

Rebalancing the System

Seven Tactics to Reduce Tax Barriers and
Enhance Training in Toronto

Andrea Demchuk

May 2000

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Written by Andrea Demchuk for the Toronto Training
Board

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Message from the Author

Given that this project has been a group effort in the best sense of the term, grounded in goodwill, open communication and informed discussion, it would be unfair of me to single out any member of the Board, staff or Working Group for individual recognition. Similarly, public servants, staff of partner agencies and fellow researchers in the labour market field were uniformly forthcoming with their time and knowledge. But special mention must be made of the critical extent to which working as a research assistant to Evert Lindquist, now Director of the University of Victoria's School of Public Administration, developed my research skills in public administration and policy—research skills necessary to any attempt to make a complex topic such as tax policy comprehensible.

Executive Summary

The last quarter of the 20th century brought worldwide economic transformation. Toronto's economy is a microcosm of this transformation. Economic growth in Toronto is now concentrated in the knowledge-intensive end of the service sector. This has had profound implications for business, workers and government.

- The business environment has become extremely competitive. For businesses to thrive in this information-oriented economy, they must ensure their personnel are appropriately skilled. **In Toronto in the 21st century, businesses need a skilled work force to remain viable.**
- Up-to-date skill sets have become essential to employability. Workers without ongoing access to skills enhancement are limited to marginal and precariously held work. **In Toronto in the 21st century, training is critical to both securing and keeping jobs.**
- The policy focus of government at all levels has shifted from social to economic issues. The primary focus of governments has turned to creating a good environment for investment. **In Toronto in the 21st century, governments will be most responsive to tax and fiscal policy recommendations that recognize the positive relationship between training and economic growth.**

In Toronto, each level of government is active in the training field. Access to training opportunities varies across the work force with two stark trends emerging:

- Workers who are most frequently trained are those who are highly paid, skilled or educated; those in professional or managerial occupations; and those in the service-producing portion of the public sector.
- Workers in small companies; workers in low-wage, low-skill, blue collar or clerical positions; and unemployed Canadians have the fewest training opportunities, despite their need to develop the skills that are more critical to employability.

Two-tiered access to training is reinforced by government tax and fiscal policies which either:

- impose tax penalties on workers who are enhancing and broadening their skills to meet the requirements for their continued employability, or
- by tightening eligibility for programs and by reducing the opportunities within these programs, severely limit the opportunities for unemployed and marginally employed workers to improve their employability through skills development.

In short, those Torontonians most in need of training are least likely to have training opportunities. The following recommendations have been developed as a move to redress this imbalance.

Recommendations

The Toronto Training Board recommends

1. that the City of Toronto amend its fair wage schedules to mandate that its contractors support training opportunities for all workers;
2. that policy makers review the extent to which policies to lower the number of OSAP defaults have affected the supply of training opportunities for people with low incomes;
3. that reachback eligibility be expanded to include a) workers who have been enrolled in English-as-a-second-language (ESL) or literacy courses within the past three years and who have not been enrolled in other full-time education or training for two or more years; b) workers who have been underemployed for two or more years and who have not been enrolled in full-time education or training for two or more years (with the exception of ESL or literacy courses); and c) workers who have been home with children for five or more years and who have not been enrolled in full-time education or training for two or more years (with the exception of ESL or literacy courses);
4. that Skills Development Employment Benefit (SDEB) tuition funds should not be classed as a taxable benefit for the recipient;
5. that Registered Retirement Savings Plan (RRSP) contributions from severance or buyout packages should be exempted from the Lifelong Learning Plan 90-day rule;
6. that employer-sponsored, non-recreational skills enhancement should not be a taxable benefit for the worker; and
7. that small businesses be given tax credits for training costs.

1 Background

The Toronto Training Board's initiative on tax and fiscal policy disincentives to training in Toronto was made a priority for action in the Board's 1998/99 strategic plan.¹ This was a research and advocacy project on the ways in which tax and fiscal policies presented barriers to individuals pursuing training, hindered training investment by business (especially small business) and favoured some training providers over others. In the fall of 1999, the Board assembled a working group of Board members, staff and interested volunteers to commission research and act publicly on these findings to remedy these disincentives to training.

The researcher/report writer was retained in January 2000 with a mandate to draft a report for the Board by April 26, 2000. This report is a consensus document developed by the researcher/report writer in consultation with the working group, the Board and the Board's planning committee. Findings and recommendations were developed and reviewed in detail in a series of five working group meetings from January to April 2000.

The Toronto Training Board is made up of people with deep convictions about training needs, training programs and information, research, access and advocacy issues related to their constituencies. This report and its recommendations represent a consensus among the labour market partner groups on the Board (i.e. business, labour, educators/trainers, persons with disabilities, visible/racial minorities, women and Francophones) and represent the Board's commitment to the various issues on training, adjustment and employment in the city. For more information on the mandate and composition of the Board, see Appendix A.

The recommendations and information in this document is intended for serious consideration by all levels of government in their planning and policy development initiatives. By sharing this document with community partners and government sponsors, the Toronto Training Board hopes to encourage dialogue and action on training and employment issues in order to improve the economy and the quality of life in Toronto.

Tax and Fiscal Policy Disincentives Working Group

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¹ *Toronto Training Board 1998/99 Strategic Plan* (Toronto: Toronto Training Board, 1999), pp. 2–3.

2 The Environment for Training in Toronto

2.1 Why Train in Toronto?

Two streams of public policy, economic and social, emphasize the utility of training in the contemporary Canadian economy. An approach to economic policy that focuses on innovation-led economic growth views the maintenance of a highly skilled labour force through training a necessary input and, in the service sector, as *the* hallmark of innovation.² In social policy, training is seen as necessary to keep workers employable when the economy undergoes structural adjustment.³

The two approaches converge on the recognition that the Canadian economy has become more knowledge- and technology-based in recent years, but diverge on policy strategies to achieve their differing, albeit related, desired outcomes. Economic-policy makers view the presence of innovative, economically healthy firms in the marketplace as policy success, while social-policy makers place a greater emphasis on sustainable employment. And from these desired outcomes, policy remedies diverge. Both approaches are of particular significance to Toronto's economy, where from 1981 to 1996 there have been wholesale changes in the composition of the work force (due in large part to Toronto being the urban centre most attractive to newcomers to Canada⁴) and in industry share⁵ away from a concentration in manufacturing. Employment and industrial growth are now concentrated very much in the service sector, and sustaining employment is most likely found in the knowledge-intensive part of the service sector.

