

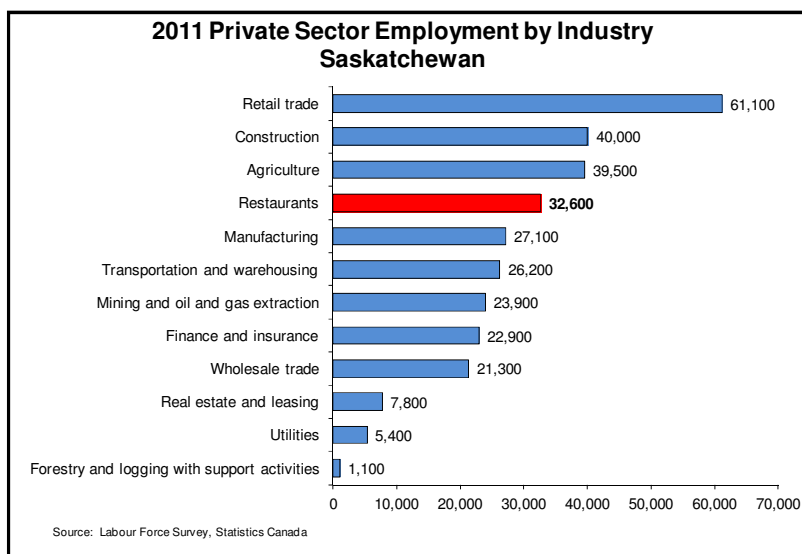


Canadian Restaurant
and Foodservices
Association

2012 PRE-BUDGET SUBMISSION TO THE DEPUTY PREMIER & MINISTER OF FINANCE

Executive Summary

The Canadian Restaurant and Foodservices Association (CRFA) represents Saskatchewan'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.



CRFA is pleased to have the opportunity to put forth recommendations for the 2012 provincial budget intended to support the government's vision of Saskatchewan as "the best place in Canada to live, to work, to start a business, to get an education, to raise a family and to build a life." Our members appreciate the government's efforts to ensure Saskatchewan has a favourable business climate; 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 6.8%. The trend towards higher labour and other costs continue to put pressure on industry profitability. The increasing cost of labour continues to present significant challenges for food service operators across Saskatchewan. With a nearly 20% increase in the minimum wage in just four years, the industry in Saskatchewan is seeing its margins tighten even further. CRFA urges the government in the strongest possible terms to freeze the minimum wage at \$9.50 during 2012.

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 its partners in the New West Partnership in implementing a differential minimum wage for tipped employees at the same time. In addition, recognizing the investment that all employers make when hiring inexperienced youth for their first job, a youth or training wage differential should also be introduced.

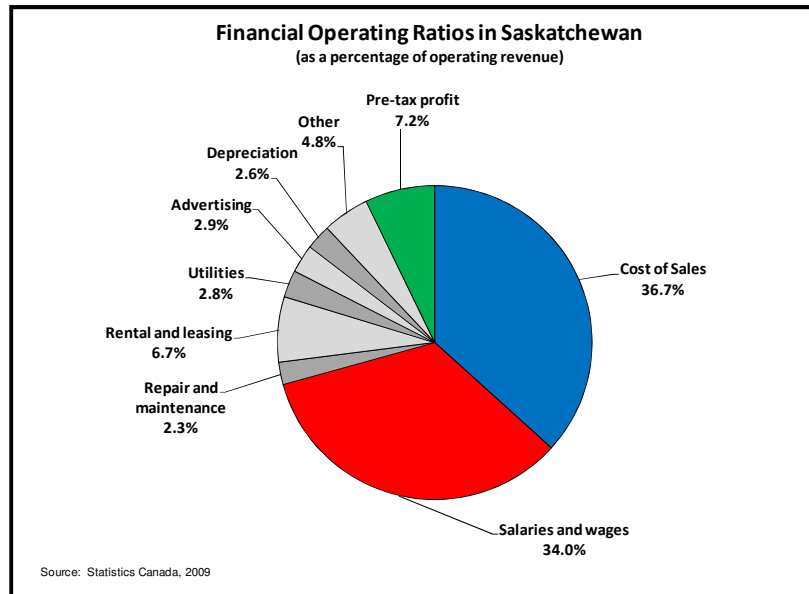
Saskatchewan's labour shortage is a sign of the strong economic growth the province is experiencing, especially in the natural resource sector. In CRFA's most recent Restaurant Outlook Survey (Q4 2011), the labour shortage in western Canada was identified as particularly acute, with the shortage of both skilled and unskilled labour significantly higher than the national average – skilled labour shortage 37.5% (vs. 31.5% nationally) and unskilled labour shortage 20.8% (vs. 14.4% nationally). CRFA commends the province for its commitment to SINP's Hospitality Sector Pilot Project, 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 more align immigration policy with labour demands and to maintain and improve programs that help employers respond to labour shortages.

