



Canadian Restaurant
and Foodservices
Association

Association canadienne
des restaurateurs
et des services
alimentaires

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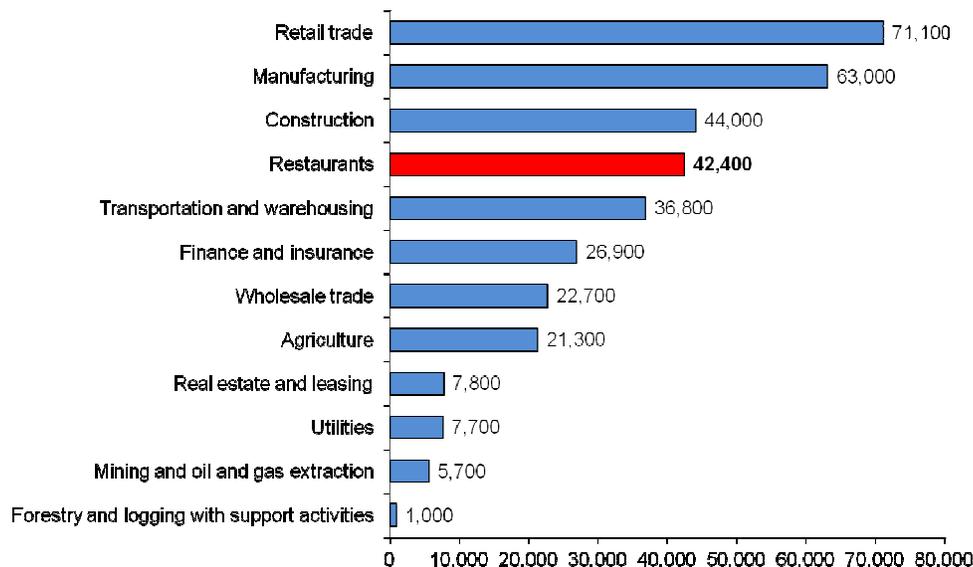
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2013 PRE-BUDGET SUBMISSION TO THE MINISTER OF FINANCE

Executive Summary

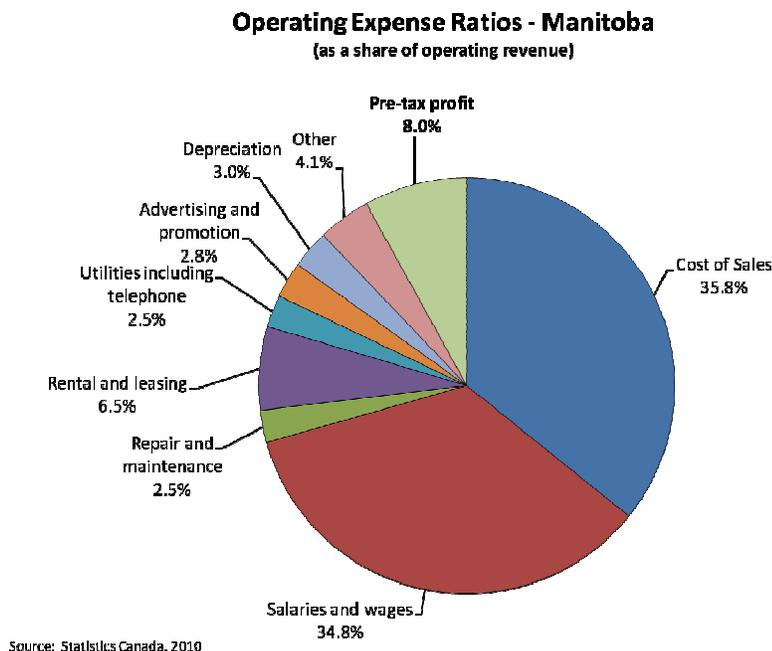
The Canadian Restaurant and Foodservices Association (CRFA) represents Manitoba's \$1.9 billion restaurant industry, one of the largest private sector employers in the province and one of the largest employers of young people.

2012 Private Sector Employment by Industry Manitoba



CRFA is pleased to have the opportunity to put forth recommendations for the 2013 provincial budget intended to support the government's vision "to help keep the province moving forward..." A strong provincial economy and consumer confidence are critical factors in the success of restaurateurs of all sizes.

