

An appeal

- by -

DSC Hotel Management Systems Ltd.

- of a Determination issued by -

The Director of Employment Standards
(the “Director”)

pursuant to Section 112 of the
Employment Standards Act R.S.B.C. 1996, C.113 (as amended)

TRIBUNAL MEMBER: John Savage

FILE No.: 2007A/64

DATE OF DECISION: September 12, 2007

DECISION

SUBMISSIONS

Ken Honborg, for DSC Hotel Management Systems Ltd.

Glen Smale, for the Director of Employment Standards

Brent Forbes, for Brent Forbes

INTRODUCTION

1. This is an appeal by DSC Hotel Management Systems Ltd. (“DSC”) of a Determination issued by the Director of Employment Standards on May 25, 2007 (the “Determination”) finding that DSC breached the Employment Standards Act (the “Act”) and owed wages to three employees, Brent Forbes (“Forbes”), Robert Harvey (“Harvey”) and Pritpaul Jassal (“Jassal”). The Determination followed an investigation and not a hearing of the issues.
2. Briefly, the circumstances giving rise to the Determination involved DSC seeking to change the status of the three employees from employees to independent contractors after fairly lengthy periods of acknowledged employment. This occurred in the context of a change in the economic fortunes of the company. DSC says that it accomplished this change in status by certain actions that it took. The three employees deny those actions were taken or achieved that result. The Delegate found against DSC on this fundamental issue.
3. In the Determination the Delegate found that DSC was the employer of Forbes, Harvey, and Jassal. The Delegate found that DSC breached the Act by (1) failing to pay each of them regular wages, (2) failing to pay benefits that are wages under the Act, (3) not reimbursing the employers business costs, (4) failing to pay vacation pay and (5) failing to pay compensation for length of service when the employees were terminated.
4. As I have said, the main issue before the Director and in this appeal is whether Forbes, Harvey and Jassal were, for the relevant period, employees or independent contractors. There was conflicting evidence before the Director on some matters. DSC argues in this appeal that the Director should have held an oral hearing at which witnesses could be called and cross-examined.
5. DSC further submits that there were errors in the amounts found to be owing, that the Delegate incorrectly interpreted certain CRA rulings, that the Delegate incorrectly did not consider or offset amounts due DSC from Forbes, Harvey and Jassal. With respect to termination pay, DSC argues that Forbes, Harvey and Jassal, if employees, quit their employment. In making its submission DSC also seeks to introduce new evidence.
6. A further issue arises concerning whether the Tribunal ought to suspend the Determination pending this appeal.
7. The Tribunal determined to hear this appeal by written submissions.

ISSUES

8. Is the evidence DSC seeks to introduce new evidence that can be introduced on appeal under the Act?
9. Did the Delegate err in law or breach the principles of natural justice in not holding an oral hearing of the issues?
10. Did the Delegate err in law and misinterpret the CRA rulings.
11. Did the Delegate err in law in finding that the three employees remained as employees and did not become, during the relevant period, independent contractors?
12. Did the Delegate err in law in finding that the three employees did not quit their employment?
13. Did the Delegate err in law in failing to consider or offset amounts alleged to be due to the employee by the employees?
14. Did the Delegate err in law in determining the amounts due to the three employees?

LEGISLATION

A. Appeal Provisions

15. Appeals to this tribunal are made pursuant to section 112 of the *Employment Standards Act* which reads as follows:
 - 112.(1) Subject to this section, a person served with a determination may appeal the determination to the tribunal on one or more of the following grounds:
 - (a) the director erred in law;
 - (b) the director failed to observe the principles of natural justice in making the determination;
 - (c) evidence has become available that was not available at the time the determination was being made.

16. As an appeal to this tribunal is a statutory right of appeal, the appeal provision is a code and strictly limits the basis of the appeal.

B. Error of Law

17. When an appeal is based on an error of law (section 112(1)(a)) it is not open to an appellant to appeal findings of fact or mixed findings of fact and law.
18. In a number of decisions of the Employment Standards Tribunal, panels have adopted the definition of “error of law” enunciated by the British Columbia Court of Appeal in *Gemex Developments Corp. v. British Columbia (Assessor of Area #12 – Coquitlam)*, [1998] B.C.J. No. 2275 (B.C.C.A.).