A comprehensive overhaul of Saskatchewan's antiquated liquor regulations is long overdue. SLGA's continuing insistence on maintaining a system that provides an advantage to one class of licensee over another is patently unfair. In addition, while Saskatchewan's liquor permittees are the largest purchaser of beverage alcohol in the province they receive no discount, unlike every other commodity they use. To add insult to injury, they don't even have access to the same discounts retail consumers receive on sale items at SLGA retail stores. And when the liquor consumption tax is added to their tab, guests pay considerably more for a drink out than they do at home.

Finally, we wish to commend the government for its refusal to date to enter into discussions with the federal government on the harmonization of Saskatchewan's PST with the GST. Any move in the direction of a harmonized sales tax would perpetuate food tax unfairness in the GST and we ask the government to once again reaffirm that Saskatchewan will not consider GST harmonization.

Labour Costs

Over the past four years, minimum wage in Saskatchewan has increased by 20%. These increases have outpaced the rate of inflation and increases in the average industrial wage, yet anti-poverty activists still point to the minimum wage as the most effective tool to increase take home pay.



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.

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 Saskatchewan 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.

Nearly 50% of minimum wage earners in Saskatchewan's foodservice industry are young people between the ages of 15 and 19, while just 32% of foodservice employees 25 years or older earn the minimum wage. Many of these employees also earn tips that push their hourly wage well above \$10/hour.

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 are 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. The Government of Saskatchewan is to be commended for its significant increase in its Basic Personal Exemption and the decision to index the exemption to ensure its value is not eroded by “bracket creep”.

CRFA was disappointed when the government chose to implement a further increase to the minimum wage in September 2011, especially as it was done without introducing a corresponding tip differential or training wage. CRFA recommends that Saskatchewan freeze the minimum wage at \$9.50 for 2012.

There are currently five jurisdictions in Canada with either training wages and/or tip differential wages, including Saskatchewan’s New West Partnership partner’s British Columbia and Alberta (the three other jurisdictions are: Ontario, Quebec and Nova Scotia). The difference between the standard minimum wage and the differential wages in these jurisdictions ranges from \$0.35/ hour in Alberta where the tip differential wage was just introduced in September 2011, to \$1.35/hour in Ontario which will be matched by Quebec as of May 2012.

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 2012 a \$1.35 tip differential applies with the general minimum wage at \$9.90 and tip wage at \$8.55. 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 Saskatchewan 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 Saskatchewan's minimum wage at \$9.50 for 2012.