Public policy toward training in Canada is multi-faceted, spans all levels of government and uses a complex market-based model.⁶ Within this complex market, the opportunities for and incidence of training correlate strongly with levels of income, pre-existing skills and position in the work hierarchy. Consequently, the process of skills adjustment is not as responsive to economic structural changes as would be optimal. Tax and fiscal policies shape the structure of this market and have tended to re-enforce the skills gap.

² John Baldwin, *Innovation, Training and Success*, Analytical Studies Branch Research Paper Series No. 11F0019MPE No. 137 (Ottawa: Statistics Canada, October 1999).

³ Derek Hum and Wayne Simpson, "Training and Unemployment" in Ken Battle and Sherri Torjman, eds., *Employment Policy Options* (Ottawa: Caledon Institute of Social Policy, 1999).

⁴ Statistics Canada, *1996 Census* (Ottawa: 1998).

⁵ Meric Gertler, "The Changing Structure of Toronto's Regional Economy" (Address to the Intergovernmental Committee for Economic and Labour Force Development [ICE], Toronto, January 18, 2000).

⁶ Canada, Advisory Council on Science and Technology, *Stepping Up: Skills and Opportunities in the Knowledge Economy* by the Expert Panel on Skills (Ottawa: Industry Canada, 2000); Gordon Betcherman, Kathryn McMullen and Katie Davidman, *Training for the New Economy—A Synthesis Report* (Ottawa: Canadian Policy Research Networks, 1998).

Recommendations will serve to remedy those aspects of existing tax and fiscal policies that contribute to these distortions in the Toronto training market.

2.2 The Context for Training in Toronto

Each level of government offers programs and makes policies that shape the delivery of training to the work force. This section reviews government involvement in the Toronto training market at the municipal, provincial and federal levels.

Municipal policies and programs—Toronto

At the municipal level, any full discussions of disincentives to training must necessarily consider linkages to the City's economic development and social service programs and policies and the impact of property taxes on employment prospects. Any such discussion must also be mindful that the range of actions the City can take on most policy, legislation and revenue issues are much more limited than the provincial or federal governments—as a result, most successful City initiatives will involve partnerships with other levels of government, business, community groups or unions.

Sector Development & Strategic Partnerships Group

The Sector Development & Strategic Partnerships Group⁷ of the Business Development & Retention Section of the City's Economic Development Division works with business sectors whose economic activities and prospects are recognized as having a good fit with the long-range goals of the Economic Development Division, have good potential for investment and job creation, comprise enough companies to make the City's involvement worthwhile and hold unique qualities or comparative advantages across Toronto. The sectors provided with these services in 1999 were food, beverage and packaging; medical and biotechnology; tourism; fashion and design; and information technology and telecommunications (IT&T) and new media. Staff in this unit survey existing businesses to discover what "valued-added" supports they would like from the City, link with and play leadership roles in sector trade associations, facilitate export opportunities, identify gaps in business infrastructure and competitiveness issues and, where necessary, advocate on these issues to senior governments. Training-related activities include workshops on export development, a specialty-food small business training course, a general-food training program, the Special Food Industry Network, guidance for entrepreneurial initiatives in biotechnology, a number of fashion training initiatives and identifying Toronto's exceptional educational programs as providing a competitive advantage for Toronto in the IT&T sector.

⁷ City of Toronto, "Staff Report—1999, Second Quarter, Business Development and Retention Client Activity" in *Minutes of the Economic Development and Parks Committee* (November 29, 1999).

More generally, the City's Economic Development Division is undertaking an economic competitiveness study⁸ of 10 clusters of industries that produce goods or services for export enhancing the City's income and revenue base and creating durable economic linkages. The clusters are aerospace, apparel, autos, biomedical and biotechnology, business and professional services, financial services, food and beverages, information technology, media and tourism. A key factor on which Toronto will be compared to other cities is the availability and quality of human resources (which is, in turn, linked to training capacity).

Ontario Works act and regulations

The bulk of non-employee training directly administered by the City falls under the Ontario Works program,⁹ in which employable (i.e. not disabled, single parent of young children or over age 65) social assistance recipients are required to take the shortest route to gainful employment. The Employment Supports option of Ontario Works includes job-specific skills training, which is very closely focused, short-term training that is not eligible for Ontario Student Assistance Program (OSAP) funds. Clients wishing more general or long-term training or education must seek funding through OSAP (where the aid is primarily through loans) and leave Ontario Works. Ontario Works clients who are eligible for training under HRDC's Skills Development Employment Benefit (SDEB)¹⁰ by virtue of being eligible for Employment Insurance (EI) or "reachback"¹¹ are identified routinely by their caseworkers. Because training funded directly under Ontario Works is not a taxable benefit, there is an incentive for Ontario Works clients who are eligible for HRDC-funded training to take the direct Ontario Works option. However, any disincentive for Ontario Works recipients to take HRDC-funded training must be viewed in the context that, even though HRDC training stipends and tuition monies under the SDEB are taxable, it would unlikely be enough to push recipients into a tax-paying bracket as recipients are, by definition, strictly means- and income-tested.¹² Further off-setting any disincentive, SDEB living allowances received by Ontario Works recipients are treated as

⁸ City of Toronto, "Staff Report—Economic Competitiveness Study" in *Minutes of the Economic Development and Parks Committee* (November 29, 1999).

⁹ As of Feb. 4, 2000, administered by the Social Services Division, Community & Neighbourhood Services; Ontario, Ministry of Community and Social Services, *Ontario Works Directive #24.0: Supports to Employment (STEP)* (July 1, 1998).

