



# AGREEMENT ON PRINCIPLE

Submission to the House of Commons Standing Committee on Human Resources Regarding the Labour Market Development Agreements

### **About the Ontario Chamber of Commerce**

The Ontario Chamber of Commerce (OCC) is an independent, non-partisan business network. Our mission is to support economic growth in Ontario by advocating for pro-business policies and defending business priorities at Queen's Park.

For more than a century, the OCC has been providing our members with practical supports, advantageous network opportunities, and access to innovating insight and analysis.

We represent local chambers of commerce and boards of trade from communities across Ontario. Through this network we are the voice of 60,000 members that range from small businesses to major corporations and industry associations. Together, our members employ two million people and produce nearly 17 percent of Ontario's GDP.

The OCC is Ontario's business advocate.

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Hon. Jason Kenney  
Minister of Employment and Social Development  
House of Commons  
Ottawa, Ontario  
K1A 0A6

June 26, 2014

Dear Minister Kenney,

The Ontario Chamber of Commerce (OCC) and its network of 60,000 businesses welcome the opportunity to present our recommendations to the Standing Committee on Human Resources, Skills, Social Development and the Status of People with Disabilities, with regards to the upcoming renegotiation of the Canada-Ontario Labour Market Development Agreement (LMDA).

Getting national and provincial labour market policy 'right' is a core priority for the OCC and a key component of our five-year economic agenda for Ontario, *Emerging Stronger*.

The renegotiation of the LMDA comes at a critical time. Ontario faces an array of labour market challenges. Provincial unemployment is above the national average, and yet, our members are having trouble filling job vacancies.

While we recognize that there is room for improvement in the design and delivery of provincial programs, we believe that the federal government has an important role in ensuring that these programs effectively address the labour market needs of Ontario's employers.

Thank you,



**Allan O'Dette**  
*President and CEO*  
*Ontario Chamber of Commerce*



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*cc: Members of the Standing Committee on Human Resources, Skills, Social Development and the Status of People with Disabilities*

# INTRODUCTION

The Government of Canada provides funding to provinces and territories for skills and employment programs through a variety of avenues with varying objectives, conditions, and targeted populations. By far, the largest and most important pool of funding for skills and employment programs in Canada is linked to the Employment Insurance (EI) system through federal-provincial/territorial Labour Market Development Agreements (LMDAs). Every year, LMDAs flow \$1.95 billion in funding to provincial and territorial governments for the purpose of designing, delivering, and managing employment services under EI Part II. The majority of EI Part II services are accessible to current or recent EI clients.

The responsibility for EI Part II services was devolved to the provinces and territories through the LMDAs beginning in 1996. The Canada-Ontario LMDA was signed in 2007 without a set expiry date. In its 2013 Economic Action Plan, the Government of Canada committed to renegotiating the Canada-Ontario LMDA.

Ontario faces an array of labour market challenges. Provincial unemployment (7.3 percent) is above the national average (7 percent). The province continues to have one of the highest youth unemployment rates in the country. At the same time, however, OCC survey data reveals that 28 percent of businesses in Ontario had difficulty filling a job opening throughout 2013 due to a lack of skilled applicants (see Appendix for more information).

The overarching goal of the Canada-Ontario LMDA renegotiation process should be to address the province's distinct labour market challenges. In this spirit, the Ontario business community has identified three problems with the current Canada-Ontario LMDA:

First, the current LMDA allocation formula is unprincipled, resulting in a significant shortfall in the portion of funds that flow to Ontario.

Second, EI criteria under the LMDA framework are too restrictive and do not reflect Ontario's labour market realities.

Third, there is insufficient collaboration between governments in labour market policy, leading to policy incoherence and turf battles that have a negative impact on employment outcomes.

The OCC recommends the following steps to help remedy these challenges and guide the Government of Canada's approach in renegotiating the LMDAs. We believe that these changes will make federal training supports more responsive to Ontario's labour market realities, and assist employers in meeting their labour needs.

**Step 1.** Ensure a principled allocation formula of EI Part II funds.

**Step 2.** Provide more flexibility in client eligibility to better reflect Ontario's diverse labour market realities.

**Step 3.** Negotiate intergovernmental framework for enhancing all labour market information and aligning performance measures across government funded employment services.