High labour costs combined with other increasing input costs and slow real growth continue to contribute to low profit margins industry wide, with average pre-tax profitability of 8.0%. The increasing cost of labour continues to present significant challenges for foodservice operators across Manitoba.



While Manitoba’s Consumer Price Index has climbed by 23% since April 2001, the province’s minimum wage rate has skyrocketed by 64% during the same period. This is clearly not the sustainable pattern repeatedly promised to Manitoba’s business community. Only Yukon and Nunavut (\$10.30 and \$11.00 respectively) have higher minimum wage rates than Manitoba, and CRFA urges the government in the strongest possible terms to freeze the rate at \$10.25 during 2013.

In addition, when the government does decide at some future date to increase the minimum wage, CRFA recommends that the government follow the example of fully half the provinces in Canada and implement differential minimum wages – one for tipped employees, and to recognize the investment that all employers make when hiring inexperienced youth for their first job, a youth or training wage.

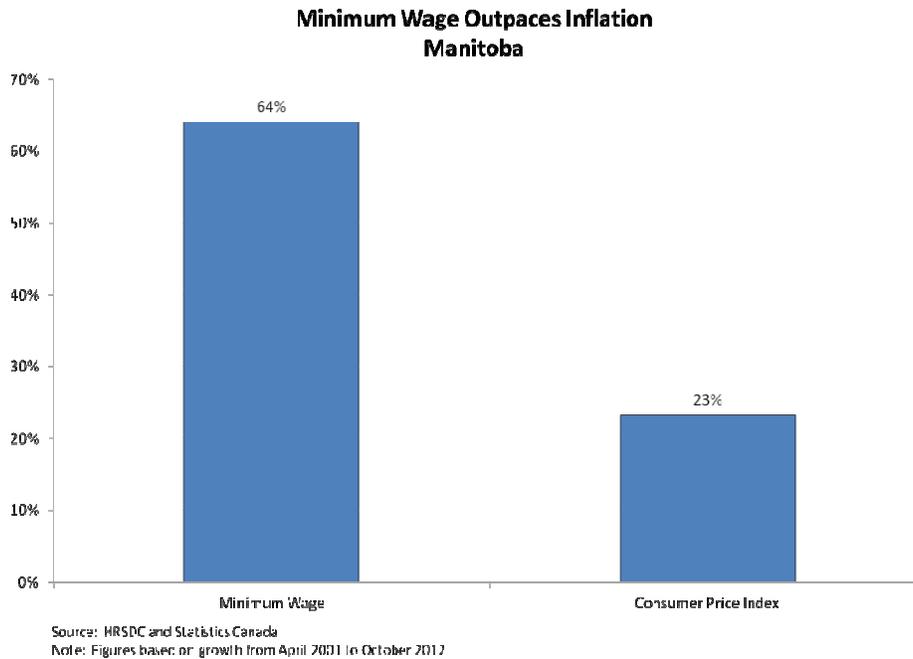
Manitoba’s labour shortage is a sign of the steady economic growth the province is experiencing. In CRFA’s most recent Restaurant Outlook Survey (Q4 2012), the labour shortage in western Canada was identified as particularly acute, with the shortage of both skilled and unskilled labour significantly higher than the national average – skilled labour shortage 33% (vs. 28% nationally) and unskilled labour shortage 23% (vs. 15% nationally). CRFA commends the province for its commitment to the immigrant nominee program, but cautions that there is still more to be done. Government action at all levels is required to reduce barriers and disincentives to work, to better align immigration policy with labour demands and to maintain and improve programs that help employers respond to labour shortages.

The comprehensive overhaul of Manitoba’s antiquated liquor regulations that is currently underway is long overdue. We look forward to working with the government to address our longstanding concerns on this file – including, but not limited to: changing the patently unfair system that provides advantages to one class of licensee over another; changing a system where the largest purchasers of beverage

alcohol in the province (Manitoba’s liquor permittees) receive no discount/wholesale pricing, unlike every other commodity they use; and ending the nanny-state food-liquor ratios that apply to some permit classes.