¹⁰ HRDC programs and policies are described later in this section.

¹¹ Reachback clients are those who received EI income benefits within the last three years or parental benefits in the last five years.

¹² SDEB tuition monies would detract from an Ontario Works claimant's ability to benefit from federal child tax benefits and GST rebates. SDEB living allowances would have low net effect on these federal benefits relative to the effects of Ontario Works living allowances. Simply put, clients would be trading one impact on their federal benefits for another of a similar level.

employment income and are deducted from Ontario Works income supports on a graduated basis¹³ and the SDEB offers a much wider array of training options than does Ontario Works. Of course, policy-making and legislation related to Ontario Works is the prerogative of the province and the City has a marginal capacity to make program or policy modifications.

Ontario Works

While the City's training capacity in Ontario Works is tightly circumscribed, there have been some examples where the City has been able to engage in partnerships to promote community-based training. Such initiatives are given impetus by a broader fiscal context in which "entitlement" programs such as social assistance are seen as somewhat less effective, or even less desirable, than partnerships. One recent example of partnership with other levels of government, unions and business is Eva's Phoenix.¹⁴ In this program, falling under the City's Homeless Initiative Fund, homeless or at-risk youth with few job skills work alongside experienced tradespeople to build a new housing and training centre while learning trades and soft skills. All students who have graduated from the program so far have found full-time employment.

Property tax

The Toronto Board of Trade¹⁵ has cited property tax levels and current value assessment (CVA, the most recent property tax reform) as adversely affecting business prospects, and therefore employment prospects, in the city. This is in contrast to the City's economic development policy, which has a goal of enhancing the City's revenue base by fostering economic development and thereby increasing property values. The structure of the property tax regime is a product of provincial legislation and policy and, while this regime has a profound impact on the City's revenue base, the City's capacity to make policy is bounded by provincial decisions. CVA, a major change to the provincial property tax regime featuring a shift from mill rates to tax classes, came into force in January 1998 and substantially affected the revenue base.¹⁶ Before January 1998, non-profit organizations and charities occupying commercial premises were assessed at the residential rate, whether they owned the premises or not. Their taxes have been capped to the end of 2000 provided these organizations continue to occupy the same premises. Charities and non-profits that began occupying premises since 1998 are assessed at the full commercial tax class rate unless they own the premises, in which case they are assessed at the lower residential tax classification. Private vocational schools are assessed at the full commercial tax rate but, like other property

¹³ Ministry of Community and Social Services, *Ontario Works Directive #24.0*, *supra*, footnote 9.

¹⁴ City of Toronto, "Staff Report: City of Toronto—Homelessness Initiative Fund Final Report (1998/1999)" in *Minutes of the Community Services Committee* (January 13, 2000).

¹⁵ "Why Grow Elsewhere? Property Taxes Threaten Toronto Jobs," *Taking Action: The Toronto Board of Trade Policy Newsletter* 1 (January 2000).

¹⁶ City of Toronto, Chief Financial Officer and Treasurer, "Summary of Toronto's Plan to Implement Provincial Tax Reforms" (August 7, 1998).

tax payers, have benefited from capping. Wholesale changes in taxes payable are expected when capping expires at the end of 2000.

Procurement

City procurement policies for the purchase of goods and services can have the effect of extending city policies to its suppliers and contractors. Recently, Toronto City Council¹⁷ has added an apprenticeship component to the Fair Wages Schedule (years 2000 and 2001), which mandates construction contractors to hire and train apprenticeships.

Provincial policies and programs—Ontario

Ontario Disabilities Supports Program (ODSP)

Under this program administered by the Ontario Ministry of Community and Social Services, persons with disabilities who receive income support or who are not in receipt of employment supports (such as SDEB, Canada Pension Plan, Workplace Safety and Insurance Board benefits or Ontario Works) can receive client-focused employment support. As with Ontario Works employment supports, ODSP clients may receive job-specific skills training on a short-term basis provided that such training is not eligible for OSAP. ODSP clients who receive employment support but not income support will have their income and assets assessed to set a level of personal contribution (if any) they might make toward directly funded training (in order to qualify for income support, clients are means- and asset-tested). ODSP income supports and training tuition are not taxable (unlike HRDC living allowances and tuition payments under the SDEB),¹⁸ providing a disincentive for ODSP clients to seek any training support under either SDEB or the Opportunities Fund.¹⁹ However, HRDC living allowances are deducted from ODSP income supports in a graduated fashion.²⁰ The main disincentive for ODSP clients not to seek the wider opportunities available under HRDC-funded training programs is lack of information; unlike Ontario Works clients, ODSP clients who are eligible for reachback are not routinely identified as such by their caseworkers.

¹⁷ City of Toronto, “Council Highlights—City Council Meeting Beginning February 29, 2000.”

¹⁸ SDEB tuition monies would detract from the ODSP claimant’s ability to benefit from federal child tax benefits and the GST rebate. SDEB living allowances would have a low net effect on these benefits relative to those of ODSP living allowances. Simply put, clients would be trading one impact on their federal benefits for another of a similar level.

¹⁹ A transitional HRDC program offering training supports to persons with disabilities who are not eligible for reachback that was funded permanently at \$30 million under the Federal Budget for the year 2000. See Canadian Council on Social Development, Position Paper, “The 2000 Federal Budget” (February 2000).

²⁰ Ontario, Ministry of Community and Social Services, *Ontario Disability Support Program Directive #0302-03 Income From Employment And Training* (November 1999).

The Canada Student Loan (CSL) program is administered by individual provinces, with the province having some room in co-funding and policy-making; OSAP is the Ontario-administered part of the plan. In 1999, the average OSAP default rate for students leaving post-secondary institutions was 18.2%, which was down from 22.1% in 1998.²² Defaults ranged from 8.4% for university students to 20.1% for college students to 30.1% for students of private vocational schools. With the goal of decreasing default rates to less than 10% by 2003, the Ontario government has taken a number of steps, including credit screening of new loan applicants; recovering loan defaults from income tax refunds; instituting grants so that student debts are no more than \$7000 per year of study; requiring educational institutions to inform students as to graduation, employment, and loan default rates; and requiring those institutions whose graduates have high default rates to share in default recovery.²³ As well, in co-operation with the federal government, students receive tax credits for interest repaid on loans.

