

Labor Market Trends, Outlook, and Implications for Municipalities

Whitepaper



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Executive summary

The next ten to fifteen years will be tumultuous ones as the labor force experiences a wholesale generational change. Baby Boomers will be leaving the workforce, albeit (and hopefully) more slowly than first predicted. While Generation X will provide some much sought-after experience, their numbers alone will not be sufficient to alter major trends. The Millennial generation and new Canadians are rapidly moving in; although, there are also not enough of them combined to replace Boomers. A whole new generation, Z, is also beginning to enter into the workplace. These demographic challenges alone will create a series of significant management challenges for municipalities moving forward.

In addition to changes in demographic makeup, municipalities will continue to face substantial fiscal pressures: partially as a result of an economy which is projected to grow rather slowly, but also partially due to continued efforts by provincial governments to reduce deficits and redirect funds to growing demands of healthcare, and to a lesser degree, education. Whereas the public sector has been able to offer job security, pensions and highly competitive benefits in the past, these advantages are quickly eroding as governments struggle to harmonize public sector benefits with those of the private sector. This will add to pressure as the labor force replacement rate continues to shrink, and municipalities must compete harder for skilled talent.

Further, municipalities will have to compete for labor in many positions where there will be predicted shortages in the medium term, including (but not limited to) finance and accounting professionals, administrative and clerical staff, construction and laborer's, engineers and technicians.

However, there are also opportunities to be leveraged.

Employee engagement and successful people management will replace compensation and benefits as the keys to competing for labor. Professional growth and development, and meaningful and socially impactful work will be increasingly attractive, particularly to incoming generations.

Part-time and contract work will still be a reality, but Baby Boomers who would normally retire are attracted to this type of flexibility. Those organizations able to retain and engage their older (Boomer) workers will have an easier transition.

Immigrants and Canadian-born visible minorities will continue to grow their share of the working population too; this is especially true in larger urban centers. Organizations with experience in successful diversity and inclusion policies and programs will have a distinct advantage.

Implications for Municipalities

Impending trends in the labor force, in terms of both growth and composition, will significantly impact all municipalities. Managing through this new environment successfully and meeting some of the daunting challenges in terms of labor force tightening, skills shortages and fiscal constraints, implies the development of a number of key strategies.



Focus on Millennials May be Trendy, But Boomers (and Xers) Provide the Key

All projections and trends with regard to the future labor force depend on a single assumption: Baby Boomers, notwithstanding the slightly longer presence of Generation X, are retiring faster than they can be replaced, and this will cause significant skills shortages in key occupations. But what about creating an engaging environment for Baby Boomers and Gen Xers so as to have many postpone their retirements and stay on longer?

Municipalities need to reduce labor costs, in part by moving to part-time and contract employment. Many more experienced workers (i.e. Baby Boomers and Gen Xers) are seeking just those types of flexible opportunities. Baby Boomers and Xers possess many of the required skills which will be in reduced supply as the labor force tightens elsewhere. By retaining more mature and experienced employees and having them postpone their retirements, municipalities (and presumably other organizations) will have much greater ability managing through the impending skills shortages.

This should not conflict with the necessity to attract and retain the younger workforce. Even if one succeeds in retaining highly experienced mature workers beyond retirement age, they will retire eventually, and succession planning will still be necessary. However, the two realities that remain are a) younger workers will be more difficult to retain, even if there is improved employee engagement, and b) it will take time to manage the appropriate skills and knowledge transfer, so retaining mature workers will (hopefully) provide some of that time.

Focus on Competitive Strengths: Employee Engagement through Diversity and Inclusion

Municipalities, particularly those fortunate to be located in large urban centers (i.e. Greater Toronto Hamilton Area/GTHA – perhaps the highest geographic concentration of new Canadians and visible minorities), presumably, will be ahead of the curve in terms of providing a welcoming and inclusive work environment.

But Don't Forget About Millennials Entirely

Employee engagement will be the currency of the future workplace, especially when it comes to Millennials. Retention of this generation will be challenging, rather than try to retain them through higher than average compensation and benefits (an expensive, ineffective, and increasingly unrealistic proposition), providing learning and growth, leveraging the experience of Baby Boomers to act as teachers and mentors, as well as assisting those who aren't candidates for promotion via a compelling experiential work environment, will all act as key engagers.

Also, as Millennials gravitate towards organizations with a higher purpose, they need to see how they contribute to that purpose. Municipalities will do well to promote their employer brand based at least partially on the positive societal impact made by working for the municipality, which essentially means a) promoting the not-for-profit, societal benefits of municipal work and b) ensuring employees see how their individual roles contribute directly to those benefits.



Reasons for Optimism

While trends in the labor force may appear ominous, there is also reason for significant optimism moving forward:

- Municipalities have (or can develop) a competitive advantage with regard to diversity and inclusion.
- Retaining Boomers and Gen Xers can offset skills shortages. Engaged, mature workers in general will be receptive to what municipalities have to offer in terms of part-time, temporary and contract work.
- Municipalities can position their employer brand to appeal directly to those individuals who require more meaningful work than is offered solely by the profit motive.

An employee engagement survey provides key insights and perceptions within your workforce as well as benchmark data to measure your organization against others. In turn, these findings help guide and shape human resources strategies critical for success during the coming years.



Introduction

This white paper provides a brief overview of some of the major demographic and workplace trends which are influencing the workforce of the next five to fifteen years. An immense amount of information regarding demographic trends, trends with regard to the public sector and trends with regard to employee engagement have been condensed into a succinct document for (hopefully) easy reading.

A number of sources, primarily labor market information from Statistics Canada, as well as a number of reports and publicly available sources, were consulted for this document. References are listed in the Appendix.

This document has been prepared not only with the intention of highlighting key trends which will have an impact on human resources management, but also with a keen eye on developing some high-level, long-term strategies to better position municipalities as an era of fundamental generational change and potential labor shortages evolves, particularly in some key occupations needed to continue to provide exceptional service.