19. The *Gemex* case describes an error of law as occurring where the adjudicator:
1. misinterprets or misapplies a section of a statute;
 2. misinterprets or misapplies an applicable principle of general law;
 3. acts without any evidence;
 4. acts on a view of the facts which could not reasonably be entertained; or
 5. adopts a methodology that is wrong in principle.
20. Errors of law are to be contrasted with findings of fact and findings of mixed fact and law. An error of law typically arises where a statutory provision is misinterpreted, or there is an error in legal principle. Mixed findings of fact and law, such as whether a thing falls within the definition of its term, are not reviewable.
21. The weight of evidence, on the other hand, is a matter for the Delegate and is a question of fact, not law: *Ahmed v. Assessor of Vancouver* (1992) BCSC 325; *Provincial Assessors of Comox, Cowichan and Nanaimo v. Crown Zellerbach Canada Ltd.* (1963) 42 WWR 449 at page 471. It is only where a conclusion reached is one that could not reasonably be entertained that an error of law is shown: *Gemex Developments Corp. v. British Columbia (Assessor of Area #12 – Coquitlam)*, [1998] B.C.J. No. 2275 (B.C.C.A.).
22. In considering an issue on appeal it is not necessary that the Tribunal necessarily agree with the conclusion of the Delegate. It is only if no reasonable person, acting judicially and properly instructed as to the law, could have come to the determination that a successful appeal lies on the basis that there has been an error of law: *Delsom Estates Ltd. v. Assessor of Area 11 – Richmond / Delta* (2000), SC 431 (B.C.S.C.), approved in *Britco Structures Ltd.*, BC EST #D260/03.
- C. Breach of Natural Justice**
23. In this case the Delegate conducted an investigation and did not hold an oral hearing. It is alleged that this gives rise to a breach of natural justice.
24. Section 77 of the *Employment Standards Act* relates specifically to investigations under the Act. It provides as follows:
77. If an investigation is conducted, the director must make reasonable efforts to give a person under investigation an opportunity to respond.
25. A Delegate's duties under section 77 have been described in the decision of this Tribunal in *Inshalla Contracting Ltd.* BC EST RD#054/06.
26. An investigation under the *Employment Standards Act*, does not necessarily give rise to the full panoply of natural justice rights arising in a purely judicial context. Indeed, it has been held that the attributes of natural justice may vary according to the character of the decision and the context in which it applies: *Martineau v. Matsqui Disciplinary Board* [1980], 1 S.C.R. 602. In general, the appropriate procedures

will in each case depend on the provisions of the statute and the context in which they are applied: *Downing v. Graydon*, (1978) 29 O.R. (2d) 292.

27. In the case of investigations under the *Employment Standards Act* the duty of fairness will almost invariably require notice to the parties. The general principle is that notice must be adequate in all the circumstances in order to afford those concerned a reasonable opportunity to present evidence and argument, and to respond to the position of the other party. It will also give the parties other opportunities to resolve the dispute with the assistance of the Employment Standards Branch.
28. To participate in the decision making by a public body or public official, individuals must possess sufficient information to enable them to make representations on their own behalf, to effectively prepare their own case and answer the case they have to meet. It is therefore a fundamental element of the duty of fairness at common law that prior notice be given to those entitled to participate in a decision.
29. On the other hand, however, this Tribunal has held that the Director during an investigation should not be placed in a procedural strait-jacket, *Isulpro Industries Inc.*, BC ESTD# 405/98, so there must be an element of reasonableness applied.
30. Section 77 does not mandate a face-to-face hearing or meeting between the Delegate and person under investigation, but it does require that reasonable efforts be made so that the person under investigation is made aware of the allegations and be given a reasonable opportunity to respond: *Re Medallion Developments Inc.*, [2000], BC EST D#235/00.
31. A party to an investigation, may, of course, request a hearing on an issue, and in such case the Delegate, if a hearing is denied, should give reasons for the denial.