RECOMMENDATION 2a:

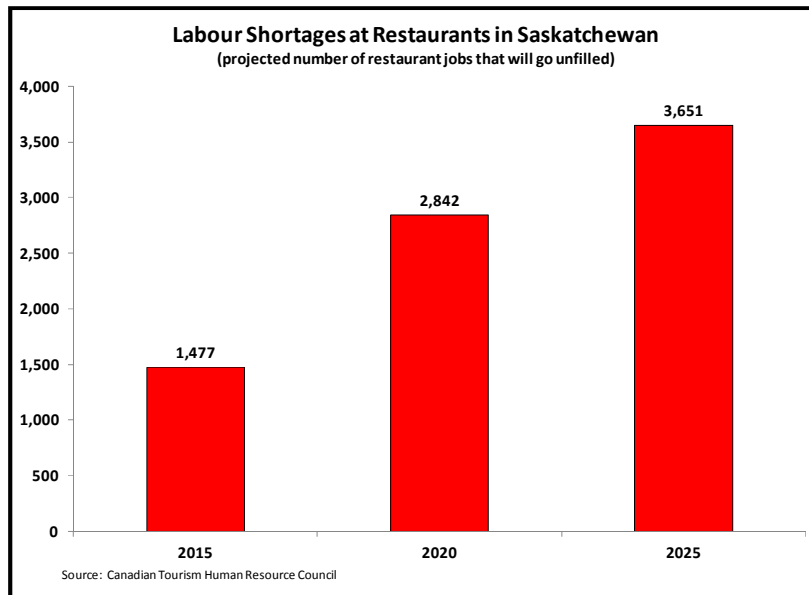
When an increase in the general minimum wage is made, Saskatchewan initiate phasing in a differential minimum wage for employees who normally receive gratuities.

RECOMMENDATION 2b:

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

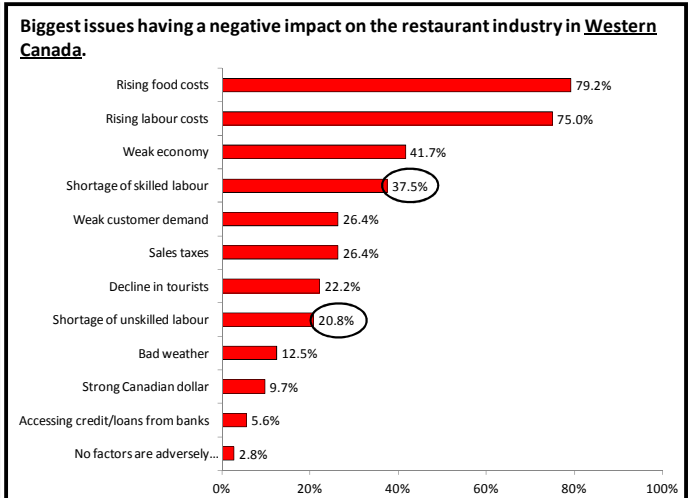
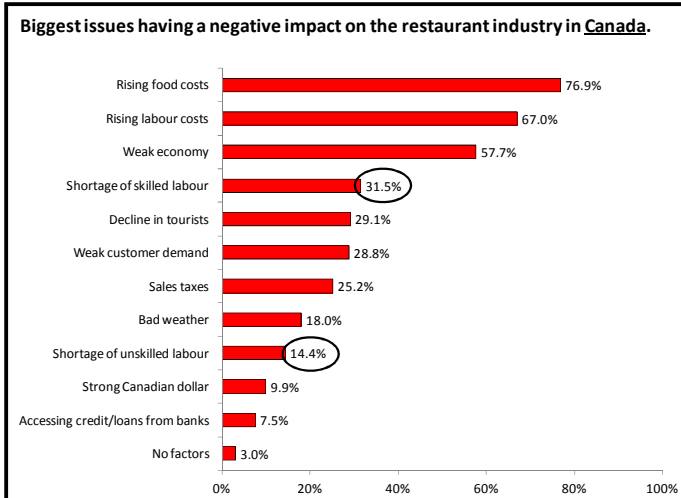
Labour Shortage

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.



Saskatchewan has made progress in reducing barriers to work through its indexation of the provincial income tax system to protect tax payers from inflation generated bracket creep. However, government must take action to further reduce disincentives to work.

