and what they're doing as well and find the path that works the best for Nova Scotia. I would say there is still some work to do around that.

THE CHAIR: We only have a few seconds left so we'll move on to the NDP caucus. Ms. Leblanc, please.

SUSAN LEBLANC: I'll just pick up on this discussion and carry it over to the change that we saw during the pandemic, which was the off-sales of beer and wine and then most recently cocktails for restaurants. In Dartmouth, certainly there were a number of my constituents and a number of business owners in downtown Dartmouth who were advocating for this change. Of course, lots of restaurants and bars really felt a devastating impact of COVID on their business.

I'm wondering, first of all, what the thought process was that went into approving those changes, especially the cocktails. We saw the beer and wine happen fairly quickly in, I think, the first wave of the pandemic. Cocktails just happened in this third wave. In the beginning, we heard that some of the issue with approving take-out cocktails was that it needed a legislative change, but in fact that didn't happen, so obviously there must have been some other way to make that happen. I'm wondering if you could talk a little bit about that. And then the big question is: Are we going to see that remain after the state of emergency is over?

KELLIANN DEAN: I think I had just really joined the department when this was unfolding. As you pointed out, we did try to find ways through regulation to help bars and restaurant owners amidst COVID to expand what they could sell directly to the consumer. It was beer and wine and then we expanded that to cider, ready-to-drink, and then, not wanting to disadvantage other operators who had a specialty or a niche product, we also expanded that to cocktails, as you pointed out.

Initially, we did think that it would have required a legislative change, but there were some further discussions that we had with I think it was Revenue Canada, and Lilani can correct me if I'm wrong here, but at the end of the day, we found a regulatory solution and were able to enact it quickly. That provided a great deal of comfort to some of the operators out there so that they were able to continue to serve their customers. This is about ensuring that they had the ability to continue to earn during the pandemic, which really did severely hamper many business owners.

This wasn't the only level of support, either, that was provided. There were multiple programs that were put in place for small business owners, and I think in Phase 3, those were expanded so that bars, restaurants, operators could take advantage of some of that programming to support their operations.

What I would say about the future is that we're looking at some regulatory changes to come forward that would try to simplify the landscape, because it is complicated. And so we want to try to streamline some things. Particularly, we talked about home delivery, and so we want to be able to enable that. Customer choice and customer preference in how they purchase is something that we do need to be attuned to as we look at regulatory changes.

I guess the long and the short of that would be that we would want to consider that in any - what is currently in place in any - as we go forward with regulatory change in the future.

SUSAN LEBLANC: I'm wondering, do NSLC employees have access to paid sick days? That's my first question. I guess that's for Mr. Hughes.

GREG HUGHES: Yes, they do.

SUSAN LEBLANC: Well, that's great. What impact do you think that this has had, the fact that your employees have access to paid sick days? What impact has that had on the ability to keep stores open and safe during the pandemic?

GREG HUGHES: That's a great question. It's probably the one that I can sit in front of the committee and say I'm most proud of. If you look at the 1,800 staff and the uncertainty in Wave 1 and Wave 2 and then Wave 3, which I think everyone was physically drained when we got to it, they've been able to do it safely. We had no significant issues with employees needing time off if it was around trying to keep their mental stress in order or if they wanted to go get vaccinated.

Part of the strategy that we also had around our hours of business during the pandemic was to shorten the hours to make sure that our staff could be home with their families and safe, and it was also an opportunity for us to keep a bullpen, if you will, of

employees if we did have any kind of employees who were getting the virus and had to take 14 days off to quarantine.

We were very fortunate through the whole pandemic to this part. I'm extremely proud that we were able to stay open. We did have a few stores that had to close that were cleaned, and when we shut down to clean, every bottle was cleaned. You can imagine the amount of work there. I'm very proud to stand up in front of the committee and say a thank you to our staff. It's probably one of the biggest feats we had, was just staying open and doing it safely.

SUSAN LEBLANC: That's great to hear. The Nova Scotia Liquor Corporation is predicting a decline in sales from 2020-21 to 2021-22. Why do you expect to see that decline?

GREG HUGHES: We will definitely anticipate that post-pandemic when we get there, and we're all probably rooting to get there sooner than later, that the numbers will return back to normal. If you do a bit of a correlation of where the pattern in buying will go, obviously it will go back to the licensee area, and we're already starting to see an increase in what they're purchasing from us, which is great to see. To answer your question, we would anticipate that it will go back to pre-COVID levels.