Ontario Jobs and Investment Board (OJIB)

A consultative initiative, OJIB reported in 1999²⁴ and made several training-specific recommendations (some of which have recently been implemented by the Ontario government), identifying for each recommendation which participants in the economy (individuals, businesses, educational institutions, federal, provincial or municipal governments) should take responsibility. Each initiative would necessarily involve partnerships among economic players, but much of the focus was on learner-driven financing of and decision-making on training.

Among OJIB's recommendations are the following:

- Provide incentives to close the gap between the skills people seeking work have and those skills that employers are seeking. Base funding for provincial post-secondary and training institutions on the employability of their graduates.²⁵ Look to partnerships with business in creating pro-

²¹ See also section on HRDC, p. 11.

²² Ontario, Ministry of Training, Colleges and Universities, News Release, "Fewer Students Defaulting on OSAP, but Rates Still Too High Says Cunningham" (January 26, 2000); Ontario, Ministry of Training, Colleges and Universities, Backgrounder, "Ontario Government Strategy to Reduce Student Loan Defaults" (January 26, 2000).

²³ There is some anecdotal evidence that these OSAP default recovery measures are making training providers less willing to service low-income students. Certainly, a number of training providers have pulled out of the Toronto market, but there are no figures available to find whether the gross number of available training spaces has been affected.

²⁴ Ontario Jobs and Investment Board, *A Road Map To Prosperity: An Economic Plan for Jobs in the 21st Century* (Toronto: Ontario Jobs and Investment Board, 1999).

²⁵ Ontario, Ministry of Training, Colleges and Universities, News Release, "Government Invests In More Student Spaces, Quality Programs" (March 14, 2000). This states that a portion of post-secondary operating grants will be based on performance as indicated by

grams to alleviate skill shortages. Target post-secondary funding for programs in high-demand areas.²⁶ In the long term, develop a student-driven rather than an institutional grants system for funding post-secondary education.

- Develop new means (income contingent loan repayment or privately financed scholarships and bursaries) to assist qualified students in financing their education and training.

Federal policies and programs

Human Resources Development Canada (HRDC)

HRDC is the largest single institutional player in Toronto's training market with policy-making authority for the EI, SDEB and CSL programs. As of 1997, 41.7% of Canada's unemployed were eligible for EI benefits; this was a substantial drop from 1989, when 87.3% of the unemployed received Unemployment Insurance (UI) benefits.²⁷ This lower rate of coverage resulted from a tightening of the eligibility requirements, which were part of the reform package that transformed UI to EI. The training-specific impact is that the majority of the unemployed who are ineligible for benefits also have no access to HRDC training funds. While EI-funded living allowances for training have long been a taxable benefit for recipients, the training tuition fees paid directly to the training provider under block purchases were not considered a taxable benefit for the EI client. Under the SDEB,²⁸ tuition funds are now issued directly to the EI client, who is entrusted to remit these monies to the training provider, and this tuition is deemed a taxable benefit to the client. If this tuition is paid to a registered educational institution,²⁹ the tuition is deductible from the client's income, but registration is not uniform across the training sector. EI benefits are now clawed back from high-income earners at subsequent income tax filings. Tuition funds under SDEB would be incorporated into calculations of income for this purpose and this

graduation rates, graduate employment rates six months and two years after graduation, and by graduate and employer satisfaction with programs.

²⁶ Ontario, Ministry of Training, Colleges and Universities, News Release, "Cunningham Reaffirms Commitment to Postsecondary Accessibility Through Capital Projects" (February 7, 2000). This announces the "SuperBuild Fund," which funds new capital projects totalling nearly \$1.4 billion (including private sector contributions). Most projects are college or joint college-university partnerships with direct employment skills focus.

²⁷ Caledon Institute of Social Policy, Statement, "The Social Fundamentals" (February 1999).

²⁸ Memorandum from Human Resources Development Canada, "Income Tax Implications of the Skills Development Employment Benefit (Formerly Known as Skills Loans and Grants)" (June 14, 1999).

²⁹ Whether specific institutions are authorized to issue tax receipts for tuition is the decision of HRDC and such authorization is not automatic on application; there have been recent reports that such authorization has been less freely granted to institutions such as school boards offering occupational training.

amount would also affect programs such as the Child Tax Benefit and the GST rebate.³⁰ The tuition deduction does not mitigate any of these effects.

The percentage of dollars in default on CSLs rose from 20% in 1992 to a peak of roughly 30% in 1996 and declined to roughly 25% by 1997.³¹ Much of the increase in the default rate in 1996 is attributed to students moving to private vocational institutions, which charge substantially higher tuition fees than their public counterparts. In 1998, the federal government instituted several measures to lessen the number of defaults, such as a \$2.5 billion scholarship endowment, grants for students with dependants, disallowing any student to receive a bankruptcy discharge on CSLs until at least 10 years after leaving school, extending the period of interest relief and enhancing eligibility, debt reduction on repayment and communications with borrowers. From 1995 to July 31, 2000, private financial institutions have been paid a risk premium to compensate for the heavier losses experienced on CSLs. However, earlier this year, because of insufficient interest of private financial institutions in continuing these arrangements, the Canadian government has decided to offer the loans to students through its own service bureaus (after eligibility has been determined by the applicable province).

Canada Customs and Revenue Agency (CCRA, formerly Revenue Canada)

For those Canadians who have contributed to registered retirement savings plans (RRSPs),³² the Lifelong Learning Plan (LLP)³³ creates an incentive to use personal savings for training by allowing individuals to finance their own or their spouse's full-time³⁴ training by withdrawing up to \$10 000 per calendar year and up to \$20 000 in total from their RRSPs. LLP withdrawals do not have to be declared as income and tax will not be withheld from them. However, LLP withdrawals are repayable with no interest to the RRSP over a period of no more than 10 years and any amounts not repaid will be treated as taxable income on the years the repayments are due. As well, LLP withdrawals cannot be made on amounts contributed to an RRSP within the previous 90 days³⁵ and, as pension transfers are included in unavailable amounts,

³⁰ Public Perspectives, "Submission to the Standing Committee on Finance (1999 Pre-Budget Consultation Process) on Behalf of the Construction Employment Opportunities Group of Ontario" (September 10, 1999) [unpublished].