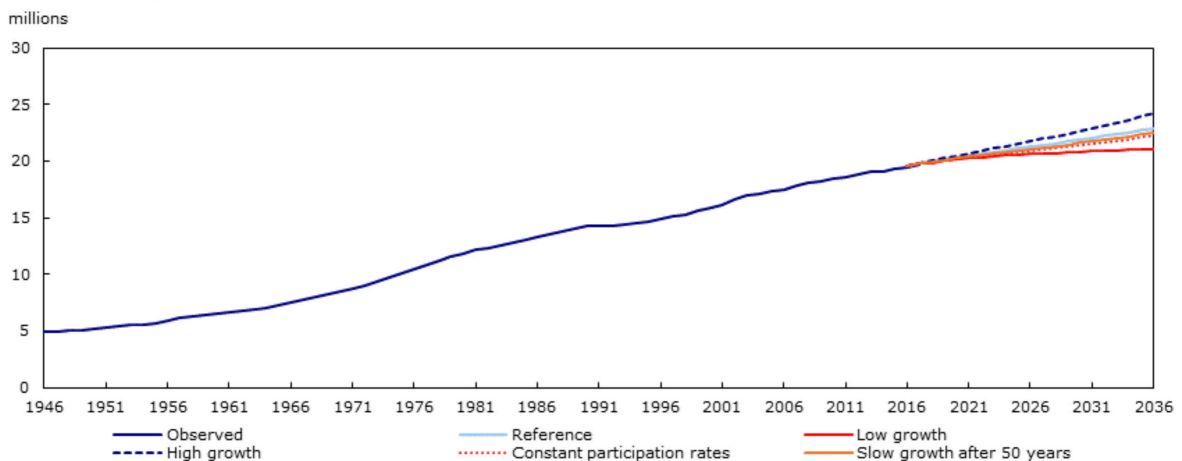


Projected trends for the Canadian labor force

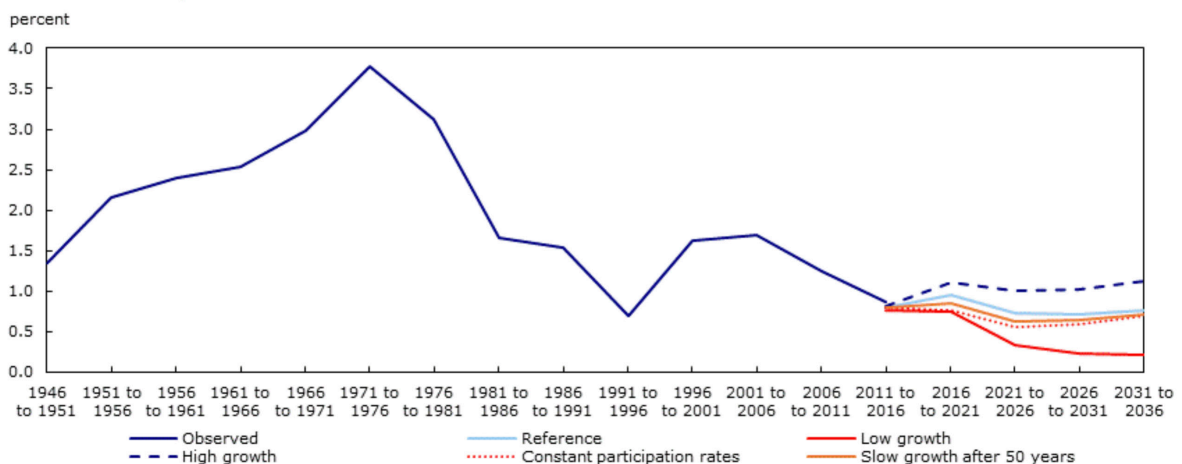
A SLOWER GROWING LABOR FORCE

Charts on the following page show Statistics Canada projections for the growth of the Canadian labor force to 2036¹, using a number of different scenarios and assumptions. While most scenarios show the labor force continuing to grow, they also show that the growth rate is slowing considerably. All of the scenarios show that the growth rate of the labor force will slow in the medium-term, only to pick up slowly towards the latter half of the 2020s.

Observed (1946 to 2017) and projected (2018 to 2036) number of persons in the labour force according to five scenarios, Canada



Observed (1946 to 2016) and projected (2011 to 2036) average annual changes in the labour force according to five scenarios, Canada



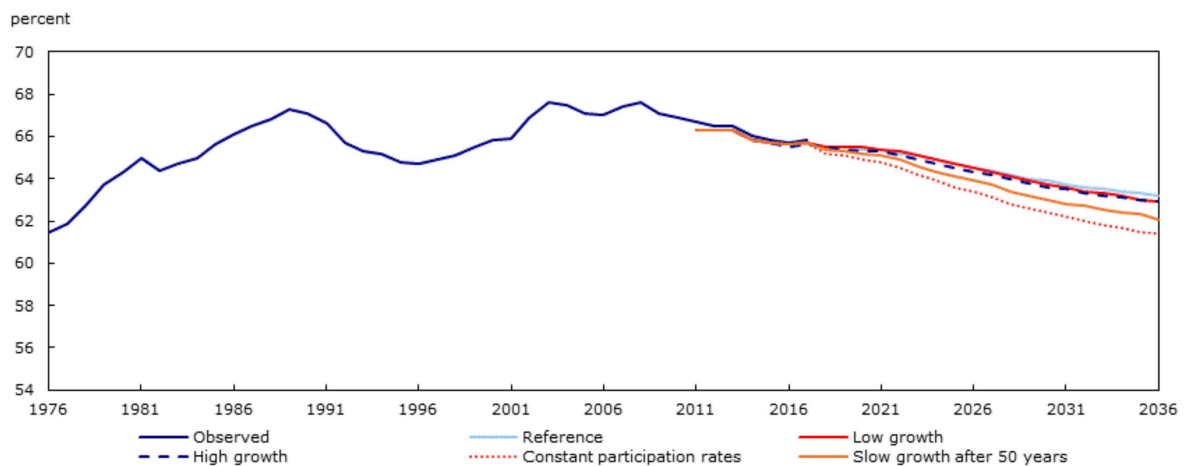
¹ <https://www150.statcan.gc.ca/n1/pub/75-006-x/2019001/article/00004-eng.htm>



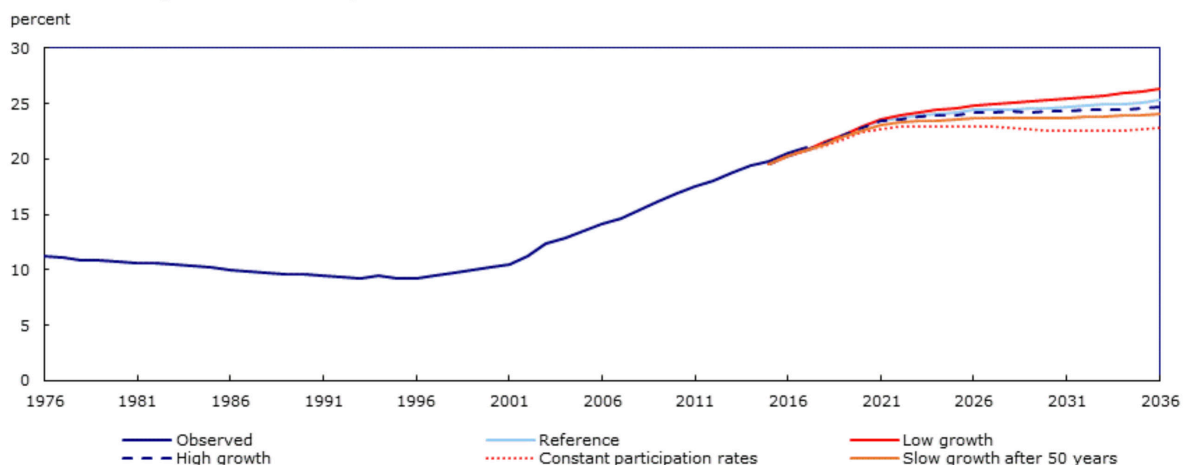
A DECLINING PARTICIPATION RATE – THE BOOMERS ARE RETIRING (AND FAST!)