[10:30 a.m.]

SUSAN LEBLANC: That makes sense. We already talked about how sales shot up during the pandemic, like people buying toilet paper and yeast. I mean maybe people were making beer bread. That could also be a reason. But no, obviously we know that people were buying more, buying larger quantities because they didn't want to have to wait in a big lineup or maybe things would shut down even further. That all makes sense to me.

Meanwhile, restaurants are closed. We already talked about the impact of closing restaurants on those employers and employees, and now we see that things are going to regulate back to "normal." I know that the revenues for the corporation go back in to general revenues, but I'm wondering if there are any discussions about the fact that sales at the NSLC went up - I don't want to say on the backs of restaurants that were closed, because I know it wasn't a nefarious thing that happened and that all of those changes were necessary, absolutely, to keep Nova Scotians safe.

I'm wondering if there are discussions happening about how to take some of those revenues and specifically target them to local restaurants and bars that might have had such severe impacts that even the government programs - the \$5,000 and then the extra \$5,000 - even those might not be helping as much as they need to. Any thoughts on that? I guess that's to Deputy Minister Dean, please.

KELLIANN DEAN: I guess I would say that the ability to provide that support comes through the general revenue of government, and so NSLC money, and in fact they did support bars and restaurants through those profits coming in to the general revenue fund. I appreciate the notion that maybe there should be specifically targeted money from NSLC profits but I think knowing that we have access to the broader general revenue fund in order to design the programs that we need, we're not limited.

I think that the end goal is to be able to provide the right level of support at the right time. We were able to do that during COVID and I think we'll continue to do that. If there is specific assistance or programming that the industry is seeking or ways that they could be promoted differently, I think we work with them and work collaboratively with NSLC to see what potential areas or changes we could make.

SUSAN LEBLANC: I'm just going to switch gears back to health and well-being around alcohol consumption, et cetera. A freedom of information request received by our office in 2020 showed that the Liberals' decision to abandon the My-Play program was due in part to "a significant drop in revenue" and in emails to then-Finance Minister Karen Casey, a government staff member admitted that the My-Play System was acting as a disincentive to people using VLTs. Revenues from VLTs had increased by \$10 million after the elimination of My-Play.

I guess my question - and this goes back to the previous discussion, again, around the way that we're putting money into health and wellness programs around addictions is: Does the government prioritize profit over people's well-being?

KELLIANN DEAN: I think it's always a balance. Government is always trying to do what's in the best interests of Nova Scotians and to provide the programming and services that are needed. These profits from these organizations go into the general revenue fund so that we can do just that.

THE CHAIR: Order. The time has expired. I'm so sorry. I absolutely hate interrupting people.

KELLIANN DEAN: I was done.

THE CHAIR: We'll move on to the Liberal caucus. Mr. Horne.

BILL HORNE: Great conversations and a lot of information passing hands to everybody.

Mr. Hughes, I'd like you to discuss a little bit of how your employees are dealing with this. I know you've spoken a little about the training that may be required due to the Auditor General's recommendations. Will that require more staff? Will it require a lot more training for your employees?

GREG HUGHES: Our staff has been fully aware of the Auditor General Report, Phase I and Phase II, and obviously the debriefing of that and more importantly the action plan. We've actually had our employees step up. One of the other MLAs had already pointed out that there was an opportunity around fraud that we had to kind of develop.

Obviously with 83 per cent embracing that during a pandemic and we just got it up and running, I think that just goes to show you about the dedication of our employees. So no, we're fully ready to go and I don't foresee a significant increase in our expenses to close those gaps in that report.

BILL HORNE: Just to continue on about fraud and fraud training, this will be for the Finance and Treasury Board to talk about fraud and how they expect to see it dealt with in government.

KELLIANN DEAN: I guess what I would say there is, we have responsibilities as well as the department to undertake the mandatory training and to do fraud risk assessment within our own operations, and we are certainly doing that. Our internal audit function within government looks at fraud, fraud risk across the system. So we are engaged in those similar activities within our own department.

BILL HORNE: I'm just wondering if the Auditor General would like to comment on fraud training or maybe George McLellan.