³¹ Government of Canada, Background, "Canada Student Loans Program" (March 2000). See also section on OSAP, p. 10.

³² In 1998, just under one third of Ontario taxpayers contributed to RRSPs. Income is positively correlated with contribution frequency and levels. Increases in contribution levels are not keeping pace with increases in earned income levels. See Statistics Canada, "Registered Retirement Savings Plan Contributions," *The Daily—Statistics Canada* (November 22, 1999).

³³ Canada Customs and Revenue Agency, *Lifelong Learning Plan (LLP)* (Ottawa: Canada Customs and Revenue Agency, 1999). It should be noted that this program is only useful to individuals with substantial savings in the form of RRSPs that are not locked in.

³⁴ LLPs may be used for part-time training if the individual meets the Canada Customs and Revenue Agency definition of disability.

³⁵ Individuals receiving buyouts or severance packages frequently use these monies to use up RRSP contribution room and offset income tax liability.

LLP withdrawals would appear to be of little need to individuals with immediate skills adjustment needs. By contrast, were an individual in their teens to use RRSPs as savings vehicles (even for gifts), it is plausible that they could use RRSPs to fund their post-secondary educations. LLP withdrawal limits would seem to provide an incentive for shorter-term training for those individuals with dependants³⁶ and, as a consequence, to be of most benefit to those individuals who require skills enhancement as opposed to skills development. Because LLP withdrawals are repayable, there would appear to be an incentive for individuals to undertake job-related training.

In the construction industry, multi-employer Training Trust Funds (TTFs) have been established to train workers during periods of unemployment.³⁷ However, in order to maintain their non-profit (and therefore non-taxable) status, such funds must not maintain reserves from year to year. This means that a surplus accumulated during high-income (high-employment) years is taxable and cannot be held for low-income (low-employment) years, when workers have the time to upgrade their skills. Further, employers contributing to the TTFs receive tax deductions, not refundable tax credits, for their contributions, which are not useful during low-income years. Employer-funded training benefits (tuition, travel costs etc.) are deemed by the CCRA to be a taxable benefit for the employee if they are not employer-specific.³⁸ By definition, TTF benefits would be taxable as they are cross-industry initiatives.

Training costs (other than tuition paid to a registered educational institution) are deemed to be deductible as a capital rather than current expense of a business if such training results in a lasting benefit to the taxpayer (i.e. offers a new skill set rather than an updating of existing skills).³⁹

Tuition fees for courses offered to develop or enhance students' occupational skills are exempt from GST whether they are offered by a public post-secondary institution, a charity, a non-profit organization or a private vocational school.⁴⁰ Public-sector educational institutions and public service bodies (such as charities and non-profits) are entitled to additional GST benefits and exemptions.⁴¹

³⁶ Training undertaken using LLPs may be no shorter than three months in duration.

³⁷ Public Perspectives, *supra*, footnote 30.

³⁸ Lori Dunn and Wayne Tunney, "Training Benefits Tax-Free," *Highlights* (Canadian Tax Foundation, July 21, 1998); David Stewart-Patterson, "Stealth Tax on Training Must Stop," *Opinions* (Business Council on National Issues, February 1998).

³⁹ Revenue Canada, Income Tax Interpretation Bulletin IT-357R2, "Expenses of Training" (November 6, 1989).

⁴⁰ Revenue Canada, GST Memo G300-4-3, "Educational Services" (January 25, 1994).

⁴¹ Revenue Canada, GST Memo G300-4-6, "Public Sector Bodies" (May 31, 1991).

Characteristics of training in Canada

Given the policy and program context for training in Toronto, it is now useful to discover what part of the work force it best serves. Taken together, the data on training expenditures and participation in Canada over the past twenty years reveal the following: the expenditure of training resources is concentrated on workers with high levels of pre-existing skill sets; the strong presence of the public sector; and a sharp decline in the capacity and performance of the apprenticeship system. Employers have shown a marked tendency to favour their more highly valued employees with training investments. By far, governments and Crown corporations are the major players in the system, whether directly as employers and sponsors of training of the unemployed or indirectly as providers of training grants to private companies.⁴² Among private companies, those large entities with five hundred or more employees are most likely to offer training opportunities to their employees. Finally, the combination of demographic shift and poor general economic performance has led to the erosion of the apprenticeship system.

The Statistics Canada Adult Education and Training Surveys (AETS) of 1994 and 1998 reveal some very stark trends in terms of what sorts of workers are receiving and what sorts of employers are sponsoring training.⁴³ According to the AETS, during the 1990s the profile of that portion of the Canadian work force most likely to engage in job-related training remained fairly constant. In 1993, 4.2 million Canadians underwent job-related training. Of those who underwent training, more than three quarters were employed, who made up nearly 29% of the employed work force. More than 80% of the employed persons in training received some form of employer support.

By far, most training in Canada is employer-sponsored. A Statistics Canada study⁴⁴ has shown that employer sponsorship is so much a factor in whether or not a worker will engage in training in Canada that employed workers whose employers do not sponsor training have a low rate of participation in training, very near the 15% participation by the unemployed.

The profile of those workers in training narrows further when the type of worker most likely to receive employer-sponsored training is taken into account. By and large, workers who receive employer-sponsored job-related

⁴² Harry Kitchen and Douglas Auld, *Financing Education and Training in Canada*, Canadian Tax Paper No. 99 (Toronto: Canadian Tax Foundation, 1995); Tiziana Carafa, "Accessibility to Job-Related Training in Canada," *Policy Options* (December 1999), pp. 49–52. The expenditures by individual Canadians on skill enhancement have not been studied systematically.