More concerning is the fact that the labor force participation rate (percentage of the population working or actively looking for work) is projected to decline quite rapidly over the next decade, in all of Statistics Canada's projected scenarios. The decline in the participation rate is clearly attributable to the increasing number of retirements over the next decade. In short, Boomers (1946-'64) are retiring, and fast. They are projected to retire faster than they can be replaced by Generation Xers (1965-'79), Millennials (early 1980s-2000s), Generation Zers (early 2000s onward) and new Canadians.

Observed (1981 to 2017) and projected (2018 to 2036) overall participation rates according to five scenarios, Canada



Observed (1976 to 2017) and projected (2018 to 2036) percentage of people aged 55 and over in the labour force according to five scenarios, Canada





BUT - STILL RELATIVELY MANY MORE OLDER WORKERS

Using Toronto as an example, the participation rate was 66.9% in 2017, and depending on the scenario, the participation rate is projected to fall to 65.5% by 2036, which is only slightly above the Canadian average projection of 61%.

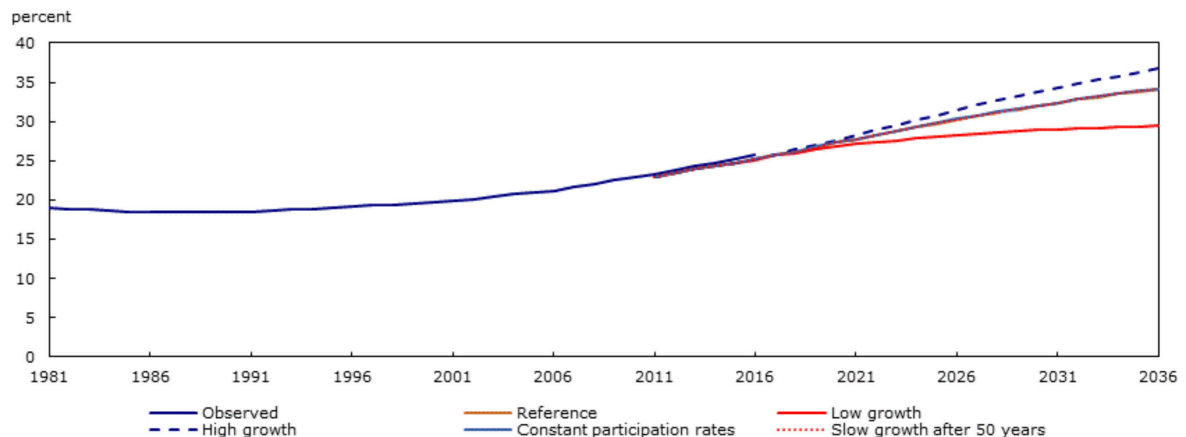
Even though so many Baby Boomers will be retiring during the next ten years, their proportion of the labor force will still have increased significantly. In Toronto, the percentage of the labor force aged fifty-five years or older (55+) was 20% in 2017. By 2036 this is forecast to increase to at least 25.6%.

MORE FOREIGN-BORN AND VISIBLE MINORITY WORKERS

While the proportion of older workers is increasing, the relative proportion of the labor force who is either foreign born or visible minority, will also increase significantly as immigration continues. Charts below show projected growth of the proportion of foreign-born workers, as well as the percentage of those who are foreign-born versus born in Canada.

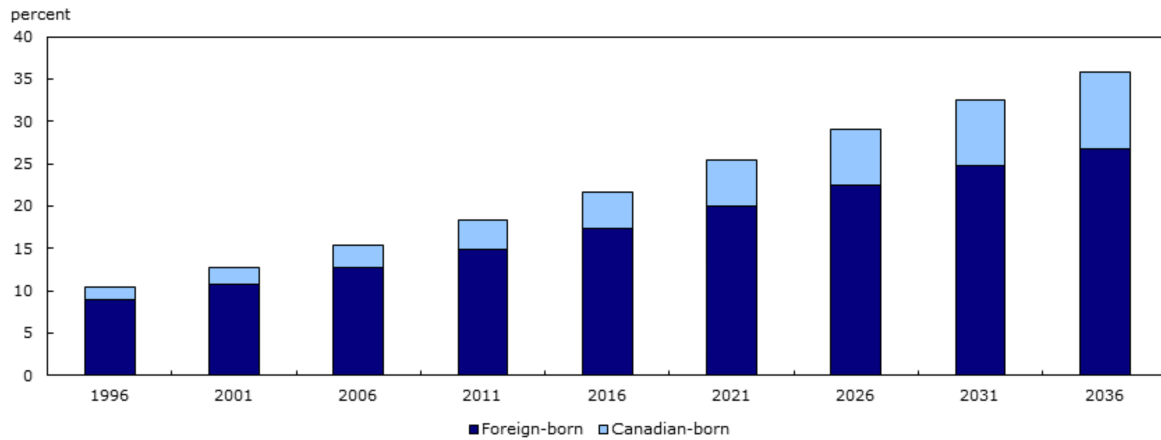
For more than 20 years, Canadian immigration has come mainly from Asian countries. Consequently, the proportion of the labor force belonging to a visible minority group increased from 10% to 15% between 1996 and 2006. If these trends continue (and all projection scenarios indicate they will), in 20 years one in three in the labor force could be foreign born, and more than 30% could belong to a visible minority group.

Observed (1981 to 2016) and projected (2017 to 2036) proportion of the foreign-born population in the labour force according to five scenarios, Canada





Observed (1996 to 2016) and projected (2021 to 2036) percentage of visible minorities in the labour force by immigrant status, reference scenario, Canada



Of course, implications for municipalities depend more on what is happening provincially, and particularly in large urban centers. Again, using Toronto as an example, it is projected that approximately 57% of the labor force could be foreign-born by 2036 ².

² The full chart has not been presented for aesthetic and brevity reasons. It can be found here: <https://www150.statcan.gc.ca/n1/pub/75-006-x/2019001/article/00004-eng.htm>



LABOR FORCE REPLACEMENT – NOT ENOUGH NEW GENERATION WORKERS

A study published by the Federation of Canadian Municipalities in 2013 ³ clearly established that there are not enough younger workers and new Canadian workers combined to replace retiring Baby Boomers. The chart below (figure 1) shows the Labor Force Replacement Ratio ⁴ has already dropped from 1.43 in 1991 to 0.84 in 2011.

In the next chart (figure 2), the labor force replacement ratios show significant numbers of communities in 2011 were already close to or even below 1.0. ⁵ including York Region (0.92), Durham Region (0.92), Peel Region (1.05), and the GTA (0.92).