# STEP 1 ENSURE A PRINCIPLED ALLOCATION FORMULA

## Challenge

The current LMDA framework lacks a principled funding formula. LMDA funding is largely tied to EI eligibility, which varies region-to-region and province-by-province. The bulk of LMDA funding is allocated to programs available to those clients who are or have recently accessed EI Part I (under Employment Benefits). Due to EI eligibility rules, Ontario has a comparatively low percentage of the population that is able to access EI relative to other provinces (see chart).<sup>1</sup>

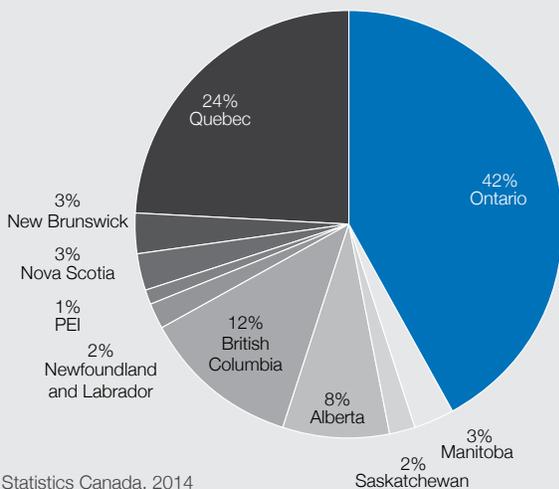
A second variable in the EI Part II allocation formula further disadvantages Ontario. As highlighted by the Mowat Centre, “[o]ne of the main reasons for the skewed distribution is that \$800M of the total funding commitment for the LMDAs is allocated between provinces based on the relative impact on different provinces of EI reforms in 1996, the same time that the federal government shifted most of its training funding out of regular spending and into the EI system” (Mendelsohn, 2014).

The net result of Ontario’s insufficient EI coverage and the frozen allocation of EI Part II funding distribution is that Ontario remains significantly shortchanged on training dollars. Ontario received approximately \$254 million less in 2013-14 than it would have received on a per unemployed basis.

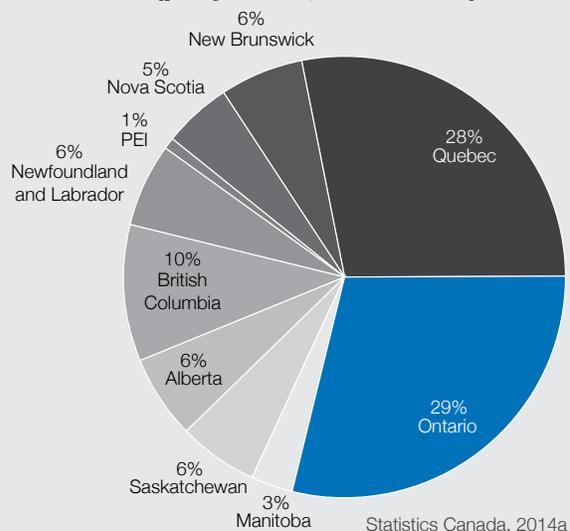
## Solution

Ontario employers feel strongly that a new LMDA framework must include a principled allocation formula for the provinces that factors in local unemployment levels and local employment dynamics.

**Percent of Total Unemployment by Province (Jan. 2014)**



**Percent of Total EI Beneficiaries by Province (projected, Jan. 2014)**



## STEP 2

# PROVIDE MORE FLEXIBILITY IN CLIENT ELIGIBILITY TO BETTER REFLECT ONTARIO'S DIVERSE LABOUR MARKET REALITIES

### Challenge

Each provincial labour market is diverse and has its own set of unique labour market challenges. This reality informed the original decision to devolve labour market policy and program delivery to the provinces and territories through the LMDA. As noted by the federal government when pursuing the original LMDAs, “provinces and territories are best placed to design and deliver this programming” (Department of Finance Canada, 2007, p. 131).

Ontario's labour market context presents unique challenges and opportunities. The province faces a 'labour market paradox' – employers are clamouring for workers, yet there are pockets of high unemployment and underemployment. Meanwhile, Ontario's working age population, as a share of the total population is expected to decline by nearly 9 percent between 2011 and 2036 (Ontario Ministry of Finance, 2012).

In Ontario, groups with precarious labour market attachment (Aboriginal, newcomers, persons with disabilities, women, and older workers) typically do not qualify for EI (Part I and II). The services that are available to them, provided under 'Support Measures', are less structured and lack a targeted approach. Yet, these groups will be the foundation of Ontario's future labour market growth. The province consistently receives the largest proportion of newcomers to Canada, and is home to over 20 percent of Canada's total Aboriginal population. As highlighted in the OCC's five year policy agenda, *Emerging Stronger*, capitalizing on the untapped potential of vulnerable groups is paramount to building a 21st century workforce.

The Government of Canada currently views LMDA-funded training programs as a means to generate EI Part I savings by providing employment services and training to EI clients in order for them to secure employment. However, strictly focusing on generating EI Part I savings does not address Ontario's most pressing labour market challenges. More flexibility in eligibility criteria would also ensure unemployed Ontarians, including those precariously attached to the workforce, have access to critical employment services.

