

Support for Toronto's Restaurants

Date: September 11, 2023

To: Economic and Community Development Committee

From: General Manager, Economic Development and Culture

Wards: All

SUMMARY

While the COVID-19 pandemic negatively impacted many sectors of Toronto's economy, the restaurant industry experienced especially stringent public health measures and associated market changes and now faces a difficult path to economic recovery. As directed by City Council through its consideration of the report titled *Supporting Restaurants in Toronto: Recovery and Renewal (2022.EC28.2)*, this report shares the findings from two surveys that engaged with Toronto's restaurant and hospitality industry in 2022, and identifies related opportunities to improve existing or inform the development of new supports for different segments of the sector.

While existing City restaurant and small business support programs such as Winterlicious/Summerlicious (WL/SL) and the Small Business Property Tax sub-class were found to be generally viewed positively, findings from these surveys illustrate continued challenges facing Toronto's restaurant owners and operators, as well as variable recovery across different sector segments and geographies of Toronto's restaurant industry. The findings of the surveys, combined with additional research, demonstrate the need to review the WL/SL program and underscore the importance of improving the design, awareness and uptake of the City's restaurant and small business support programs, especially among quick serve, often family-run, restaurants located outside the downtown core which are not connected to a Business Improvement Area (BIA).

RECOMMENDATIONS

The General Manager, Economic Development and Culture recommends that:

1. City Council direct the General Manager, Economic Development and Culture to review and propose changes to the Winterlicious/Summerlicious program so it more effectively and equitably supports restaurants across Toronto based on the results of the two restaurant and hospitality surveys, and report back to Council in Q1 2024 on options within its existing financial framework.

2. City Council direct the General Manager, Economic Development and Culture to work with relevant divisions to improve access to City-run programs with a focus on underserved restaurant segments outside of the downtown core, based on the results of the two restaurant and hospitality surveys.

FINANCIAL IMPACT

Funding of \$0.267M gross and \$0 net for Winterlicious/Summerlicious (WL/SL) is included in the 2023 approved budget for Economic Development and Culture.

The report back to Council in Q1 2024 will advise of any financial implications from changes to the program.

The Interim Chief Financial Officer and Treasurer has reviewed this report and agrees with the information as presented in the Financial Impact Section.

EQUITY IMPACT STATEMENT

Restaurants owned, operated by and/or serving Indigenous, Black and equity-deserving residents are more likely to be located in Toronto's inner suburbs than the downtown core. By considering the findings of the two surveys on City of Toronto supports for restaurant segments within and outside of the downtown core, restaurant operators' interests, needs and challenges are better understood to inform City of Toronto program planning in the future. Through the recommendations contained in this staff report, it is anticipated that Toronto's diverse restaurant owners and operators both in the downtown core and beyond will be more fully and equitably considered, and that access to City programs, economic development opportunities, and sense of identity and belonging will be positively impacted.

DECISION HISTORY

At its meeting on February 7, 2023, City Council curb lane cafes as a permanent component of the CaféTO program.

<https://secure.toronto.ca/council/agenda-item.do?item=2023.EX2.4>

At its meeting on July 19, 2022, City Council adopted Economic Development and Culture's Strategic Directions 2022-2023 report, endorsing EDC's ongoing and future policy direction, which includes advancing economic and cultural recovery and renewal.

<https://secure.toronto.ca/council/agenda-item.do?item=2022.EC31.19>

At its meeting on June 8, 2022, City Council adopted a report recommending the Chief Financial Officer and Treasurer, in consultation with City Divisions, develop a public awareness campaign on the tax reduction benefits of the Small Business Property Tax Sub Class.

<https://secure.toronto.ca/council/agenda-item.do?item=2022.EX33.5>

At its meeting on April 6 2022, City Council approved an extension of the Amplified Music on Patios pilot project and directed staff to report back on the results of a survey of the restaurants industry and the feasibility of expanding the program City-wide, including considerations for enforcement resources.