Labour Costs

Over the past 12 years, minimum wage in Manitoba has increased by 64%. These increases have dramatically outpaced the rate of inflation and increases in the average industrial wage.



The vast majority of minimum wage earners are young, first-time employees who voluntarily work part-time and do not rely on their minimum wage income for their livelihoods. Yet the effect of minimum wage increases is wide-spread, and not limited to those earning minimum wage. Any increase in the minimum wage has a ripple-effect, as employees earning more want to ensure they maintain their seniority over more junior employees. So in reality, a 50-cent minimum wage increase translates into a broader payroll increase for all Manitoba employers. As input costs continue to rise, employers are looking at every opportunity to save costs without shedding jobs. Government mandated increases to payroll costs virtually eliminate these efforts.

The industry is a major source of youth and entry-level jobs, employing one in five young people between the ages of 15 and 24. The generic skills young people acquire in the industry – communication, teamwork, customer service, and problem-solving, for example – can build a foundation for advancement within the foodservice industry or provide a springboard to other career paths. The flexible work arrangements offered by the industry appeal to many people – especially students – looking to balance personal and school commitments with the need to earn income.

Far from living in poverty, these minimum wage earners are more than likely living at home and working part-time to gain job experience, work skills, extra income and savings for further education.

Even if the disemployment effects were minimal, minimum wage policy as an income redistribution tool or anti-poverty tool is ineffective relative to other policies such as income transfers to low income families through the tax system. This is because the minimum wage applies to an individual, while poverty depends on family need and the number of wage earners in the family.

CRFA was disappointed when the government chose to implement a further increase to the minimum wage in October 2012, especially as it was done without introducing a corresponding tip differential or training wage. CRFA recommends that Manitoba freeze the minimum wage at \$10.25/hour for 2013.

There are currently five jurisdictions in Canada with either training wages and/or tip differential wages, including Manitoba's immediate neighbour Ontario and two of our three western neighbours (British Columbia and Alberta) – the two other jurisdictions are: Quebec and Nova Scotia. The difference between the standard minimum wage and the differential wages in these jurisdictions ranges from \$0.50/ hour in Alberta where the tip differential wage was just introduced in September 2011, to \$1.40/hour in Quebec as of May 2013.

Tip Differential Wage

A differential minimum wage for tipped servers allows operators the flexibility to increase wages for back-of-house employees who do not enjoy this privilege, thus making working in a restaurant more appealing for them.

A comprehensive Ontario study entitled "Tipping Practices in Licensed Establishments in Ontario" sponsored by the Ministry of Labour, the Ministry of Tourism and Recreation, the Ontario Women's Directorate as well as two trade association and two unions (1993), confirmed that tipped income is significant in the restaurant sector.

In Ontario, the results of the Tipping Practices study convinced the then-NDP government to retain the tip differential. As part of its commitment to raise the minimum wage to \$10.25/hour, the Liberal government committed to maintain the beverage alcohol server and student differentials. The minimum wage for tipped employees is currently \$1.35 lower than the general minimum wage. The regulation is applied as follows:

"If an employee serves liquor as a regular part of their employment, regardless of the length of time during the shift they actually serve liquor directly to patrons, they will be considered to be entitled to the liquor servers minimum wage for all hours worked during that shift."

In Quebec, as of May 2013 a \$1.40 tip differential applies with the general minimum wage at \$10.25 and tip wage at \$8.75. Quebec defines a tipped worker as follows:

"Workers Receiving Tips ... Workers that usually receive tips and work in an establishment considered to be a hotel, restaurant or on a camping ground, under the Tourist Establishment Act, in a local where alcoholic beverages are sold for consumption on the premises, or for an enterprise which sells, delivers or serves meals for consumption off-premise."

The minimum wage tip differentials continue to work well in both of these jurisdictions where the intent of the regulation/legislation is clearly understood by employers and employees.

Implementing a tip differential in Manitoba in concert with the next increase to the minimum wage, would ensure that tipped employees do not experience a net drop in income as a result of their hours being reduced when the minimum wage increases. CRFA recommends that a minimum wage differential for tipped employees be introduced in concert with the next provincial minimum wage increase.