### Solution

The renegotiated LMDA framework should include more flexibility with respect to client eligibility to better reflect Ontario's labour market realities, including the high proportion of workers with precarious attachment to the labour force.

## STEP 3

# ENHANCE INTERGOVERNMENTAL COLLABORATION

### Challenge

The OCC and its members believe that employment and training services at the provincial level need to be refocused to ensure closer alignment between programming and employer needs. We also recognize that businesses need to play a greater role in the training space. To that end, the OCC has been an active stakeholder in the renegotiation of the 2014 Labour Market Agreements (LMAs) and the design of the Canada-Ontario Job Grant. The OCC has partnered with the Government of Ontario to make sure that the newly introduced Canada-Ontario Job Grant works for employers. The results of these consultations are forthcoming.

However, there is considerable scope for enhanced intergovernmental collaboration. Currently, insufficient labour market information limits effective funding, program design and delivery. As emphasized by TD Economics, “[w]hen it comes to labour market information, we are currently operating in a data vacuum and flying in the fog without instruments” (Burleton et. al., 2013, p.42). The federal and provincial governments, with the input of business and the postsecondary sector, must land on a definitive set of labour market data. This should be an intergovernmental priority.

Secondly, the data that does exist is not shared between governments. For example, provinces and territories do not currently have access to the postal codes and National Occupational Classification (NOC) codes for EI recipients. Information regarding which regions and occupations are experiencing changes in employment would enable provincial governments to build more responsive training programs.

Lastly, labour market policy and programs suffer from a lack of common and accurate performance measures linked to employment outcomes and labour market attachment. Based on existing metrics, it is difficult to evaluate program effectiveness.

### Solution

The Government of Canada and the provinces and territories should collaborate to establish a new governance framework to address deficiencies in the quality and sharing of existing labour market information. Both levels of government should also strive to adopt a common and accurate set of performance measures that can be applied to all government-funded employment services.

# CONCLUSION

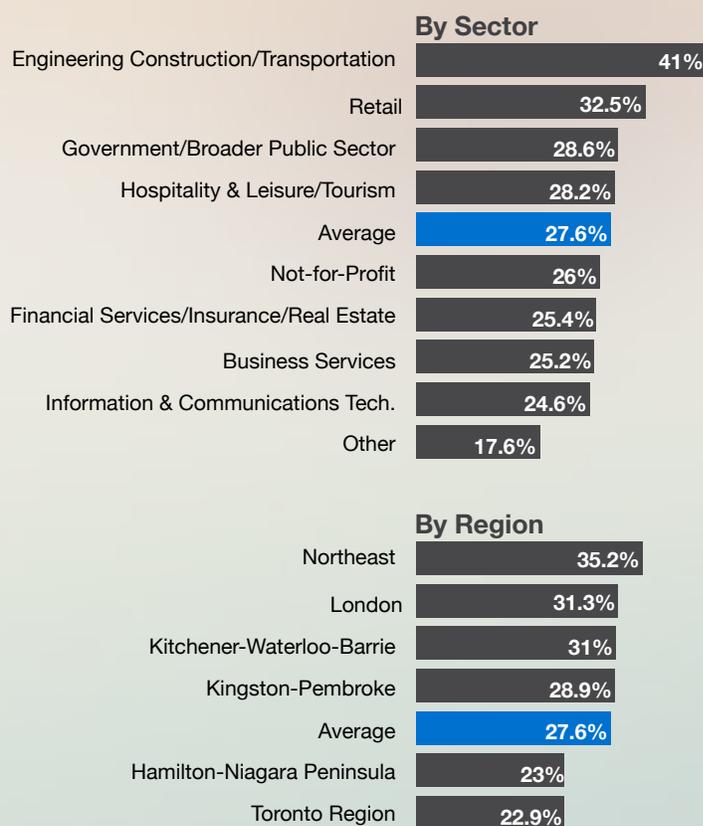
This submission identifies three challenges and the critical steps that must be taken in order to improve the Canada-Ontario Labour Market Development Agreement. We believe that our recommendations will make funding for training and employment services more responsive to provincial labour market realities, and more effective at improving employment outcomes for Canadians.

# ENDNOTES

<sup>1</sup> In 2013, the Government of Canada introduced the Variable Best Weeks system for determining EI Part I eligibility, with the goal of restructuring EI eligibility to better reflect regional labour market realities. While this measure holds potential for correcting some of the imbalances in the EI program, evidence of its success is pending.

# APPENDIX: THE SKILLS SHORTAGE IN ONTARIO

In January 2014, we asked our members whether they had difficulty filling a job opening over the previous 12 - 18 months due to the fact that they could not find someone with the right qualifications.



Source: OCC Quarterly Policy Survey, February 2014 | N=987

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