<https://secure.toronto.ca/council/agenda-item.do?item=2022.EC28.2>

At its meeting on November 9, 10 and 12, 2021, City Council, directed the General Manager, Transportation Services, the Executive Director, Municipal Licensing and Standards and the General Manager, Economic Development and Culture to report back to the Executive Committee by the first quarter of 2023 to establish criteria for a permanent program of CaféTO curb lane/parklet cafés. Council also directed the General Manager, Economic Development and Culture to report to the Executive Committee in the first quarter of 2022 on programs (e.g. CaféTO), grants and initiatives (e.g. plazaPOPS) that may be provide additional support to restaurants in 2022

<https://secure.toronto.ca/council/agenda-item.do?item=2021.EX27.10>

At its meeting on November 9, 2021, City Council adopted the Small Business Property Tax Subclass for the commercial property tax class.

<https://secure.toronto.ca/council/agenda-item.do?item=2021.EX27.7>

At its meeting on June 8 and 9, 2021, City Council approved the development and implementation of a pilot project to permit amplified live music performances on patios in the public right of way located within Ward 14, Ward 19 and Ward 9 for implementation in summer 2021, as public health measures permit.

<https://secure.toronto.ca/council/agenda-item.do?item=2021.MM34.51>

At its meeting on February 2, 3 and 5, 2021, City Council approved an enhanced CaféTO program for expanded outdoor dining in the public right-of-way until April 14, 2022.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.EX20.6>

At its meeting on December 16, 2020, City Council adopted the report "Building Back Stronger: Report of the Economic and Culture Recovery Advisory Group", outlining recommendations to prioritize business and cultural recovery aspects.

<https://secure.toronto.ca/council/agenda-item.do?item=2020.EC18.15>

At its meeting on June 29 and 30, 2020, City Council authorized the establishment of the CaféTO program, which facilitated expanded outdoor dining space in the public right-of way.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.EX14.1>

COMMENTS

1. The Restaurant Industry: Current State and Needs

Restaurants form an integral part of the economic and cultural fabric of any city, which is especially important for a city as diverse as Toronto. Outside of providing essential

entertainment and food services, restaurants, especially those outside of the downtown core that cater to specific ethnocultural needs, regularly assume the role of community and family gathering spaces and often facilitate the social integration of immigrant communities. As a result, these restaurants often also support the economic integration of newcomers into the labour market, and provide a launching pad for newcomer entrepreneurs. With social, cultural and economic benefits to our city, restaurants contribute to animating public spaces, building main street character, supporting tourism and facilitate a greater sense of identity for neighbourhoods. Understanding the current state of the restaurant industry is vital from an economic development and cultural perspective as restaurants are vital community hubs worth preserving.

Restaurants were among the first businesses to close at the onset of the pandemic and subsequently experienced extended restrictions on indoor dining. Compared to other similarly sized service-based businesses, restaurants typically operate with narrow profit margins, experience high insolvency rates and are subject to rapid changes in consumer preferences. These factors, combined with the impacts of the COVID-19 pandemic, have created significant challenges for restaurant operators.

To better understand the experience and needs of different segments of Toronto's restaurant the industry, the Economic Development and Culture (EDC) division facilitated two surveys in 2022:

- Small Food Enterprise Outreach (SFEO) Program survey;
- Toronto Restaurant and Hospitality Industry (TRHI) survey.

The surveys provide insights into the current state of the restaurant industry and how the City's restaurant support programs and initiatives are viewed by stakeholders, including restaurant operators and the general public.

Findings from these surveys and complementary research undertaken for this report point to significant, on-going pressures facing Toronto's restaurants, including:

- rapid changes in consumer behaviour and confidence due to the pandemic;
- labour and skill shortages;
- increased costs for food, labour and space, combined with debt taken on during the pandemic; and
- barriers to participation in City programs.

Small Food Enterprise Outreach (SFEO) Program Survey

During Q3 2022, owners and operators of small food enterprises (SFEs) in Scarborough were engaged to assess their familiarity with (federal and provincial) government pandemic relief and City-administered restaurant and small business support programs. Restaurants were purposefully chosen to reflect the diverse ethno-cultural make-up of Scarborough.