Training Wage Differential

A training wage differential should also be considered to offset additional costs associated with hiring inexperienced youth for their first job. The hardest hit in terms of unemployment effects of a minimum wage increase are inexperienced and unskilled youth. The case has also been made that using the minimum wage as a tool for alleviating poverty has little application to teenagers and young adults. They are evenly spread throughout the family income distribution spectrum. However, youth are the group most in need of work experience in order to get established in the labour market.

The solution lies in a training wage, which would apply to any new worker. After 3 to 6 months of on-the-job training, the new worker's pay would be increased, regardless of age.

This approach encourages job creation and skill development and ensures more young people can enter and are prepared to progress within the workplace. This currently exists in Nova Scotia where the base rate of minimum wage is \$10.00 but the hiring of inexperienced workers is encouraged through a lower rate of \$9.50 per hour for the first three months for every new hire. The Nova Scotia definition of an inexperienced employee is as follows:

"Inexperienced employee means an employee who has not been employed by his or her employer or other employer for a total period of three calendar months to do the work for which the employee is employed, but it does not include a person in the employ of an employer for whom he or she has completed three calendar months of employment".

Fears that employee turnover would increase with a training wage differential have not been borne out in Nova Scotia because the investment by employers in training new employees is too high. Once these inexperienced workers learn workplace protocol and accumulate workplace skills such as teamwork, punctuality, taking direction, time management and independent decision-making, their value to the employer increases and the employer is then able to offer more pay.

Alternatively, what works well in Ontario is a student wage for employees under the age of 18. In this model a differential wage applies to students under the age of 18 who work less than 28 hours per week during the school year or during school holidays. The student rate is currently \$9.60, \$0.65 lower than the general minimum wage of \$10.25.

An additional benefit of a differential training wage, or student wage, is that it allows quick service operators more flexibility in scheduling to ensure the more experienced student employees are not being asked to work more hours than they are comfortable with in order to balance school, family commitments and other activities. CRFA recommends that a training wage for inexperienced employees be introduced in concert with the next provincial minimum wage increase.

RECOMMENDATION 1:

Freeze Manitoba's minimum wage at \$10.25/hour for 2013.

RECOMMENDATION 2a:

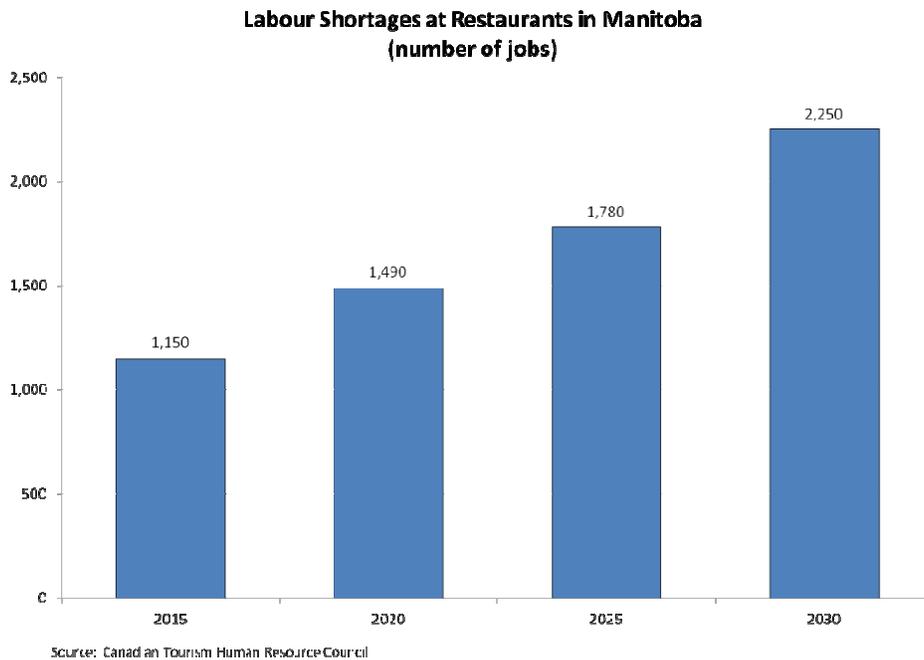
When an increase in the general minimum wage is made, Manitoba initiate phasing in a differential minimum wage for employees who normally receive gratuities.