Figure 1

Population-weighted mean Labour Force Replacement Ratio, all QOLRS communities, 1991-2011

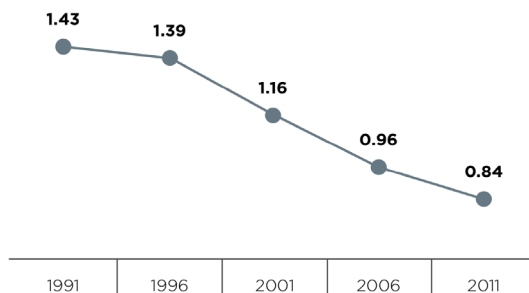
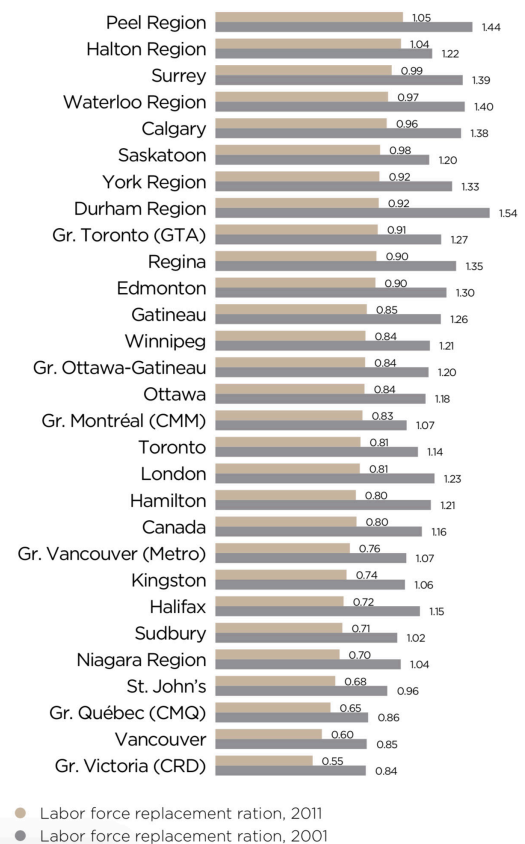


Figure 2

Labour force replacement ratio, by QOLRS community, 2001-2011



³ Federation of Canadian Municipalities: Canada's Aging Population: The Municipal Role in Canada's Demographic Shift, page 10

⁴ (LFRR – a LFRR of 1.0 indicates there are precisely retiring ones. A ratio of less than 1.0 indicates a shortfall, and greater than 1.0 indicates a surplus). QOLRS: The Quality of Life Reporting System measures, monitors, and reports on social, economic, and environmental trends in 26 of Canadian municipalities and urban regions – published by the Federation of Canadian Municipalities

⁵ The higher the ratio, the better position the community was projected to be in at the time of analysis.



PROJECTED SKILLS SHORTAGES

The ongoing narrative, which is very popular in the media, is that there is an acute “skilled labor” shortage. This narrative is backed up by many studies; however, they tend to be industry-specific and point to employer challenges in recruiting specific skills sets for industry. The most common skills shortages mentioned include skilled trades (e.g. electrician, plumber, etc.), information technology workers, and engineers.⁶

An examination of a number of key studies as well as detailed projections of labor demand and supply paint a much murkier picture.

One study⁷ projected **in-demand occupations** in Canada’s largest metropolis as follows:

Toronto Region Unit Group Occupational Projections 2014–2019 results

- | | |
|---|---|
| 1. Retail salespersons | 11. Janitors, caretakers and building superintendents |
| 2. Financial auditors and accountants | 12. Light duty cleaners |
| 3. Administrative assistants | 13. Secondary school teachers |
| 4. Retail and wholesale trade managers | 14. Lawyers and Quebec notaries |
| 5. Elementary school and kindergarten teachers | 15. Accounting and related clerks |
| 6. Administrative officers | 16. Accounting technicians and bookkeepers |
| 7. Registered nurses and registered psychiatric nurses | 17. Other customer and information services representatives |
| 8. General office support workers | 18. Cashiers |
| 9. Food counter attendants, kitchen helpers and related support occupations | 19. Sales and account representatives – wholesale trade (non-technical) |
| 10. Information systems analysts and consultants | 20. Security guards and related security service occupations |

These 20 occupations account for one-third of all the new positions that will need to be filled across the Toronto region between 2014 and 2019. Job categories in italics have been identified as those which are likely to be in demand by surrounding municipalities.

⁶ “Planners” were not mentioned specifically in any of the studies available.

⁷ Toronto Region Board of Trade and United Way: Closing the Prosperity Gap: Solutions for More Liveable City Region



However, demand for an occupation does not necessarily indicate a shortage, as there may be ample supply. Although janitorial services, for example, represent the 11th highest occupation in terms of demand, there is more than enough supply; therefore, no shortage. If, however, janitors were to become in increasing demand, but their numbers were few, reduced availability /supply would influence the price of their service (i.e. costs may increase).

Based on cross-Canada employer surveys, the top 10 occupations difficult to fill are:

Top 10 Jobs Canadian Employers are Having Difficulty Filling

1. Skilled trades
2. Engineers
3. Management / Executive
4. Sales representatives
5. Technicians
6. Drivers
7. Accounting and finance staff
8. IT staff
9. Teachers
10. Laborers

Source: ManpowerGroup Talent Shortage Survey (2013)

Taken alone, this would confirm the common narrative regarding key shortages. But employer surveys may not be fully reliable, since a good many are often developed to support an advocacy agenda to influence government to enact policies which will improve the situation in specific sectors.

Perhaps a **more reliable, comprehensive list** which **takes both demand and supply of labor into account**, would be one which uses a number of sources.⁸ This list is presented in the table on the next page. It is clear there are a significant number of professions which will likely be in demand not only by municipalities, but many other industries as well. Some of these include accountants and auditors, human resource professionals, engineers (including civil), social workers, police officers, fire fighters and lawyers. Keep in mind these are projections/forecasts for future shortages, as opposed to representing current availability, which may be sufficient.

⁸ Borwein, Sophie, Higher Education Quality Council of Ontario: The Great Skills Divide: A Review of the Literature, page 19.



Occupations projected to face shortages (excluding management) by skill level typically required ⁹

| Skill Level | Tal (2012) | COPS (2012) |
|---|--|---|
| University Education (NOC 2nd digit 0 or 1) | <ol style="list-style-type: none"> 1. Auditors, Accountants and Investment Professionals 2. Human Resources and Business Service Professionals 3. Physical Science Professionals 4. Civil, Mechanical, Electrical and Chemical Engineers 5. Other Engineers 6. Physicians, Dentists and Veterinarians 7. Optometrists, Chiropractors, Other Health Diagnosing and Treating Professionals 8. Pharmacists, Dietitians and Nutritionists 9. Nurse Supervisors and Registered Nurses 10. Psychologists, Social Workers, Counsellors, Clergy and Probation Officers | <ol style="list-style-type: none"> 1. Human Resources and Business Service Professionals 2. Other Engineers 3. Architects, Urban Planners and Land Surveyors 4. Physicians, Dentists and Veterinarians 5. Optometrists, Chiropractors, Other Health Diagnosing and Treating Professionals 6. Therapy and Assessment Professionals 7. Nurse Supervisors and Registered Nurses 8. Judges, Lawyers and Quebec Notaries 9. Colleges and Other Vocational Instructors 10. Policy and Program Officers, Researchers and Consultants |
| College, Vocational Education or Apprenticeship Training (NOC 2nd digit 0 or 1) | <ol style="list-style-type: none"> 1. Medical Technologists and Technicians (except Dental Health) 2. Technical Occupations in Dental Health Care 3. Other Technical Occupations in Health Care (except Dental Health) 4. Supervisors, Mining, Oil and Gas Drillers and Related Workers 5. Underground Miners, Oil and Gas Drillers and Related Workers 6. Supervisors in Manufacturing 7. Supervisors, Processing Occupations | <ol style="list-style-type: none"> 1. Administrative and Regulatory Occupations 2. Medical Technologists and Technicians 3. Insurance, Real Estate Sales Occupations and Buyers 4. Police Officers and Firefighters 5. Supervisors in Logging and Forestry 6. Supervisors in Mining, Oil and Gas 7. Contractors, Operators and Supervisors in Agriculture, Horticulture and Aquaculture |