The SFEO report (Attachment 1) highlights several barriers which limit the ability of SFEs in areas like Scarborough, often owned and operated by recent immigrants to Canada, to become aware of and access restaurant and other business support programs offered by the City and other orders of government, including:

- difficulty understanding or navigating programs and (associated, technical) regulations for non-English as first language speakers;
- avoiding participating in programs due to a lack of confidence in and mistrust of government practices, based on experience in other countries;
- limited capacity, technical knowledge and financial resources to search and apply for government business supports, as SFEs tend to be family operated and have few staff.

Many SFEO participants reported on-going operational challenges stemming from the pandemic, including:

- significant debt incurred due to extended restrictions on in-door dining;
- reduced sales since re-opening ranging between 20% - 50%;
- unpredictable business volumes leading to food waste and reduced menu offerings to compensate;
- over reliance on delivery applications which charge large commission fees and higher prices that eat into profits;
- increasing costs for food, labour, space, supplies, and equipment;
- increased competition for customers and space.

Toronto Restaurant and Hospitality Industry (TRHI) Survey

In Q2/Q3 2022, EDC commissioned Ipsos-Reid to conduct a survey of residents and restaurant operators to explore opinions of the general restaurant industry post-pandemic. The Toronto Restaurant and Hospitality Industry (TRHI) survey (Attachment 2) provides insights on:

- the state of the restaurant industry post-pandemic;
- effectiveness of City restaurant and small business support programs;
- the Winterlicious/Summerlicious (WL/SL) program.

State of Restaurant Industry Post-Pandemic

Majority (79%) of respondents strongly agree that pandemic restrictions had a negative effect on business, with the lasting impacts of the pandemic include:

- shortage of staff and hiring challenges;
- increasing costs and inflation;
- adopting and adapting to new business models;
- difficulty attracting and retaining new customers.

Effectiveness of City Restaurant and Small Business Support Programs

Results from the TRHI demonstrated that City-run restaurant programs are viewed by residents, restaurants owners and operators as effective and worthwhile investments by the City:

- 69% of participating restaurants found the WL/SL programs to be generally effective at increasing business for their restaurant;
- 66% of restaurant respondents indicated that the Small Business Tax Incentive Program (SBTIP) is a very valuable program to their restaurant business;

- 59% of restaurant respondents indicated the CaféTO program as very valuable to their restaurant business.

Perceptions and Familiarity with the WL/SL Program

Public perception of the WL/SL Program, which began as a promotional initiative for fine dining restaurants, is favourable:

- 75% of respondents indicated that WL/SL is a worthwhile City program;
- 86% of respondents indicated they have visited a restaurant for the first time through a WL/SL event, with 50% of these respondents indicating they returned to the same restaurant post WL/SL;
- Two-thirds of Toronto residents sampled through the survey indicate they are familiar with the WL/SL Program;
- About six in ten of those residents who are aware of WL or SL visited a participating restaurant;
- Over 90% of those who participated in both WL/SL indicate satisfaction with their experience.

One area of concern raised by the survey is the growing sense that WL/SL Program may be losing some of its appeal. Feedback included:

- Approximately 50% of residents surveyed who participated in WL/SL believe that the program needs to be revitalized, with 16% strongly agreeing and 38% somewhat agreeing;
- Smaller-sized restaurant owners, who did not participate in the WL/SL Program, generally felt that the WL/SL Program did not fit with their business aims and offerings because of the three-course meal requirement (31%) and price point offering (23%);
- Just half (49%) of Toronto restaurants surveyed indicate they are likely to participate in a future Winterlicious Program and even fewer (44%) indicate they are likely to participate in a future Summerlicious Program.

Key Industry Associations

Two key restaurant and hospitality industry associations – the Ontario Restaurant Hotel & Motel Association (ORHMA) and Restaurants Canada (RC) – are advocating for additional support to the restaurant industry in Toronto, given lingering challenges from the COVID-19 pandemic.

Data from Restaurants Canada (RC) indicate a need to further provide financial support to restaurants. According to RC, nearly 8 in 10 restaurants had lower profits in Q3 2022 compared to the Q3 2019 period, and 51% of all foodservice businesses are operating at a loss or breaking even, in comparison to 12% pre-pandemic. These recorded losses are notable as federal wage and rent subsidies that previously supported restaurants have ended, further compounding the financial constraints being felt by restaurants.