RECOMMENDATION 2b:

When an increase in the general minimum wage is made, Manitoba initiate phasing in a training minimum wage for new employees.

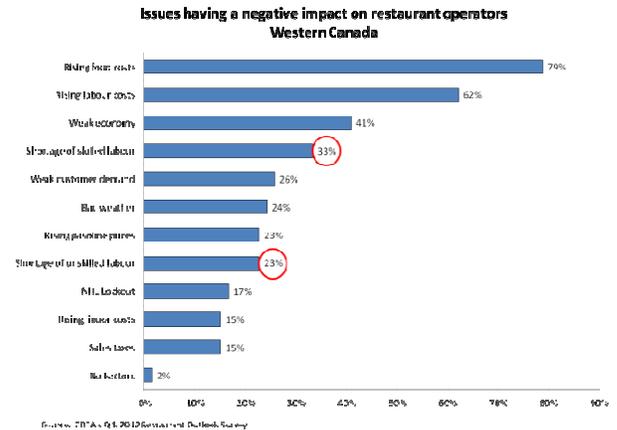
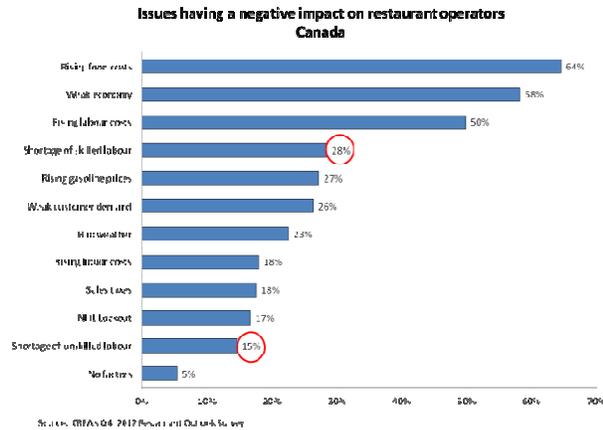
Labour Shortage

As the economy of western Canada continues to grow, businesses are already facing labour shortages. Demographics mean that labour shortages will become an even larger problem over the longer term. Government action is required to reduce barriers and disincentives to work, to align immigration policy with labour demands, and to maintain and improve programs that help employers respond to labour shortages.



While Manitoba has made some progress in reducing barriers to work, government must take action to further reduce disincentives to work.

In CRFA's most recent Restaurant Outlook Survey (Q4 2012), the labour shortage in western Canada was identified as particularly acute, with the shortage of both skilled and unskilled labour significantly higher than the national average. When asked "What factors, if any, are currently having a negative impact on your business?" 33% of western Canadian respondents identified a shortage of skilled labour whereas nationally 28% of respondents identified the same challenge. Perhaps even more significantly, 23% of those same western Canadian restaurateurs identified a shortage of unskilled labour shortage as a negative business impact compared to 15% nationally.



CRFA commends the Province of Manitoba for being an innovator in launching a provincial immigration nominee program in 1996 and strengthening our province, both culturally and economically, through immigration. CRFA urges the government to expand the Manitoba Provincial Nominee Program, through linkages with the federal Temporary Foreign Worker Program, to include workers classified as low-skilled and semi-skilled in the program.

RECOMMENDATION 3:

Commit to reduce barriers and disincentives to work both alone and in conjunction with other levels of government.

RECOMMENDATION 4:

Expand the Manitoba Provincial Nominee Program to allow low-skilled and semi-skilled workers to be included in the program.

Beverage Alcohol Pricing & License Discrimination

A comprehensive overhaul of Manitoba's antiquated liquor regulations is long overdue and CRFA commends the government for undertaking to re-write Manitoba's legislative and regulatory framework on beverage alcohol as part of last year's announced creation of Manitoba Liquor and Lotteries. As always, good intentions can get lost when they are translated into new legislation and regulations, we are therefore taking this opportunity to remind the government of the changes Manitoba's restaurateurs are seeking.