D. New Evidence

32. The Appellants also appeals arguing that they have new evidence.
33. Section 112(1)(c) of the Act provides a right of appeal where a party has evidence that “has become available that was not available at the time the determination was being made”. In deciding whether the Tribunal should receive new evidence on appeal the Tribunal noted in *Re Merilus Technologies Inc.*, [2003] BC EST #D171/03 that it has been guided by the test applied in civil courts for admitting fresh evidence on appeal.
34. The test for admitting fresh evidence on appeal involves the consideration of the following factors: (1) whether the evidence could, with the exercise of due diligence, have been discovered and presented to the Director during the investigation or hearing (the “Due Diligence Requirement”), (2) the evidence must be relevant to a material issue in the appeal (the “Relevancy Requirement”), (3) the evidence must be credible in the sense that it is reasonably capable of belief (the “Credibility Requirement”), and (4) the evidence must have high probative value, in the sense that, if believed, it could, on its own, or when considered with other evidence, have led the Director to a different conclusion on a material issue (the “Probative Value Requirement”).
35. If all of these factors are not met, the evidence cannot be adduced.

DISCUSSION & ANALYSIS

36. In light of the multi-faceted nature of the appeal it is logical to deal first with the question of whether there is new evidence that should be admitted. If such is the case that would often result in the requirement for a new hearing. If this ground fails, it makes sense to then consider the nature of the investigation and whether there was a breach of natural justice in the course of it. Again, if such is the case, the Determination would be set aside and the matter remitted. Finally, if the other appeal grounds fail, the Tribunal should consider whether the Delegate erred in law. If it did not, then the Determination stands.

A. Is There New Evidence?

37. DSC argues that the Director failed to consider what it calls “crucial new evidence” pertaining to the primary issue, whether the three employees became consultants or remained employees.

38. The evidence that is referenced is a finding of a third party described as a senior trust examiner of CRA. The evidence apparently relates to the third parties’ finding that “The parties were aware of the change in status and were responsible for their own remittances”. The finding was made during the payroll audit of DSC completed in August 2006. In this case the determination of the Director was made May 25, 2007.

39. DSC also references evidence that will become available following discovery proceedings in its appeal to the Tax Court of Canada of a CRA ruling that found the three employees to be employees.

40. In my opinion, none of this evidence qualifies as new evidence “that has become available that was not available at the time the determination was being made”. With respect to the finding of the senior trust officer, it appears clear that this reported finding, is something that occurred in 2006, well before the Determination in this appeal. In fact, DSC referenced this finding in its letter on February 19, 2007 to the Delegate and included other documents that it said supported its position.

41. The evidence is not new and was presented to the Delegate. In fact, it was presented to the Delegate by DSC.

42. Moreover, the findings of a third party, based on whatever information was before such third party, are not particularly probative without reviewing all the information that was before such third party. Since all that information concerns information provided in August 2006, it would have been available to DSC prior to the Determination, and is not and does not qualify as new evidence within the meaning of section 112(1)(c).

43. The second kind of evidence that is sought to be admitted is new evidence that will become available following discovery. This evidence does not currently exist but may exist in the future. In my opinion such prospective evidence cannot ground an appeal under section 112(1)(c). Moreover, this submission misapprehends the nature of proceedings before the Director and this Tribunal.

44. Investigations and hearings under the Act are designed to be fair but expeditious ways of resolving mostly monetary issues between employees or former employees and employers. Indeed, section 2(d) describes as a purpose of the Act “to provide fair and efficient procedures for resolving disputes over the application and interpretation of this Act”.

45. In my opinion, it generally would not serve the purposes of the Act to defer decisions or wait for them to be based on decisions made or evidence to be gathered in other forums. The Act confers a special jurisdiction on the Director and this Tribunal to determine certain employment disputes. This jurisdiction is, in some cases, concurrent with or perhaps overlaps the jurisdiction of the courts or even other tribunals. In most cases deferring these decisions would be an abdication of the responsibilities the Act imposes on the Director, and a breach of the promise it holds out to employees and employers for there to be fair but expeditious determinations of disputes.

46. Determinations of the Director must be based on the evidence that is presented to the Director. Evidence to be gathered in future proceedings does not qualify as new evidence for the purposes of founding an appeal under section 112(1)(c) of the Act.

47. This ground of appeal fails.

B. Breach of Natural Justice

48. As I read the submissions, DSC alleges a breach of natural justice because an oral hearing was not held and because "...the director incorrectly concluded that the CRA had determined the parties were considered to be employees".

49. With respect to an oral hearing, I have noted that section 77 of the Act does not require an oral hearing. What is important is that the parties know the case they have to meet and are able to respond to the evidence and information supplied to the Director. The Delegate in his Determination sets out the procedure adopted that includes a letter detailing the allegations of the three complainants, and explanation of the role of the Director, and requested responses.