GEORGE MCLELLAN: I carefully read the comments from the Auditor General, and of course Ashley can speak to this in a moment. We agree with the observations that have been made. It's something we've got to do. We just simply haven't documented it well. I know there are some observations from the Auditor General that show that they did a little bit of a survey and things of that nature - some of the employees and things - and we wouldn't disagree with the fact that best intentions aren't quite enough. To deal with public funds, we need to have something that's traceable and is evidentiary, and that's where we're going with it.

BILL HORNE: Just to change a little bit on a question. Local industries - how have their attitudes improved the engagement with the local industries as far as the NSLC have looked at that?

GREG HUGHES: We have them fully engaged now, and I say that with a bit of a smile. They have to be careful what they wish for. I think some of them might be getting a little fatigued with the amount of engagement we've actually had. As I referenced in my opening comments as well, we've had 37 formal touch-base points. That does not include the informal ones that we have with local vendors since the Phase I and Phase II reports. I can tell you I personally participate in them and it's great to see them evolve.

I think as Nova Scotians we should be proud of that, and if you look in the annual report in our year-end financials, there has been substantial growth in this industry, and it's an emerging industry, which is great. If you look back between the previous strategic plan and this strategic plan, the percentages are massive in terms of how much they've grown. It's actually a pleasure to work with them. We've got a little bit of work to go but we're definitely trending in the right direction.

BILL HORNE: I guess more of a comment than a question is that I do frequent the liquor commission - as I still call it - and find that there's so much opportunity to try out new craft beers. I think that's important to Nova Scotia now than it ever has. I don't know how you keep track of all the new companies wanting to put their product on your shelves. Your employees seem to understand that craft beers are important to Nova Scotians now.

I don't know why it has happened so quickly. Years ago, it didn't seem to be around very much, but maybe you can comment on that and also on some of the spirits that are coming on the shelves.

GREG HUGHES: It's pretty exciting when you look at some of the success stories that we have. I don't want to highlight certain vendors, but Nova Scotia Spirit Co. would be a perfect example around the spirits, and the growth of that category. It has seen double-digit growth every year: 50, 60 per cent growth. A company that started with two individuals and a bit of a passion for what they wanted to bring to the province.

On the craft beer side, we have to get a bit more unique with those groups, especially when you think of some of the craft beer vendors that we have. They are based in some rural locations, which is great for tourism, but we've also had to be a bit more adaptive and nimble to accommodate their requests.

One program we did launch is what we call Hyper Local, where it gives the local vendor in a small community access to our corporate store to promote their products and to also give them some shelf space, which is great. Those would be more up and coming in emerging ones.

Really, from a small business story, these are great news stories and again, we should be very proud as Nova Scotians that it's been embraced in such a positive way.

BILL HORNE: So European beers that come on your shelves - does anybody buy them anymore?

GREG HUGHES: Certainly. One of the balancing acts that we have here at the NSLC is we have to have a lot of SKUs and we have to keep them current. Our customers want to make sure that our model stays relevant. That's why if you look at our new strategic plan that we're a year into, it looks considerably different than the previous strategic plan, and that's to keep us relevant. Our customers - and we interview them and talk to them and

do surveys constantly, including focus groups - they want more and more access to products. That's what's kept us on this journey to continue to evolve our model.

BILL HORNE: Thank you.

THE CHAIR: We have about two minutes left. Are there any further questions from the Liberal caucus? No? Okay. I will invite the witnesses to make brief closing comments if they wish. Any brief closing comments?

KELLIANN DEAN: Sure. George, would you like to go first?

GEORGE MCLELLAN: I think I'll defer to you. I think it's not only appropriate but wise.

KELLIANN DEAN: Thanks, George. I just wanted to thank the committee very much for their comments, for their interest and also reiterate the importance of continuing to implement the recommendations of the Auditor General. We both take those recommendations very seriously.

I just wanted to thank staff very much and also say that our department, Finance and Treasury Board, will continue to work with NSLC to shape public policy and to ensure that it reflects government's policies and trade obligations and priorities, and also that all of our objectives are met in a safe and responsible manner and that we certainly appreciate the efforts of NSLC in doing that.

THE CHAIR: As the Chair of the Standing Committee on Public Accounts, I would like to thank all of our witnesses for appearing today. Wonderful conversation and great presentation. You're now welcome to leave the meeting and the members will stay on as we have some committee business to do. Thank you and have a great day.

GEORGE MCLELLAN: Thank you very much.

THE CHAIR: We'll move on to the committee business. First is correspondence. Service Nova Scotia and Internal Services: information that was requested from the meeting on June 9th. Are there any comments or discussions on the correspondence? Hearing none. Okay.