The single largest irritant and a significant barrier to growth and job creation, for Manitoba restaurateurs is Manitoba's outdated pricing model for beverage alcohol. While historically MLCC recognized the contribution made by licensees through the discount they receive on the retail price of beer purchased for sale in their establishments, licensees are still left to pay full retail prices for the wine and spirits they serve, even when retail customers are able to purchase the very same items at sale or promotional pricing. Every other product that is purchased for resale by business owners offers wholesale pricing. Why shouldn't this also be the case with beverage alcohol in Manitoba, especially when Manitoba's liquor licensees are the largest purchasers of beverage alcohol in the province?

The current system of liquor pricing and taxation in Manitoba is inefficient and does not serve the stakeholders, including government, particularly well. Changes to the liquor mark-up system that will protect government liquor revenues and increase efficiencies, increase product selection, and reduce the cost of liquor products for licensees and consumers are long overdue.

In addition, another very significant frustration restaurateurs have with the system as it is currently administered is that it provides advantages to one class of licensee over another – this is patently unfair and places the government in the position of determining winners and losers where it would be more appropriate for the market to decide.

Hospitality operators are in business to serve their customers. In recent years, consumer trends and the way the public utilizes the foodservice industry has changed. Gone are the days of restaurants only being places for celebrating special occasions. Busy families now depend on many sectors of the restaurant industry to help them keep up with hectic schedules and lifestyles. As a result, restaurant and bar concepts have become more intertwined combining food service, liquor service and entertainment in one establishment. It is becoming increasingly difficult to determine whether licensees are primarily engaged in the service of food or beverage alcohol.

Manitoba's current beverage room versus cabaret versus dining room liquor permit system creates competitive inequities between like businesses. The current licensing system also forces new liquor permit applicants to tailor their business plans to fit within a certain liquor permit category, rather than Manitoba Liquor and Lotteries granting a liquor permit that fits the applicants' business plans.

Other Canadian jurisdictions have responded to these changing trends by amending their liquor regulations to streamline liquor licenses in order to allow hospitality industry establishments more flexible service options. Licensees in provinces such as Ontario and Alberta now operate as both food primary and liquor primary establishments under the same liquor license. They operate as primarily foodservice operations during meal times and convert to minors prohibited primarily liquor service operations at night.

A change of this nature would make a real change to accommodate the trend towards multifaceted hospitality industry operations rather than adding another band-aid to the Act. It would also enable the elimination of unnecessary regulations that result in discrimination between like hospitality industry operations. With its twelve separate licenses, Manitoba's liquor licensing system is burdensome and frustrating for licensees. Simplifying Manitoba's complex licensing system would save time, effort and resources for licensees as well as both the new Manitoba Liquor and Lotteries and the merged enforcement operations.

Both Ontario and British Columbia have moved to more simplified systems which have been widely supported and accepted by licensees and government alike. Ontario's single sales license streamlines the application process, while still allowing the Alcohol and Gaming Commission of Ontario (AGCO) to impose specific restrictions on licenses, including age of majority restrictions for nightclubs and other liquor-focused establishments.

British Columbia's liquor primary/food primary licensing system is another example of a simplified and more flexible regime. The Liquor Control and Licensing Branch (LCLB) issues food-primary licenses to businesses (restaurants) where the service of food, as opposed to liquor, is the primary focus of the business. Liquor-primary licenses are issued to any business in the hospitality, entertainment or beverage industry - including bars, pubs, lounges, nightclubs, stadiums, theatres, recreation and convention centres whose primary focus is the sale of liquor. The only exceptions are businesses geared to youth (which may not be licensed to serve liquor) and private clubs (which require a liquor-primary club license.)

CRFA is not suggesting a carbon-copy of any one model, and we recognize that considerable detail goes into the design of a liquor licensing system, but surely a "made in Manitoba solution" that takes the best of what has already proven successful in other Canadian jurisdictions should be included as part of the upcoming package of amendments.

RECOMMENDATION 5:

Introduce true wholesale pricing on the entire Manitoba Liquor and Lotteries product spectrum for all licensees.