Data from the Ontario Restaurant Hotel & Motel Association (ORHMA) note that inflation costs and labour shortages are two key factors that are negatively impacting the business climate in the restaurant industry. The ORHMA contend that while the

restaurant industry is entering into a recovery period post-pandemic, the need for restaurants to adapt to rapid changes in the business climate remains vital.

External Research

The results from both surveys on the state of the industry are supported by several publicly available data sources:

- A recent report from the Strategic Regional Research Alliance (SRRA), last published in July 2023, observed that restaurant peak days have shifted from Fridays to Wednesdays, with some businesses noting that a three-day week may be more appropriate at this time as business volumes are significantly lower at the beginning and the end of the week.
- A review of Statistics Canada and OpenTable (one of the largest online restaurant reservation systems in the world) data suggest that business volumes have returned to pre-pandemic volumes for table service restaurants, especially in the fine dining industry. This evidence is further confirmed by Restaurant Canada's projection that the Full Service Restaurant (FSR) segment of the industry will surpass pre-pandemic levels by 2024. No similar data on small, family-run restaurants is available.

2. City Supports for Restaurants

Restaurant-specific Programs

EDC currently directly runs or supports four City restaurant assistance programs:

- *Winterlicious/Summerlicious Program (WL/SL Program)*

As Toronto's longest running restaurant support program, the 20th edition of WL/SL will be held in 2024. This program was initially designed to promote the high-end, fine dining segment of the industry by offering a value (discounted price) dining experience at off-peak times. Since the program's inception, the program has grown from 36 to over 200 participating restaurants, and served more than 7.7 million meals and generated more than \$342 million in economic activity.

- *CaféTO*

Toronto is a great city for outdoor dining and for creating spaces for communities to gather and celebrate local food. The CaféTO Curb Lane Café Program is one of the many tools in the municipal toolkit to encourage more outdoor dining, alongside enabling more patios on private land and encouraging year-round sidewalk cafes. EDC works with Transportation Services and Municipal Licensing and Standards (MLS) divisions to help deliver the CaféTO program by liaising with business operators and BIAs, providing (public service and business operator informed) operational policy advice, and administering the CaféTO Property Improvement Program and the CaféTO BIA Grant, among other activities.

In 2023, and after three years as a temporary initiative to assist small businesses during the pandemic, City Council made curb lane cafes a permanent component of the CaféTO program. This fall, City staff will bring a report to council with recommendations

to make permanent the temporary use zoning bylaw easing restrictions associated with outdoor dining on private property as well as other expanded permissions.

- *Amplified Music on Patios*

An extension of CaféTO, the Amplified Music on Patios (AMP) Program allows for live, amplified music on outdoor patios, benefitting restaurants and musicians alike. Based on the success of a two-year pilot, Council made AMP a permanent feature of CaféTO in 2023.

- *Find Dining*

The Find Dining program was a Scarborough specific initiative resulting from a partnership between the City, the University of Toronto Scarborough Campus and Centennial College. Restaurants in Scarborough were contacted, provided with marketing support and made aware of City run restaurant programs. Outreach was conducted, a website was developed, and a 4-week long promotion was offered to encourage culinary tourism to Scarborough.

Licensing & Zoning for Restaurants, Bars and Entertainment Venues

Additionally, the City conducted extensive public consultation on a framework to update licensing and zoning regulations for restaurants, bars and entertainment venues in spring 2023, to better support an inclusive social nighttime culture in Toronto. Insights and experiences from these consultations are expected to inform recommendations put forward for Committee and Council consideration in Fall 2023 to enhance Toronto's night economy.