⁹ Tal, Benjamin (2012). The Have Nots of Canada's Labor Market. Toronto: CIBC Economics
 COPS: Canadian Occupational Projection Systems, a modelling system used by Employment and Social Development Canada (ESDC) to predict imbalances between labor supply and demand



DEMOGRAPHIC TRENDS AND THEIR PROJECTED IMPACT ON THE WORKPLACE

THE AGING OF THE LABOR FORCE: THE IMPACT OF BABY BOOMERS REMAINING IN THE WORKPLACE

As is now readily apparent, the most important trend which will have an impact on the labor force during the next ten years is the aging of the population, and consequently, the aging of the workforce itself.

In the past decade, the number of Canadian workers over the age of 65 has spiked more than 140%; and, the number of workers over the age of 55 has surged 67%, to more than 3.7 million. The labor force participation rate (the number of people either working or seeking to work as a percentage of the population) for people over 65 has nearly doubled, to almost 14%, while participation in the 60-to-64 group has jumped 10 percentage points, to nearly 55%.¹⁰

As this generation begins to retire, the labor force will feel the impact in a number of different ways. Labor force projections presented in the preceding chapter all indicate the participation rate will decline, causing the growth in the labor force to slow considerably. Consequently, as projections indicate, there will be a tightening of the labor market, especially in those areas where there are likely to be skills shortages.

But, what if Baby Boomers remain in the labor force beyond the age of 65? On a micro, or individual employer level, this could potentially moderate the impact of trends described earlier. However, how will that affect the workplace? Are there likely to be tensions between incoming generations (Millennials, Generation Zers) and those who “won’t quit” (Boomers, Generation Xers)?

There is no doubt Baby Boomer retirement is a potentially dramatic change factor, but with improving living standards, improved health, and unfortunately, an increased debt burden for many, Boomers are also likely to remain in the workforce. Here are several ways Boomers will, in all probability, affect the workplace:

¹⁰ <http://www.theglobeandmail.com/globe-investor/retirement/the-boomer-shift-how-canadas-economy-is-headed-for-majorchange/article27159892/>



1. Greater Flexibility

Organizations are finding older employees are requiring different working conditions. Most Boomers feel they have “made their mark” and are less likely to believe they have to prove their worth to their employer. As a result, they are less interested in working long(er) hours, they are less defined by their careers alone, and, most of all, they are much more interested in part-time or contract work. “Quality of life” is the key phrase. Job sharing, part-time work, flex scheduling, and contract work will all become increasingly interesting to the older worker.

This will provide a substantial opportunity for municipalities in the medium term as the fiscal situation tightens due to provincial governments’ deficit-reduction and fiscal reallocation to health care and education (see next chapter). Trends towards contract and part-time work have already begun in earnest (much to the dismay of younger generations entering the work force), and will meet a ready and possibly enthusiastic audience with Baby Boomers.

2. Later Retirement Age

As a result of a combination of factors, such as improved health, as well as the carrying of debt later in life, many Baby Boomers will either not want to retire, or will need to stay in the job market longer. Baby Boomers remaining in the labor force may cushion the blow of the slower growing labor force.

3. Increased Labor Costs in Specialized Positions

Baby Boomers have highly specialized skill sets and possess valuable experience. In conjunction, older more experienced workers typically have accumulated more time-off (i.e. vacation time), and for some, higher pension entitlements (i.e. costs). Therefore, in job categories where there are shortages, and where the replacement rate is particularly low, Baby Boomers with specialized experience may be in a position to drive up wages and benefits (thereby labor costs) for those specialized positions.

4. Frustrating Future Generations

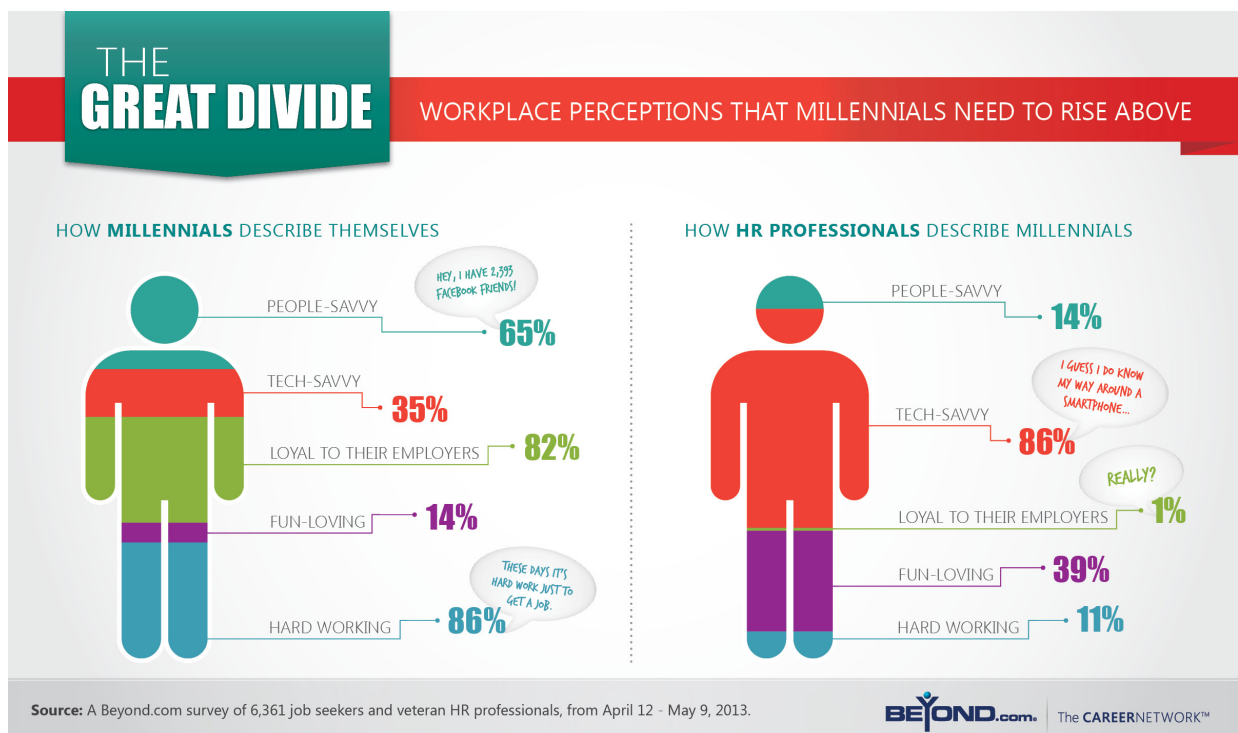
Expectations among younger generations with regard to professional growth and development are extremely high. Baby Boomers who remain in senior/management positions, while providing valuable corporate memory and skills, may also cause increased tension among those younger workers aspiring to accede into those positions, especially Generation Xers who have acquired the requisite skills and experience. In a labor force where competition will increasingly be based on employee engagement, driven increasingly by professional growth and development, remaining Baby Boomers have the potential of frustrating newer generations if not managed properly.