We will move on to the endorsement of the Auditor General's recommendations. The Public Accounts Committee has a practice of formally endorsing Auditor General recommendations, and I would like to ask for a motion to be put forward to endorse the recommendations contained in the May 2021 report Nova Scotia Liquor Corporation - Phase II. Mr. Halman.

[10:45 a.m.]

TIM HALMAN: Madam Chair, I move that the Public Accounts Committee formally accept and endorse recommendations contained in the May 2021 report of the Auditor General, Nova Scotia Liquor Corporation - Phase II, that have been accepted by the audited departments or agencies, and ask that those departments and agencies commit to and take responsibility for full and timely implementation of the recommendations accepted by those departments and agencies.

THE CHAIR: Is there any discussion? All those in favour? Contrary minded? Thank you.

The motion is carried.

The next item on our agenda is the Subcommittee on Agenda and Procedures membership. Members were polled to seek agreement to appoint me to the subcommittee and I'm just noting this for the record. Is there anything else that we have to do with that? We're all good? Okay.

Subcommittee on Agenda and Procedures record of decision: The subcommittee met on July 8th and the record of decision from that meeting has been approved to members. I would like to ask for a motion to approve the record of decision. Ms. DiCostanzo, please.

RAFAH DICOSTANZO: I'd like to put the motion to accept the decision made at that meeting on July 8th, correct?

THE CHAIR: Correct.

RAFAH DICOSTANZO: We met and I was there, so yes, I should like to put a motion to pass that.

THE CHAIR: Any discussion on this motion? All those in favour? Contrary minded? Thank you.

The motion is carried.

The next item is the CCPAC conference. Each year, a conference is held by the Canadian Council of Public Accounts Committees. This year's host is Alberta. Information regarding this year's conference has been sent to each of you. The conference is being held virtually this year and the dates are September 8th and 9th.

Typically, the Chair, Vice Chair, a Third Party committee member and the clerk would attend the conference but as it's being held virtually this year, all committee members are welcome to attend. This is just a reminder to all of you members that the

registration deadline is July 23rd. I expect we're all going to be very busy then. Maybe not Geoff or Leo. (Laughter)

In-person meetings: It was requested that in-person meetings be placed on the agenda for discussion. The matter was deferred a number of times. I would open the floor to discussion on in-person meetings now, if we'd like to have that discussion. Ms. Roberts, please.

LISA ROBERTS: It does seem, given the reopening of the province in general, that it would be appropriate for this committee to resume meeting in person. Potentially, we may have a meeting in August or in September. I would welcome us being in person with witnesses.

THE CHAIR: Mr. Halman.

TIM HALMAN: I'd like to second those comments. I'm in agreement with Ms. Roberts that given the nature of the epidemiology and where we're at and this being, of course, Phase 4 of the reopening, certainly if the epidemiology allows, meeting in person in August I think would be most appropriate.

THE CHAIR: Okay. There was a motion passed on December 9, 2020 that stated that Public Accounts Committee continue to hold meetings virtually until the committee sees that it's safe to meet in person for witnesses and for staff. Do we need to put forward a motion to say that we will go forward meeting in person? Yes. Who would like to make that motion? Ms. Roberts.

LISA ROBERTS: I move that future meetings of the Public Accounts Committee be held in person in the Chamber, barring any advice to the contrary from Public Health.

THE CHAIR: Is there any further discussion with the motion that has just been put forward? Everyone's okay? Ms. DiCostanzo.

RAFAH DICOSTANZO: Is it possible to get just two minutes' break so I can consult with my colleagues? Just on the wording of the motion, that's all.

THE CHAIR: Absolutely. Certainly. We'll take a two-minute break.

RAFAH DICOSTANZO: Can it be sent to us in writing, if possible?

THE CHAIR: Ms. Clerk.

RAFAH DICOSTANZO: Actually ...

HON. GEOFF MACLELLAN: Let's just do it.

RAFAH DICOSTANZO: Let's just do it. We just did it by text. Go ahead. We're okay. We were able to reach it via text.

THE CHAIR: All those in favour? Contrary minded? Thank you.

The motion is carried.

It looks like we have all our business concluded for the day. The next meeting date is August 11, 2021, witnesses to be advised.

If there's no further discussion, I would like to adjourn the meeting. Thank you.

[The committee adjourned at 10:52 a.m.]