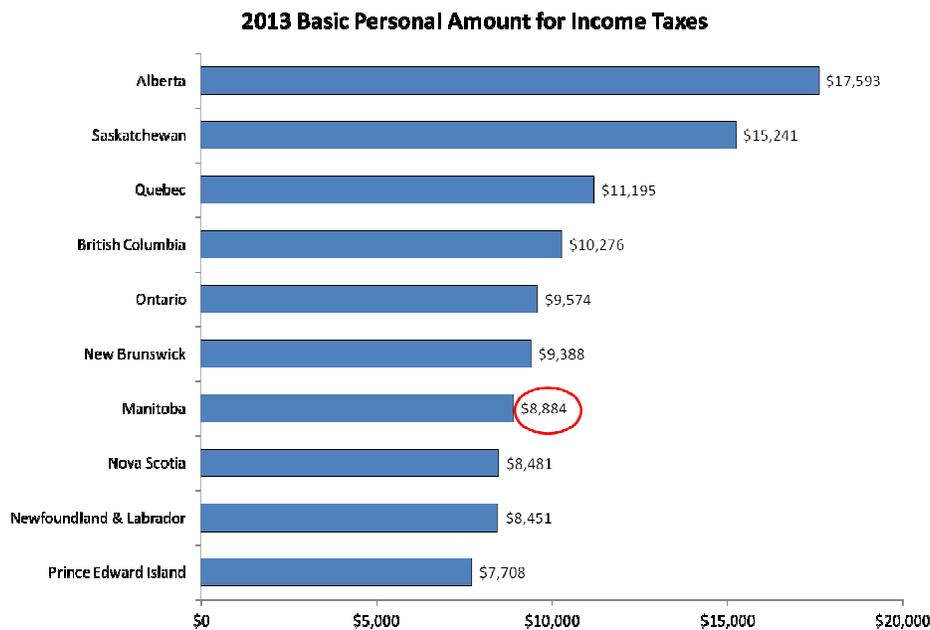
RECOMMENDATION 6:

Commit to a comprehensive review of the provincial liquor licensing regime with a particular focus on the reduction of unnecessary red tape, and equal treatment for all classes of licensees.

Taxes

Basic Personal Exemption

Many governments have been promoting minimum wage increases as a tool in the fight against poverty. CRFA strongly believes there are other, more effective ways to ensure more money goes into the pockets of low income earners than raising the minimum wage. Not least of which is a significant increase to the basic personal exemption. While we appreciate Manitoba's stated intention to increase its rate, the levels contemplated amount to little more than striving for mediocrity. The levels look even more inadequate when compared to those of our western neighbours. We urge the government to significantly increase the basic personal tax exemption for all Manitobans.



Source: www.canadianpayroll.com

Payroll Taxes

Like all payroll taxes, Manitoba's Health and Post Secondary Education Tax Levy is profit insensitive and discourages job creation. This type of tax effectively punishes businesses for succeeding and providing more Manitobans with jobs. Not only does this tax penalize individual employers, it also negatively impacts Manitoba's overall economy. The payroll tax acts as a disincentive for new business to open and grow here in Manitoba. To companies looking to expand to Manitoba, the mere existence of the payroll tax overshadows the very positive step taken with the elimination for the small business tax. The elimination of this tax is imperative.

Retroactive Taxes

Manitoba's restaurateurs watched with unease and apprehension when the Government of Quebec implemented a retroactive tax targeting the province's restaurant sector. It is beyond all reason that a tax increase should ever apply to existing inventory, products that had all applicable taxes paid when they were purchased – in the case of many wines, five years or more previous. We are specifically seeking assurances from the Government of Manitoba that it will not take any similar action in either its 2013 Budget or in any other budget for the remainder of its term of office.

RECOMMENDATION 7:

Significantly increase Manitoba's Basic Personal Exemption to be more in line with those in the rest of western Canada.

RECOMMENDATION 8:

Eliminate Manitoba's Health and Post Secondary Education Tax Levy.

RECOMMENDATION 9:

Assure all Manitobans that retroactive tax increases will not be enacted in this budget or any others during the remainder of this government's term of office.