THE CONTINUING EMERGENCE OF MILLENNIALS

It is interesting that even though the Baby Boomer generation will have a much greater impact on the labor force during the next five to ten years it is the Millennial generation which is attracting all of the attention. The Millennial generation (most typically defined as those born between 1980 and the early 2000s), now makes up the largest population group in Canada. Yet, despite the fact that they are the largest generation to emerge since the Baby Boomers, their numbers aren't enough to replace those Boomers who are projected to retire, even when new Canadians are added into the mix.

Anecdotally, it is the stark differences between the Millennials' approach to the workplace compared with Baby Boomer and Xer generations' which are, on the one hand, exhilarating, but on the other, highly perplexing. This is giving HR managers a huge appetite to better understand this generational cohort. The chart below shows an interesting comparison between how Millennials describe themselves versus how HR professionals describe Millennials.



Millennials, now entering the workforce in huge numbers, will obviously have a profound impact on the workplace. Below is a summary of key trends to expect in this regard.



More Women – Greater Diversity, But Still “Generation Screwed”

Canadian Millennials have inherited a labor environment in many ways better than that of their parents. Rising female participation in the workforce, increasing educational attainment, and narrowing wage differentials between Millennials and people of prime working age are trends from which they can expect to benefit. Then, why is this generation often referred to (and refer to themselves) as “Generation screwed”? One of the key reasons is the shift of labor demand from full-time positions to part-time and contract positions. Following the dot.com crash of 2001-02, and then again after the recession of 2008-09, employers became increasingly reluctant to invest (and take the risk) in full-time positions, preferring instead to create part-time and contract positions where capacity is more flexible and can expand and contract based on economic need (as well as being less expensive, as benefits costs are reduced). Another reason is that Millennials are also facing the highest average loan debt per student, so it has become a mounting problem to make ends meet between high student debt and the difficulty in securing full-time, stable, and rewarding work.¹¹

Employee Retention is Becoming Increasingly Challenging

It is largely as a result of this trend towards part-time and contract employment, combined with many having also witnessed their parents being “down-sized” during the recessions of the 1980s and 1990s, that the Millennial generation is considerably more “mobile” (some would say “disloyal”) than generations past. TalentMap benchmark data¹² clearly shows Millennials have a greater penchant to change jobs more frequently. In fact, when asked the question of whether or not they are “looking for or thinking of accepting a job with another employer”, 29% answered in the affirmative, compared to only 21% of those aged 35 years or older. In other words, as they become a growing proportion of the labor force, it is (and will continue to be) difficult to retain Millennials.

There is some speculation that this is at least partially a function of stage of life, (i.e. the average marrying age is rising¹³), and couples are having children later; therefore, Millennials as a group are putting off major responsibilities that may tie them to a particular job. However, there is also a counter-view which says that impending skills shortages as well as continuing trends towards fewer full-time opportunities, more part-time and contract work, and receding benefits (i.e. pension plans) will all result in greater mobility and difficulty in retaining this generation.

¹¹ Misliniski, Jill: “Advisor Perspectives: Millennials and the Labor Force – A Look at the Trends, February 9, 2017

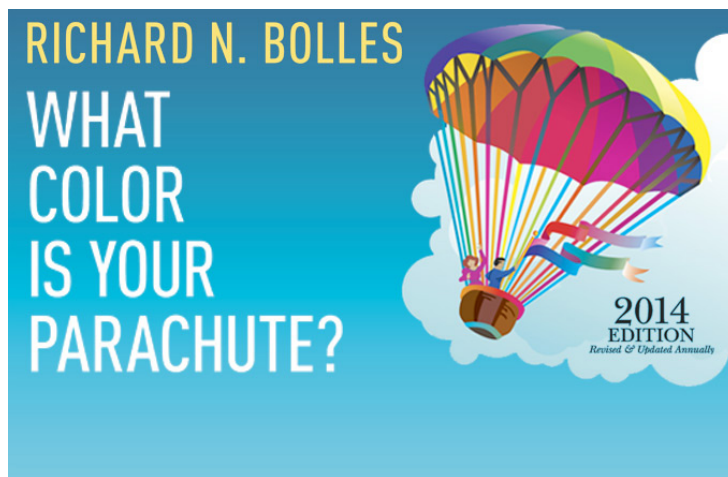
¹² TalentMap has benchmark survey data dating back to 2000. In the last five years (our benchmark database only counts the most recent five years of data), our database is composed of 96,312 respondents, of which 28,238 were born in 1980 or thereafter, i.e. Millennials.

¹³ <http://www.thecanadianencyclopedia.ca/en/article/marriage-and-divorce/>



Challenging, Meaningful Work and Professional Development are the Keys to Engaging (and Retaining) Millennials

When Richard Bolles first published the book “What Color is your Parachute?” in the 1970s, research showed that 23% of new job seekers expected “meaningful work”. Fast forward to the 2014 edition, and we now see that two-thirds (67%) of new job seekers say the work they do needs to be meaningful. In fact, one of the key determinants of employee engagement is the link between one’s work and the organization’s long-term objectives ¹⁴. In addition, TalentMap benchmark employee engagement results clearly show **the major difference between Millennials as a generation and older workers is the feeling among many that the work they do is not challenging.**



Finally, Millennials have significant expectations around their professional growth and development, and are rejecting traditional performance management models which rely on the annual or semi-annual performance appraisal. Conditioned from a very young age to expect constant praise and feedback, the Millennial generation has brought these expectations into the workplace in the form of a demand for **frequent, meaningful, forward-looking** conversations with managers as to how they can learn, grow and advance their careers (not necessarily at their present organization). ¹⁵

Fewer Millennials find their work challenging

65%

Millennials who Agree/Strongly Agree

77%

Aged 35+ who Agree/Strongly Agree

¹⁴ Challenging, Meaningful Work and Professional Development are the Keys to Engaging (and Retaining) Millennials

¹⁵ TalentMap benchmark survey database.