Other Small Business Assistance Programs

EDC also offers or promotes several other City programs to assist small businesses generally, including but not limited to restaurants. These include:

- *Toronto Main Street Recovery and Rebuild Initiative (MRRI)*: is comprised of funding programs for small businesses and the non-profit organizations and BIAs that support local communities. Through this initiative, the City is receiving \$18 million from the Federal Economic Development Agency for Southern Ontario between July 2022 and March 2025. Of MRRI's seven programs, restaurants are eligible to receive funding through three, namely: the CaféTO Property Improvement Program, the Retail Accelerator Program, and the Vacant Commercial Space Rehabilitation Program.
- *Digital Main Street (DMS)*: In June 2022 Toronto City Council confirmed its support for an annual investment of \$550,000 in 2022 and 2023 in the DMS program. This funding secures dedicated support for Toronto business operators to improve their digital presence, focusing on businesses in underserved areas not currently represented by BIAs.
- *Toronto Small Business Enterprise Centre (previously Enterprise Toronto)*: provides ancillary services for entrepreneurs and small business operators, including business consultation and webinars.

- *Small Business Property Tax Sub-Class*: In 2022, the City introduced the small business property tax sub-class, which provides a 15% reduction in the municipal tax rate, and a matching 15% reduction in the provincial education tax rate, for eligible small business properties. In 2022, approximately 29,020 businesses qualified for the sub-class.

3. Addressing the Restaurant Industry Challenges and Needs

The survey results indicate that the City's existing suite of restaurant and small business support programs address many but not all the challenges confronting restaurant operators in Toronto. The chart in Attachment 3 indicates, for example, how certain challenges identified in the SFEO and TRHI surveys are being met by City delivered programs. Taken together, evidence points to a variable degree of awareness and impact of City programs to restaurants outside of the downtown core. This variation highlights that there is an opportunity for City programs and services to more equitably provide support to restaurant owners and operators across Toronto.

While many fine dining and full service restaurants located downtown benefit from participation in the WL/SL and/or CaféTO programs or the Small Business Property Tax sub-class, these initiatives do not assist many restaurants in Scarborough or other inner suburban areas of Toronto to the same degree, for various reasons. For example, smaller-sized restaurant participants from the TRHI survey indicated that the WL/SL Program generally did not fit with their businesses' offerings. In addition, only 2 of the 198 restaurants participating in WL in 2019 were in Scarborough, while 85% of participating restaurants were located in the downtown core. The primary reason identified in the report indicated that WL did not appeal to Scarborough restaurants as they are generally comprised of small food enterprises (SFEs) that focus on quick service or casual dining, rather than full service and fine dining.

Restaurants outside of the downtown core, including those SFEs that are often owned and operated by newcomers, are generally more diverse than those restaurants in the downtown core and represent significant expressions of cultural cuisine, sense of community, and immigrant entrepreneurialism. These restaurants also often serve as one of the most ethnically diverse workforces, many of which employ recent immigrants. Ensuring that City programs and services geared towards assisting restaurants are equitably impacting all restaurants across the City ensures collectively achieving economic and cultural objectives to advance Toronto's prosperity, opportunity and liveability.

In view of these findings, it is essential to ensure that existing and proposed new City programs, initiatives or policies impacting indoor and outdoor dining or take-away food service be adjusted or designed to better accommodate, collectively, the needs of all restaurant segments across the full geography of the city. In the long-term, collaborating across City divisions, in particular those divisions that engage with and regulate businesses, will be necessary to ensure alignment with EDC's programs, initiatives and policies that focus on providing supports to underserved segments of the restaurant industry outside of the downtown core. In the short-term, it is also important that

changes be made to the WL/SL program to ensure it more effectively and equitably supports restaurants across Toronto.

Entrance of Michelin Guide in Canada

On May 10, 2022, the Michelin Guide – the best known fine dining restaurant marketing program in the world – announced that Toronto would become the first Canadian city to become a Michelin Guide destination. Since the announcement, 13 Toronto restaurants have received Michelin stars.

The entrance of Michelin star restaurants to the Toronto restaurant industry is another opportunity to energize recovery for a sector that has been challenged by the COVID-19 pandemic. While Michelin star restaurants may signify a celebration and return to dining and travel, it may also compete with other City programs and services that aim to help drive business to local restaurants, such as the WL/SL Program.

Winterlicious/Summerlicious (WL/SL) Program - Current State

The Winterlicious/Summerlicious Program will be in its 20th edition in 2024 and has been successful in promoting Toronto restaurants. However, significant industry shifts, combined with interventions implemented during the pandemic, signal that the program can benefit from an update to ensure that it continues to meaningfully serve Toronto restaurants and communities. The results of both SFEO and TRHI surveys confirm the need for a review and re-assessment of the program's goals and format: while the fine dining sector (the target audience of the program) has recovered, small, family-run restaurants (often not in the downtown core) need further access to promotion supports.