50. DSC was also granted an extension to submit information. Meetings were held individually and with the parties. On August 22, 2006 the Delegate sought information from DSC concerning, amongst other things, DSC argument that the employee's status had changed from employees to consultants. After attempts at resolution failed, the Delegate again sought information on December 8, 2006 on DSC's position that the employees had become consultants. Indeed the Delegate noted:

"In the matter concerning the November 2005 move to consultant status, you previously mentioned there may be supporting documentation regarding the complainants being made aware of this and consequences flowing from this change. If it is available, now is the time to submit that evidence."

51. DSC responded with lengthy submissions and documents in their letter of February 19, 2006.

52. With respect to the lack of an oral hearing, in my opinion the Delegate gave the parties ample opportunity to produce evidence and make submissions concerning their respective positions. DSC took advantage of those opportunities and made their submissions and produced documents. Moreover, as noted by the Delegate, DSC did not request an oral hearing. In my view, there was no breach of natural justice in the Delegate conducting an investigation instead of holding an oral hearing.

53. DSC also suggests that the Delegate breached natural justice in referencing various CRA rulings. It seems that this submission is grounded on the fact that DSC has appealed the CRA ruling. In my respectful view, no breach of natural justice arises from the Delegate's reference to the CRA rulings.

54. The proceedings before CRA formed part of the submissions that DSC made to the Delegate. The rulings of CRA are facts. So is the appeal, but an appeal does not vacate a finding made from the body whose decision is appealed. Only a successful appeal does that.
55. That said, the Delegate did not simply adopt those rulings which found against DSC on the fundamental issue of whether the three employees were employees or independent contractors. Instead, as I read the Determination, the Delegate made his independent determinations based on the evidence before him. He was correct in doing so, as discussed in various decisions of this tribunal: *Re Lentz*, BCEST #D072/07, *Re Kit International Transport Inc.*, BCEST #D049/0, *Re Beitel*, BCEST #D152/01, *Re International Paper Industries Ltd.*, BCEST #D276/03.

C. Employees or Independent Contractors?

56. The question then arises, did the Delegate err in law in determining that the status of the three employees remained that of employment and was not converted to that of independent contractors.
57. This issue arises in the context of some disputed evidence. DSC said it met with the employees and because of economic circumstances told them they would be consultants or otherwise be self-employed. The employees agreed to wage reductions and a change in status instead of being laid off. Nothing in writing was produced to confirm this meeting took place to create a change in employment status. DSC produced some documents to show that it began to treat the employees as independent contractors, such as endorsing their cheques with the term “consulting”, invoicing, cessation of CRA remittances, etc. DSC says that the former employees were also working for third parties.
58. The employees deny this occurred. They indicated that they were told about an economic downturn but were promised that their salaries would be made up. A similar situation occurred in 2004 and the differences in salaries were repaid. The employees say that they continued to perform the same work for the same company at the same location and had the same working hours. The three employees denied working for any other employers. There are inconsistencies in the employer’s documents. For example, a December invoice purportedly issued by Harvey was for the month of November, but Harvey had already been paid his salary for that month. The consulting fee purports to be for \$5000 for a month but his salary was less than that.
59. The Delegate in analyzing this evidence considered what the employees did as opposed to merely considering what it was asserted the parties said. In doing so, he considered the Control Test, the Fourfold Test, the Integration Test, the Permanency Test, the Specific Result Test, and the Economic Reality Test and the provisions of the Act. In considering the conflicts in evidence the Delegate analyzed them with a view to testing them against the probabilities inherent in circumstances. In doing so, he effectively applied the dicta of our Court of Appeal in *Faryna v. Chorney*, [1952] 2 D.L.R. 354:

The credibility of interested witnesses, particularly in cases of conflict of evidence, cannot be gauged solely by the test of whether the personal demeanor of the particular witness carried the conviction of the truth. The test must reasonably subject the story to an examination of its consistency with the probabilities that surround the currently existing conditions. In short, the real test of the truth of the story of a witness in such a case must be its harmony with the preponderance of probabilities which a practical and informed person would readily recognize in that place and those circumstances.