⁴³ Findings of the 1994 and 1998 Statistics Canada AETS are summarized in Tiziana Carafa, *ibid.*, on which the discussion here is based.

⁴⁴ Antoine Rose, "Occupational Training Among Unemployed Persons," *Education Quarterly Review* 1, 1 (1994): 23–33.

training are members of the professional or managerial ranks.⁴⁵ In 1997, nearly 33% of professional and managerial workers received training, in comparison to 17% of clerical, sales and service workers and 15% of blue-collar workers.

This profile of the type of worker most likely to receive employer-sponsored training is reinforced by the levels of educational attainment of workers in training. The proportion of employer-sponsored training recipients by educational level are as follows: 32% of university graduates, 24% of those with some post-secondary education and 12% of those with only high school graduation. The more highly educated the employee, the more likely they are to receive training. Moreover, the higher the income of workers in any occupational category or level of educational attainment, the more likely they are to receive training.

Overall, these data allow the inference that employers treat the training of employees much like any other expenditure or investment. By sponsoring the training of their more senior, well-remunerated and educated staff, they are maintaining the quality of their capital stock, particularly human capital. It is much less expensive to enhance existing skill sets than to build new ones. Given that highly skilled workers have a demonstrated capacity to benefit from training, enhancing their skill level is a less risky investment than training less-skilled employees whose learning capacities are untested.

And as with any other expenditure or investment decision, decisions about training policies are likely to be made by senior-level staff. Since senior level staff would be most aware of skills gaps at their strata of the organization, it would follow that training policies would more than likely reflect their needs.

The inference that employers see training as a financial issue is borne out by the types of employers most likely to sponsor formal training of their employees. Large organizations are almost three times more likely to sponsor training than are small organizations. Service industries, for which the quality of human capital is essential to their product, sponsor more employee training than do goods-producing industries. In both the service and goods-producing industries, public sector agencies are almost twice as likely to sponsor employee training as are their private sector counterparts.

Finally, the health of the apprenticeship system is vital to the maintenance of high standards and transferability in occupational skills development. Workers benefit from the system because it formalizes recognition of their skill sets and employers benefit from an external gauge of their employees' skills. However, multiple indicators⁴⁶ point to the degradation of the Canadian system of trades apprenticeship over the past 20 years. During the 1990s, new

⁴⁵ It is important to underscore here that these are *employed* professionals and managers. Foreign-trained, newcomer professionals who are not employed in positions appropriate to their skill sets do not experience higher rates of employer-sponsored training.

⁴⁶ Andrew Sharpe, "Apprenticeship in Canada: A Training System Under Siege?—Report Prepared for the CLFDB National Apprenticeship Committee," 2nd draft (Ottawa: Centre for the Study of Living Standards (CSLS), 1999).

registrations in apprenticeships fell drastically, especially by comparison to other forms of post-secondary education. The system has not attracted the participation of newly emerging occupations. Women account for only three per cent of apprentices. The system is subject to great inter-provincial variation. Completion rates are lower than 10%—much lower than those of other types of education and training and amounting to a one-third decline in the past two decades.

The combination of factors such as the public sector as the primary sponsor of training in Canada, the focus of training expenditure on the enhancement of pre-existing skill sets, the lower levels of participation of small companies and the decreasing effectiveness of the apprenticeship system all point to several gaps in Canada's training capacity and reveal the potential for a widening of the skills gap in the population as a whole.

Canadian participation in training in comparison to other OECD countries

Despite the poor reputation of Canadian employers for sponsoring training,⁴⁷ more than one international study has found the country's performance to be about average, or at least not seriously deficient in relation to other OECD countries.⁴⁸ Further, Canada has a strong record of attainment of post-secondary education and Canadian workers attribute a high value to education.

When this first systematic cross-national research into the incidence of training was conducted in 1993, Canada's performance in terms of training effort, measured in hours of training per employee, was virtually identical to that of the U.S. Canada's balance between employer- and employee-supported education was about average for all countries studied, with Canada's workers engaging in more self-supported education than U.S. workers, who received more employer support. Canadian workers exhibited the highest level of desire to take more training.

Several findings in the study suggested that training might well be driven by workers' own perceptions of their training needs. In each country, workers who received training had a strong tendency to share certain characteristics such as high pre-existing skill or educational levels. The types of workers who were most likely to support their own training efforts were also the type who would receive employer support. And, in Canada, as in all countries, employees in small businesses and women tended to receive lower levels of employer-sponsored training and were likely to report that they felt they wanted more.

The literature reviewed in this section suggests that highly educated, skilled and paid managerial employees in the service-producing portion of the pub-

⁴⁷ Gordon Betcherman, "Are Canadian Firms Underinvesting in Training?" *Canadian Business Economics* 1, 1 (Fall 1992): 25–33.

⁴⁸ Constantine Kapsalis, *Employee Training: An International Perspective* (Ottawa: Statistics Canada, 1997) [the International Adult Literacy Surveys, which compared the incidence of training in Sweden, the US, the Netherlands, Switzerland, Canada, Poland and Germany]; Statistics Canada, *Human Resource Training and Development: Survey Result 1987* [catalogue no. 81-574E].

lic sector experience the highest incidence of training. This cohort is very much a mirror image of its under-trained counterpart, which will be described in the following section.

2.4 Training Disincentives and Service Gaps

In order to more usefully comprehend barriers to training, this overview differentiates between substantive barriers to training (that is, barriers that can be demonstrated by, or inferred from, the incidence of training) and perceived or theoretical barriers to training. Rather than take the approach of testing theory through research, what will be presented here are observed gaps in Canada's training system and reasons why such gaps would occur.⁴⁹

Small companies

That small companies sponsor fewer workers' training than do their larger counterparts is noted in numerous studies.⁵⁰ It would seem that Canada is far from unique in this area. The literature suggests plausible reasons why this lower level of training sponsorship would be the case. For example, small companies have fewer financial resources at their disposal, their human resource function is not well developed, they experience disproportionate levels of hardship when employees' time is taken up with training and they fear that once trained their employees will be "poached" by larger firms that can pay them better wages.