As the industry and City priorities have evolved, the format of the WL/SL Program has been periodically altered in ways that may have diluted the program's efficacy, signalling that the current design of the program may not be able to address the needs of both the SFEs and the fine dining segment. In addition, the pandemic dramatically impacted restaurants and forced numerous changes to the program, both throughout and after the pandemic, including:

- Waiving fees from 2020 until Summer 2023. For 2023, fees were reintroduced at a price point of \$550+HST (reduced from \$1,300+HST, pre-pandemic). The TRHI survey found that the re-introduction of fees was strongly opposed by the industry. Despite the opposition, the WL/SL Program maintained strong participation;
- For 2023, the pricing model of the program was altered from 3 price points to 6 price points to increase the program appeal to the entire industry. Prices ranged from \$20 - \$55 at lunch and from \$25 - \$75 for dinner service. This change was to ensure accessibility by SFEs while still maintaining the appeal of participation to high-end dining establishments;
- Prior to the pandemic, the program was revenue neutral with a net zero budget. Sponsorships for the program have been increasingly difficult to secure. This challenge reflects several factors, including the overall economy and shifting priorities among program sponsors.
- For Winter 2024, fees will increase to \$750+HST, this to balance declining levels of sponsorships and ensure a cost neutral program.

4. Conclusion

The WL/SL Program is one of the most recognizable support programs provided to restaurants in Toronto. Survey results indicated that the program is seen as positive and well-liked, and that it can be optimized to better serve Toronto's residents and diverse restaurants. Although survey results demonstrate that a review of the program could be beneficial, neither the SFEO Program nor TRHI surveys offered a clear path forward for how the WL/SL Program – or others like it – can meet, individually and collectively meet the myriad needs of different segments of Toronto's restaurant sector. For its part, a fuller review of the WL/SL program is required at this time to address changing industry requirements, make it more effective and equitable for restauranteurs across the city, and assess whether and how it can operate on a sustainable, cost-recovery basis.

Collaboration with other City divisions will be key to align and refine programs, policies and initiatives that are geared towards supporting the restaurant industry. This will ensure a City-wide and proactive approach in providing supports to underserved segments of Toronto's restaurant industry and advance Toronto's prosperity, opportunity and liveability.

CONTACT

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ATTACHMENTS

- Attachment 1: Small Food Enterprise Outreach (SFEO) Report
- Attachment 2: Toronto Restaurant and Hospitality Industry (TRHI) Survey
- Attachment 3: Needs Analysis Table - City Restaurant Supports

Attachment 3: Needs Analysis Table - City Restaurant Supports

Identified challenge/need	Considerations	Example of City program/ initiative that can help address identified challenge
Equitable distribution of City programs / supports – by geography and restaurant type	<p>Program mix</p> <p>Program design (including language of marketing materials, etc.)</p> <p>Importance of working with BIAs and other non-profits supporting restaurants and businesses in different areas of Toronto</p>	<p>FindDining</p> <p>MRR: plazaPOPS</p> <p>Digital Main Street</p>
Workforce development and staffing concerns	Primarily a responsibility of other orders of government	Food handler certification courses
Affordability issues	<p>Inflation (food)</p> <p>Rent increases</p> <p>Insurance</p> <p>Labour Costs</p>	<p>Small Business Property Tax Sub-Class;</p> <p>MRR: Commercial Space Rehabilitation Grant;</p> <p>CaféTO Property Improvement Program;</p> <p>Retail Accelerator Program.</p>
Promotion and marketing	<p>Growth of hybrid work models, dampening customer demand in some locations</p> <p>Varying confidence levels re: Indoor vs. Outdoor Dining</p>	<p>Winterlicious/Summerlicious Program</p> <p>CaféTO</p> <p>City support for third party provided promotion (e.g. Eat More Scarborough Food Tours; Destination Toronto marketing collateral, etc.)</p>