60. While the Delegate did not have sworn testimony, he had the unsworn evidence of the parties. In any event, issues of credibility and the weight to be given evidence are questions of fact, not law: *Gemex Developments Corp. v. British Columbia (Assessor of Area #12 – Coquitlam)* (1998), 62 B.C.L.R. (3d) 354 (C.A.); *Re Britco Structures Ltd.*, [2003] B.C.E.S.T.D. No. 260 (QL), BCEST #D 260/03.
61. In this case the Delegate found the evidence of the employees to be more reliable or credible than that of the employer. As I review the evidence and the conclusions of the Delegate the evidence supported his conclusion.
62. Moreover, the Delegate found that, "...even if I had accepted the employer's documents (invoices, ROE, etc.) as being credible /reliable, I would nevertheless arrive at the same finding...", namely, that three employees continued as employees and did not become independent contractors. That is because, despite what an employer and an employee might call a relationship, and how they might reference it in the documents they produce, it is the actual relationship that must be analyzed to determine whether it is one of employment or one of an independent contractor.
63. For example, this Tribunal has held that the existence of an employment relationship does not depend on the intention of the parties, but should be determined based on an analysis of the actual relationship: *Re Hantula*, BCEST #D277/97, *Re Vitality Products Inc.*, BCEST #D322/98, reconsideration dismissed BCEST #D548/98. Nor does it depend on the form of or label of the agreement: *Re Calvin E. Lee*, BCEST #RD491/01. To determine the nature of the relationship this Tribunal will look behind the form of the agreement and the language of the agreement to determine the true nature of the relationship: *Re North Crescent Cranberries Ltd.*, BCEST #D236/96.
64. In this case, applying the accepted tests for determining an employment relationship, the Delegate held that the three employees continued as employees despite the disputed evidence, based on the actual nature of the relationship. The Delegate did not err in law in so doing.

D. Quit or Dismissal

65. A further issue arises, namely, whether the employees quit or were dismissed. The argument that the employees quit arises because they advised the employer that they would not be at their employment and then attended at the Employment Standards office to complete self-help kits when they were not paid. On presenting these to the employer the next day it was alleged that they had quit their employment.
66. I agree with the conclusion of the Delegate. After employment of substantial duration, in some cases many years, it was open to the employees to seek advice on this issue. Moreover, the position of DSC is perplexing here, since in other places it asserts that the three employees could keep their own hours. If that were the case then how could telephoning their place of employment to say they would be absent from their usual place of work for one day give rise to an inference that they quit their employment? It cannot.
67. There is no merit in this ground of appeal.

E. Offsets or Counterclaims

68. DSC claims that it overpaid the employees in previous pay periods. It also says that the employees have certain assets belonging to DSC and DSC should be able to deduct the value of such things from the amounts due. The employees denied these allegations.
69. Section 21.(1) of the Act provides that, “except as permitted or required by this Act or any other enactment of British Columbia or Canada, an employer must not, directly or indirectly, withhold, deduct or require payment of all or part of an employee’s wages for any purpose”. The plain meaning of this provision is that deductions from wages must be authorized by an enactment. A review of the Act and Regulations does not reveal any authorized deductions for past overpayments. DSC does not suggest that any other enactment authorizes a deduction from wages for past overpayments.
70. With respect to alleged past overpayments, the deduction of past overpayment of wages was characterized by McEachern C.J.S.C. as “aggressive self-help”. In *Health Employer’s Association of BC v. BC Nurses’ Union*, 2005 BCCA 343, Finch, J.A., speaking for a unanimous 5 member panel of the Court of Appeal approved that description. He said:

[64] The employer submits that the arbitrator read s. 21 as prohibiting an employer from ever recovering an overpayment from an employee. It says that s. 21 prohibits deductions of employees’ “wages” and that the arbitrator’s interpretation of s. 21 is based on the mistaken assumption that recovery of an overpayment constitutes a deduction of “wages” under the Act. The employer says that since “wages” are monies paid or payable for work, an employer is not obligated to pay money as wages if the employee has not worked to earn that income.