A 1998 survey, "Barriers to Employer-Sponsored Training in Canada,"⁵¹ finds that the difference between small and large businesses' perception of these barriers is not statistically significant. The perceptions of small businesses do not, however, reflect their behaviour. While they face the same disincentives as larger enterprises, the disincentives have a disproportionate effect on them.

A key barrier to training experienced by small business may well be one of scale; that is, the small size of enterprises does not afford them the lower costs associated with volume purchases. This is belied by the fact that, when small companies do expend resources on training, they spend substantially more (roughly 25%) both per participant and per employee.

⁴⁹ Although the issue of underemployment in newcomers to Canada is an emerging policy issue (see Andrew Brouwer, *Immigrants Need Not Apply* [Ottawa: Caledon Institute of Social Policy, 1999]), data on their rates of training is not as available as it is for other groups within the labour force. This is partly due to the fact that, by virtue of government policy, newcomers arrive under a number of programs with varying criteria for acceptance, rendering them a heterogeneous group. In any case, newcomers who are not employed in positions appropriate to their skill sets will likely experience the low rates of training comparable to those of underemployed workers.

⁵⁰ Edith Rechnitzer, *Human Resource Training and Development Survey Results, 1987* (Ottawa: Statistics Canada, 1990) as summarized in Kitchen and Auld, *supra*, footnote 42, pp. 121-125; Constantine Kapsalis, *supra*, footnote 48.

⁵¹ Gordon Betcherman, Norm Leckie and Kathryn McMullen, *Barriers to Employer-Sponsored Training in Canada*, Discussion Paper No. W*02 (Ottawa: Canadian Policy Research Network, 1998).

Women

Canada has a very high incidence of women undertaking self-supported training as compared to other countries surveyed in a 1997 joint OECD-Statistics Canada study.⁵² However, Canadian women had the lowest rate of employer-supported training and Canada had the widest gender gap in terms of employer-supported training. Canada and the U.S. had the widest gender gap in total hours of training per employee.

Low-wage, low-skill, marginal and non-supervisory positions

There is a strong positive relationship between workers' levels of wages, skill and supervisory responsibility on the job⁵³ and the amount of training they receive, both employer- and self-supported. This relationship may indicate that training is seen as part of a larger compensation package; it may suggest that workers in low-wage, low-skill or non-supervisory positions are not seen as being in need of training; or it may reveal that lower training levels are part of a more general low-wage strategy on the part of employers in cost-competitive industries.

Craftspeople, operators, assemblers

Workers in this male-dominated category experienced a lower incidence of training than both the workers in the female-dominated occupations of clerks, service and sales and the male-dominated professional/managerial category. This would suggest that the decline of the Canadian apprenticeship system has not been compensated for by an improvement in the lifelong learning opportunities for workers in this category.

Workers in goods-producing industries

As is the case with other countries surveyed (except Germany), Canadian workers in goods-producing industries had a lower level of training than their counterparts in the service sector. Given that a higher proportion of goods than services are produced for export, this may indicate that Canadian exporters are pursuing a low-cost rather than a value-added strategy.

Unemployed workers

Unemployed Canadians engage in training at just over half the rate (15%) of their employed counterparts with employer sponsorship.⁵⁴ Given that a lack of time is frequently cited as a barrier to training by employed workers, this finding is somewhat surprising. The fact that workers who do not receive employer-supported training (who tend to be more marginally employed)

⁵² Kapsalis, *supra*, footnote 48, p. 14.

⁵³ Workers who have high pre-existing skill sets holding these positions train at the same rate as their co-workers who are more appropriately skilled.

⁵⁴ Tiziana Carafa, *supra*, footnote 42, pp. 49–52.

have similar training levels to those who are unemployed suggests that the two cohorts may face similar imperatives in obtaining training and that some of these may relate to financial resources.

Tax and fiscal policy incentives

While there are clearly identifiable tax and fiscal policy disincentives to training in Canada,⁵⁵ from the perspective of the incidence of training it is more difficult to discern the impact of any tax or fiscal policy disincentives to training than it is to identify the absence of tax or fiscal incentives. It has been argued that, in the area of training—the development of human capital—business is simply not faced with the generous incentive structure as it is in the area of physical capital.⁵⁶

In terms of fiscal policy disincentives, it is clear that tightening eligibility for programs such as OSAP and having training providers share in default recovery could well further reduce training opportunities for those workers (i.e. in marginal positions or unemployed) who are already least likely to engage in training and to have that training sponsored by employers.

And it is important to underscore the precipitous decline in coverage rate of EI benefits among unemployed Canadians during the 1990s. As of 1997, 41.7% of Canada's unemployed were eligible for EI benefits; this was a substantial drop from 1989, when 87.3% of unemployed Canadians received UI benefits.⁵⁷ This lower rate of coverage reinforces the pre-existing trend of low training levels for this group. Workers in low-wage or low-skill positions tend to engage in lower levels of training while employed and, when they lose these marginal positions, they have a lower tendency to be covered by EI.

⁵⁵ Public Perspectives, *supra*, footnote 30; Lori Dunn and Wayne Tunney, "Training Benefits Tax-Free," *Canadian Tax Highlights* 6, 7 (July 21, 1998); David Stewart-Patterson, *supra*, footnote 38; Revenue Canada, "Expenses of Training," *supra*, footnote 39.

⁵⁶ Kitchen and Auld, *supra*, footnote 42.

⁵⁷ Caledon Institute of Social Policy, "The Social Fundamentals," *supra*, footnote 27.

3 Recommendations for a Market-Based Model of Training

The preceding sections of this report outlined the growing need for training given recent changes in Toronto's economic base, reviewed the government programs and policies with implications for training in Toronto and identified the portion of the work force with limited access to training opportunities. Given this context, this report makes seven recommendations.