A Globe and Mail feature describes six ways Millennials are transforming the workplace ¹⁶:

1. **More Women in Leadership Roles** – More women in the workplace now, will inevitably lead to more women in leadership roles later.
2. **Flattening of Organizational Hierarchy** – Millennials aren't fond of the top-down leadership style that has until now dominated the professional world, preferring instead to collaborate in teams. Cubicles, walls, closed doors and even assigned desks will be removed in favour of open-concept work spaces that promote engagement between all workers – regardless of seniority. That being said, TalentMap surveys are also showing many employees are rejecting open-concept workspaces as too distracting. While hierarchy is being eschewed in many ways (mostly through a greater approachability and visibility of senior leadership), the jury is out as to whether or not the open-concept, “collaborative”, work space will survive long-term.
3. **Blending, Instead of Work-Life Balance** – One of the myths about this generation is that they are “lazy” and value work-life balance above working hard and striving to prove oneself to get ahead. In fact, numerous studies, including TalentMap research, consistently shows this is myth. Millennials do not feel their work-life balance is any better or worse than previous generations. However, whereas the limited availability of technology (think large desktop computers and landline office phones) constrained previous generations to the office, today's technology allows the office to be completely mobile – transportable anywhere. As a result, while the typical Millennial may leave at 5:00p.m. sharp for yoga class, chances are much higher they are back on line after dinner. Whereas Boomers and Xers typically seek complete separation of work and “life”, Millennials are more likely to move easily and multi-task between the two, and expect to be managed accordingly.
4. **E-mail and Meetings are Becoming Passé**
Recent surveys show that, like voice mail and “snail mail” before it, e-mail use is declining among Millennials in favour of interacting on social networks and by text and instant messaging. Furthermore, instant messaging is already starting to replace e-mail, phone calls and in-person meetings at workplaces around the world because it increases productivity, reduces interruptions and results in shorter, faster, more efficient conversations. While the e-mail inbox may exist in one form or the other well into the future, the real work will get done in real time via instant messaging.
5. **The Results Only Work Environment (ROWE)** ¹⁷
As Millennials begin to occupy more management and leadership roles, we can expect that the old paradigm of “you're not working unless I see you working” will die out. Given that much work will be done from different places as a result of mobile technology, Millennial managers will have no choice but to assess performance not through presence or absence, but by actual delivered results. It follows that those managers who hold onto a “bums in seats” perception (and remain in the workforce) will increasingly be marginalized.
6. **Regular, Immediate, Social Feedback**
One of the most prominent stereotypes about Millennials is they like receiving a lot of feedback, and that is true. Immediate, effective feedback allows Millennials to produce better results faster, making their work flow even more efficient – ideal in a ROWE. Social performance management platforms ¹⁸, such as Work.com (formerly Ryppe) and WorkSimple, are already making this easy and fun. Entire teams and companies can see who their best performers are, and employees are publicly rewarded both by their colleagues and managers for the results they achieve.

¹⁶ Lauren Friese and Cassandra Jowett: “The Six Ways Generation Y will Transform the Workplace”, published March 12, 2013.

¹⁷ Developed by Best Buy Human Resource Managers Cali Ressler and Jody Thomson.



YOUTH EMPLOYMENT AND GENERATION Z

One of the ironies of current and future trends affecting the Canadian labor market is the stubbornly high rate of youth unemployment. Despite trends pointing to skills shortages, higher levels of post-secondary education, and a challenging Labor Force Replacement Rate (referenced earlier in this paper), youth unemployment continues to remain high, as pictured in the chart below.

Canada Youth Unemployment Rate



While an in-depth discussion of the root causes for this go far beyond the scope of this analysis, implications for the near-term reside in the fact that it is conditioning the attitudes of the incoming young labor force: Generation Z. These technically savvy young people are now beginning to turn working age, and will provide the primary labor pool for many of the jobs required by municipalities, in areas such as recreation, land care and management, etc.

Given the sheer size and trendiness of the Millennial generation, Generation Z has thus far attracted little attention, but will become increasingly important as they will be required to fill many types of jobs as described above.

In many ways, all indications are that this generation represents a continuation of the values of the Millennials (which begs the question as to whether or not it is actually a separate generation cohort). Several studies have examined Generation Z and have flagged characteristics symptomatic of growing up amidst the global recession of 2008-2009. They have been reported to be more frugal than their Millennial counterparts and this has left them eager to sacrifice their personal time for financial reward. They are prepared to put in the hours but only if they consider themselves adequately compensated financially. They have spent much of their formative years sedentary and online, and will likely prefer to continue to make social and business contacts from their computer, as opposed to in person.

¹⁸ Social performance management systems allow managers and employees to establish and share goals with each other and track progress in real time. People at all levels are able to provide timely feedback and recognition, making it spontaneous and interactive. The process resembles having a conversation rather than capturing records after the fact. Similar to Facebook, people can comment on or “like” individual recognitions or other content. Please note that our research did not refer to any applications of these systems in the public sector.



Trends in public administration and municipalities

These trends will affect the entire labor market locally, nationally, globally. In some ways, municipalities will face even greater challenges. However, there are also opportunities to gain competitive advantage in attracting and retaining people for key positions.

FISCAL PRESSURES AND THE END OF RAPID EMPLOYMENT GROWTH

The fiscal expansionary policies pursued at both federal and provincial levels have come to an end in most provinces. After experiencing a difficult period during the 1990s because of large budget deficits, public administration posted above average growth in output and employment during the following decade, which continued with fiscal stimulus following the 2008-09 recession. During the period of 2005-2011, some 90,000 jobs were created in public administration ¹⁹, with an annual growth rate of 9% in municipalities.

During the recession of 2008-09 various programs put in place by federal and provincial governments to stimulate the economy helped maintain employment growth rates in public administration. But lower tax revenues and increased public spending resulted in large fiscal deficits and public debt (particularly in Ontario). Consequently, output growth in public administration weakened drastically from 2012 to 2014, averaging only 0.3% annually. Employment fell by 37,000.

The return to deficit reduction has significantly changed the long-term outlook for public administration in general, and municipalities in particular. If provincial governments stick to ambitious plans for expenditure restraint, and/or reallocation to programs such as health care and education, the increased fiscal pressure on municipalities will be expected to continue. ²⁰

As a result of this continued fiscal pressure, downward pressure on employment will continue. In addition, pressure to achieve fiscal efficiencies, combined with political pressure to close the wage and benefit gap between civil servants and their private sector counterparts, are more than likely to result in **continued pressure for contracting/outsourcing, part-time work and other measures to reduce employment pension and benefit costs.**

Further, ideas and philosophy are changing with regards to which (municipal) services belong in the public realm. For example, whereas waste management/garbage collection was previously considered a public service, in most municipalities it is now contracted out to private firms ²¹. Labor is also increasingly being usurped by technology. Self-service kiosks, online library services and online license and permit renewal are just a few examples of the trend towards automation, which will result in significant cost savings as low-skill (and often unionized) jobs disappear.

¹⁹ Statistics Canada (historical) and ESDC 2015 COPS industrial scenario (projections)

²⁰ It should be noted that the above projections were undertaken prior to the election of the current Federal government, and do not take into account the increased budgeted expenditures on public infrastructure, which may have a positive impact on municipal public administration employment.

²¹ <http://www.macleans.ca/economy/business/the-future-of-public-sector-jobs/>



The major implication of these trends is clear: main competitive advantages in attraction and retention of labor in the public sector in general, which were formerly based on higher than average compensation and benefits alongside job stability and security, are rapidly being levelled out with the private sector. Municipalities that go beyond job security, compensation and benefits (i.e. work flexibility, appealing employer brand, experiential work environment) will be in a stronger position to compete for scarce labor.