In CRFA's most recent Restaurant Outlook Survey (Q4 2011), 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?" 37.5% of western Canadian respondents identified a shortage of skilled labour whereas nationally 31.5% of respondents identified the same challenge. Perhaps even more significantly, 20.8% those same western Canadian restaurateurs identified a shortage of unskilled labour shortage as a negative business impact compared to 14.4% nationally.



The only option open to Saskatchewan employers who are in desperate need semi-skilled and unskilled workers is the Saskatchewan Immigrant Nominee Program's Hospitality Sector Pilot Project. CRFA appreciates the commitment the Saskatchewan government has demonstrated to this pilot project, it is important that this need continues to be recognized and addressed. To that end, we recommend Saskatchewan make the program permanent.

RECOMMENDATION 3:

Make permanent the Hospitality Sector Pilot Project of the Saskatchewan Immigrant Nominee Program.

RECOMMENDATION 4:

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

Beverage Alcohol Pricing & License Discrimination

A comprehensive overhaul of Saskatchewan's antiquated liquor regulations is long overdue. Saskatchewan Liquor and Gaming Authority's continuing insistence on maintaining a system that provides an advantage to one class of licensee over another is patently unfair, and the extension of a 5% discount on beer for beverage room operators included in the 2011 provincial budget was a particularly bitter pill for longsuffering restaurant operators to swallow. This is particularly so because of previous commitments made by government to extend the discount to all licensees.

One of the biggest sources of frustration and a significant barrier to growth and job creation for Saskatchewan restaurateurs is SLGA's outdated pricing model for beverage alcohol. Licensees in our sector are forced to pay full retail prices for the wine, beer and spirits they serve in their establishments, 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 SLGA, especially when Saskatchewan's liquor licensees are the largest purchasers of beverage alcohol in the province?

Additionally, SLGA clearly has opportunities to negotiate lower prices from its suppliers. We urge you to ensure that it is maximizing its opportunities to do so; and in turn introduce true wholesale pricing for all licensees. SLGA Agency Stores in smaller and remote communities receive a discount on all product purchases, including sale priced product. As a first step towards a more progressive pricing system, restaurant owners are entitled to at least the same treatment.

While it is true that licensees obtain a provincial sales tax discount on products purchased through the SLGA, the licensee is then required to collect a 10% consumption tax, thereby more than negating the benefits of the original discount. Furthermore, the licensee tax saving applies only to the cost of the beverage alcohol while the tax base for the 10% consumption tax is the drink's total value. After both GST and liquor consumption taxes are applied to the restaurant mark up for alcohol purchased in licensed establishments, the consumer pays considerably more in taxes in licensed establishments than at the government liquor store. This is a government imposed built-in disadvantage for liquor licensees in selling beverage alcohol while, as the most labour intensive sellers of beverage alcohol, if anything, licensees should pay less tax as a larger economic and tax generator.

RECOMMENDATION 5:

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.

RECOMMENDATION 6:

Introduce true wholesale pricing of beverage alcohol for all licensees.

RECOMMENDATION 7:

Initiate a phasing out of the Liquor Consumption Tax.

GST Harmonization

Three times CRFA has successfully rallied Saskatchewan residents in opposing attempts to impose PST on restaurant meals, as would happen if Saskatchewan's PST was harmonized with the GST. CRFA research indicates harmonization in Saskatchewan today would have a similar impact on restaurant meals as it has had in British Columbia – a 5% increase in the cost of a restaurant meal will result in an immediate 5% decrease in sales. With ever tighter profit margins, a drop of this magnitude would devastate the province's restaurant sector and its more than 32,000 employees. Taxes on restaurant meals are regressive, hitting youth, seniors and lower-income groups much harder than higher-income groups.

RECOMMENDATION 8:

Reaffirm that Saskatchewan rejects GST harmonization.