Recommendation #1

The apprenticeship component of the City of Toronto's fair wage schedules mandates its suppliers of goods and construction services to support apprenticeship programs. **The Toronto Training Board recommends that the City amend the apprenticeship component of its fair wage schedules to mandate that its suppliers and contractors support training opportunities for all workers.**

Recommendation #2

In response to a dramatic increase in OSAP defaults during the 1990s, the Ontario government has introduced measures that make training providers share responsibility in these defaults. Furthermore, students with poor recent credit histories will have limited access to this program. **The Toronto Training Board recommends that policy makers review the extent to which policies to lower the number of OSAP defaults have affected the supply of training opportunities for people with low incomes.**

Recommendation #3

The largest single player in the Toronto training market, public or private, is HRDC's SDEB. During the last year, with the change from block purchase, there has been a corresponding policy decision to limit clients to shorter-term training.⁵⁸ As noted in this report, levels of coverage under the EI program have drastically declined and the loss of coverage is concentrated very much in marginal employment. Therefore, **the Toronto Training Board recommends that reachback eligibility be expanded to include a) workers who have been enrolled in English-as-a-second-language (ESL) or literacy courses within the past three years and who have not been enrolled in other full-time education or training for two or more years; b) workers who have been underemployed for two or more years and who have not been enrolled in full-time education or training for two or more years (with the exception of ESL or literacy courses); and c) workers who have been home with children for five or more years and who have not been enrolled in full-time education or training for two or more years (with the exception of ESL or literacy courses).** This policy change would have the effect of allowing persons without access to

⁵⁸ Canada Employment Insurance Commission, *Employment Insurance: 1999 Monitoring and Assessment Report* (Ottawa: Human Resources Development Canada, December 20, 1999).

training to acquire skills to expand their employment opportunities beyond marginal occupations. By definition, this policy change would benefit newcomers who are experiencing underemployment.

Recommendation #4

When tuition payments under SDEB are deemed taxable and must be declared as income, they increase the client's net income, which is the amount at which Canada Child Tax Benefits, GST rebates and EI clawbacks are assessed. The tuition deduction does not mitigate these effects. Employer-sponsored tuition for occupationally related training is not a taxable benefit and, as such, has no impact on workers' levels of Canada Child Tax Benefits or EI clawbacks. As well, such funds are deductible by the employer as a current expense. **The Toronto Training Board recommends that the taxable status be removed from SDEB tuition funds.**

Recommendation #5

Just under one third of Ontario taxpayers contributed to RRSPs in 1998. Displaced workers who use up unused RRSP contribution room with severance monies are not allowed to use these monies under the Lifelong Learning Plan for a period of 90 days. This policy option is least useful to workers most in need of immediate skills adjustment to facilitate return to work. **The Toronto Training Board recommends that RRSP contributions from severance or buyout packages be exempted from the Lifelong Learning Plan 90-day rule.**

Recommendation #6

Transferable skills developed at the post-secondary level have become more important to obtaining secure, well-paid employment. At this time, employer-funded education and training are a taxable benefit if they are not generally related to current employment. Workers at all levels need ongoing skills enhancement to remain employable. **The Toronto Training Board recommends that employer-sponsored, non-recreational skills enhancement should not be a taxable benefit for the worker.**

Recommendation #7

Employees of small businesses receive employer-sponsored training much less frequently than workers in larger organizations. Small businesses can deduct training as a current expense, but, given their low rates of training employees, this deduction is an insufficient incentive for small businesses to provide training opportunities. **The Toronto Training Board recommends that small businesses be given tax credits for training costs.**

Appendix A The Toronto Training Board

Background

The Toronto Training Board is an independent, non-profit corporation governed by a Board of Directors representing seven labour market partner groups (business, labour, women, persons with disabilities, visible/racial minorities, Francophones and educators/trainers). The Toronto Training Board addresses training and adjustment issues in the City of Toronto and is one of twenty-five local boards in Ontario.

The composition of the Toronto Training Board includes the seven labour market partners plus non-voting federal, provincial and municipal representatives. Business and labour have equal representation, together hold an absolute majority of seats and co-chair the board. Directors are expected to represent the Toronto area and be representative of their respective labour market partner groups.

Sponsors

The Toronto Training Board is sponsored by Human Resources Development Canada and the Ontario Ministry of Training, Colleges and Universities.

Long-Term Vision

The sponsors of local boards all have a strong interest and role in Ontario's training and adjustment system. They have come together with a shared goal of improving that system by creating a greater role for the local labour market partner groups.

The co-operation between the sponsors to create local boards represents a concrete commitment to greater co-operation and co-ordination of their initiatives. The sponsors are committed to respond to local boards and to work together to face the challenges of creating the training and adjustment system needed in Ontario. The plans developed by the Toronto Training Board will be used by the sponsors to direct their efforts.

Mandate

The Toronto Training Board is committed to a mandate that contains seven broad themes:

- analysing labour market information;
- providing analysis and advice about existing training and adjustment programs and how they meet Toronto's needs and priorities;

- preparing strategic and operational plans for the training and adjustment programs in the Toronto area;
- advising on the purchase of training or services on behalf of the sponsors;
- promoting lifelong learning;
- making sure that the training supported follows national and provincial standards, and encouraging others to adopt similar standards; and
- promoting access to, and equity in, local training and adjustment programs.

Board Members

Board directors as of May 2000

Mike McCue	Labour Co-Chair
Tim Rutledge	Business Co-Chair
Tony Azevedo	Business
Gail Benick	Educators/Trainers
Kay Blair	Visible/Racial Minorities
Eileen Burrows	Labour
Renaud Saint-Cyr	Francophones
Liz Fong	Labour
Dick Grannan	Educators/Trainers
Pat Hatt	Persons with Disabilities
Mazher Jaffery	Business
Lynda Jagros-May	Business
Judy Mitchell	Labour
Adela Roki	Labour
Rebecca Sugarman	Women
Ed Thornton	Labour

Government representatives as of May 2000

Lesley Buresh	Federal Government
Terry Hesketh	Provincial Government
Ted Lis	Municipal Government
Wendy Molotkow	Municipal Government Alternate

Staff as of May 2000

Susan Brown	Executive Director
Ken Stauffer	Administrative Assistant
Leela Viswanathan	Policy Research Analyst

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