[65] These submissions on “wages” are misplaced. Whatever the reasons a past overpayment may have been made to an employee, and no matter whether that overpayment was “wages,” s. 21 says that “an employer must not, directly or indirectly, withhold, deduct or require payment of all or part of an employee’s wages for any purpose” [my emphasis]. “For any purpose” includes the purpose of reimbursing the employer for the overpayment, regardless of the reason for the overpayment. In *Prins, supra* (at para. 1), McEachern C.J.S.C. (as he then was) characterized the provision as an absolute requirement with certain permissible exceptions. He said unilateral deduction of an overpayment of wages was not a permissible exception. It was “aggressive self-help.”

[66] In this case the arbitrator stated at p. 33 of her award:

The Union is entitled to a declaration that the Employer is prohibited from unilaterally recovering overpayment of wages from the wages of its members unless that right is expressly authorized by statute or the collective agreement, or is consented to by the member.

[Emphasis added]

[67] The arbitrator’s ruling does not prohibit the employer from ever recovering an overpayment from an employee. The arbitrator interpreted s. 21 as prohibiting the unilateral recovery by the employer in all but certain excepted circumstances. The employer is still able to recover overpayments from employees where that employee agrees to the deductions, or where a statute or collective agreement expressly authorizes the employer’s unilateral action. Where no such agreement or statutory authorization exists, the employer has the option of recovering overpayments in other ways such as pursuing a grievance, or bringing a claim against the employee.

[68] The arbitrator did not err in her interpretation of s. 21.

71. I am bound by and agree with this interpretation. The Delegate did not err in law in finding that any alleged past overpayments could not be deducted from wages.
72. With respect to the value of articles allegedly taken or missing and said to be the responsibility of the employees, the Act and other enactments do not authorize such deductions. The Tribunal has held, for example, that deductions are not authorized because an employee allegedly retained computer equipment: *Re Hua Mei (Canada) Overseas Investment Ltd.*, BCEST #D366/97; or tools and manuals: *Re A-AAA Consumer Electronics Ltd.*, BCEST #D361/96; or a company fax machine: *Re Ultra Clean Building Maintenance Ltd.*, BCEST #D454/97; or money lost or stolen: *Re Vancast Investments Ltd.*, BCEST #D010/96, *Re Gold Dollar Holdings Ltd.*, BCEST #D080/98.
73. Section 21 of the Act is designed to ensure that employees are paid their wages and to prevent what McEachren, C.J.S.C., as he then was, described as “aggressive self help” by an employer. While in commercial contractual disputes deducting offsetting claims may be appropriate, in the employment context the Act recognizes that the payment of wages in most cases represents the livelihood of the employee. There is in most situations unequal bargaining strength in the relationship. There is another forum where such disputes can be adjudicated. DSC is not prevented from having these allegations adjudicated in another forum, however, this ground of appeal fails.

F. Miscalculations

74. DSC’s argument regarding miscalculations is based on new material it provided with its submission. It is not suggested that there are calculation errors but rather the amounts due are asserted to be incorrect. None of the new material submitted, however, qualifies as new evidence that can be admitted in this appeal pursuant to the tests enumerated above. Moreover, some of the information should have been submitted when DSC received the Demand for Employer Records. It was not submitted then and it would be wrong to receive it now for the first time on appeal.
75. In any event, as I understand the findings of the Delegate, given the incomplete and at times contradictory nature of the employer’s documents, it preferred the evidence of the employees. That is a finding of fact. There is no merit in this ground of appeal.

G. Administrative Penalty

76. Once the Act has been found to be breached imposition of the administrative penalties is mandatory. DSC argues with respect to the Demand for Employer Records that it complied with such demand. DSC, however, in its submission in this appeal has provided further records that were not originally produced. Moreover, as noted by the Delegate, the payroll records were not properly produced.
77. With respect to the other contraventions, these follow from the findings of the Delegate on the substantive issues discussed above.
78. The administrative penalties are mandatory in these circumstances.

SUSPENSION REQUEST

79. As I have determined the appeal and upheld the Determination, the application to suspend the Determination under section 113 of the Act is not apposite: *Re Swiftsure Taxi Co. Ltd.*, BCEST #RD007/02, *Re Pimm Production Services Inc.*, BCEST #RD030/02. The suspension request is denied.

SUMMARY

80. There is no merit in the appeal. As the contraventions of the Act are supported by the evidence and reasons of the Delegate, the administrative penalties are properly imposed.

ORDER

81. Pursuant to section 115 of the Act, I confirm the Determination of the Delegate.

John Savage
Member
Employment Standards Tribunal