Long-Term Trends are Being Delayed by Current Deficit Spending

The 2015 federal budget, (and the provincial example of Ontario's 2016 budget) ²², are both using deficit spending in the short-term to provide economic stimulus and job growth. These additional funds are having the effect of delaying the inevitable fiscal restraint which will force municipalities to continue to restrain their own spending. It is interesting to note that the most recent employment statistics for Ontario show substantial increases in employment in public administration between February 2016 and February 2017: from 343,100 employed in public administration to 373,500, a year-over-year increase of 8.9% ²³. However, much of this increase can be attributed to growth in the federal public sector in Ottawa as well as provincial and municipal increases.

Notwithstanding the above, restraint in the March 2017 federal budget is showing that these increases are not sustainable over the long-term, and the abovementioned long-term trends of provincial fiscal restraint leading to lower employment growth and cost reduction in municipalities remain inevitable.

UNIONIZATION IS CHANGING

One of the long-term impacts of many of the demographic trends discussed above is that the overall unionization rate has fallen from 37.6% in 1981 to 28.8% in 2014. As the economy shifts from a manufacturing and resource-based economy to retail and professional services, these trends are to be expected.

However, unionization in the public sector is actually bucking this trend and has risen from 70.4% in 1999 to 71.3% in 2014. There are two key reasons for this increase. The first is the shift in employment to sectors with high unionization rates (e.g. health care and education). The second is the expansion of public sector employment which has taken place over the last decade and a half. The key implication here is that the public sector is growing more unionized (slowly), while the private sector is less so. Trends are showing that public sector unions aren't going away in the short or medium term, and only time will tell the impact this will have on municipalities' ability to manage the scarce labor economy of the foreseeable future.

²² <https://www.fin.gov.on.ca/en/budget/ontariobudgets/2016/budhi.html>

²³ Statistics Canada CANSIM table 282-0088



THE IMPORTANCE OF EMPLOYEE ENGAGEMENT FOR MUNICIPALITIES: CHALLENGES AND OPPORTUNITIES

How then will the game be played? With many Baby Boomers on the cusp of retirement (those in the public sector having access to generous pension benefits), not enough Generation Xers to fill all those highly skilled and managerial positions, and Millennials seeking greater challenge and more meaningful work – while also willing to change jobs frequently to achieve these things – it is generally recognized that employee engagement will need to be a key ingredient to attract and retain the workforce of both now, and the future.

In this respect, there are both opportunities and challenges facing municipalities.

Professional Growth and Development in the Municipal Environment

“Professional growth and development” is a key driver of employee engagement in the large majority of organizations; municipalities are no exception in this regard ²⁴. However, the municipal environment has both strengths and weaknesses with respect to their ability to engage employees. On the one hand, extensive employee engagement surveying among municipalities by TalentMap has shown that employees perceive substantial opportunity as a result of the many different types of occupations available within the municipal environment. However, on the other hand, most municipalities manage in a very siloed manner, in part because occupation demands are not transferable (e.g. a librarian isn’t trained for emergency services), but more often because there is a distinct lack of cross-functional communication between siloes and a vertical approach to delivering municipal services. Also, learning and development are often casualties of fiscal restraint, being viewed as discretionary spending, when in fact, learning, growth and development are considered critical to employee engagement, by employees themselves. Finally, municipalities with large percentages of unionized employees will continue to face employee engagement challenges as many unions continue to apply a confrontational approach to labor relations, especially as they struggle against necessary reductions in labor costs through increases in part-time and contract work, efforts to reduce benefit costs and pension liability, etc.

²⁴ TalentMap employee engagement surveys of more than a dozen municipalities of varying size across Canada.



Compensation – Not an Engagement Driver

Below displays a chart from various sources, including TalentMap's benchmark information for municipalities. While compensation is undoubtedly an important criteria with regard to attraction and retention for municipalities (especially for unions), once the employee has joined, compensation has little impact on their level of engagement. More important factors are professional growth and development, one's immediate supervisor/manager, and senior leadership.

What about Compensation?

- Disparity in compensation levels between small and large municipalities
- Salary budgets are “first to go” when faced with fiscal pressures:
 - Eroding tax base
 - Competing priorities
 - Politically popular

A Study conducted by WorkLife Design reviewed characteristics that made organizations employers of choice. Only 34% of respondents named compensation. About 56% said flexible benefits were a major factor, and **80% said the work environment was the biggest factor. This was described as servant leadership, trust and cooperation, work/life balance and credible management.**



Compensation – while poorly perceived – not a driver

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Diversity, Respect and Inclusion: A Key Competitive Advantage

Only fairly recently have organizations begun to measure employee attitudes towards diversity, respect and inclusion in the workplace. **In all Canadian municipalities where TalentMap has conducted employee engagement surveys, “diversity, respect and inclusion” has been shown to be a key driver of employee engagement** (demonstrated in the table to the right). Only “professional growth and development” explains a greater proportion of employee engagement in municipalities than “diversity, respect and inclusion”.

Given the higher proportion of new and visible minority Canadians entering the workforce, experience in managing this dimension will prove invaluable in terms of both attracting and retaining employees self-identifying in a minority category.

| Survey Dimension | Relative Weight (Impact on Engagement) |
|---|--|
| Professional Growth | 14.5% |
| Diversity, Respect and Inclusion | 12.0% |
| Innovation | 10.1% |
| Immediate Supervisor | 7.9% |
| Teamwork | 7.1% |
| The City’s Vision | 7.0% |
| Department Manager | 7.0% |
| Work Environment | 6.4% |
| Corporate Leadership Team | 5.4% |
| Performance Feedback | 4.7% |
| Safety | 4.7% |
| Citizen Focus | 4.3% |
| Information and Communication | 3.8% |
| Work / Life Balance | 3.2% |
| Compensation | 1.8% |

Interpretative Note: “Diversity, Respect and Inclusion” explain 12% of employee engagement, and is therefore the second most important determinant, or “driver” of engagement.



Conclusions and implications

Composition of the labor force is changing rapidly, and drastically. To face these demographic complexities, municipalities need to change how they manage their human resources. To do so involves a number of challenges and opportunities.

A TIGHTENING LABOR FORCE

All of Statistics Canada's labor force projections to 2036 call for a slowing of labor force growth. The predominant demographic trend driving this slowdown is the impending retirement of Baby Boomers. Taking into account Gen X populations together with Millennials, Gen Z and incoming new Canadians, the labor force replacement rate has already dipped below 1.0. In other words, there are not enough new workers to replace those leaving the workforce. The implication for municipalities means fewer employees available to fill positions.

IMPENDING SKILLS SHORTAGES AFFECT MANY OCCUPATIONS

As labor force growth continues to slow, it is projected to impact a number of different occupations within the municipal workforce. Accounting and auditing professionals, engineers, technicians, construction workers and laborer's, administrators and clerks are among those expected to be in short supply in the short-to-medium term.

DOING MORE WITH LESS WILL BE BACK (DID IT EVER LEAVE?)

Fiscal realities facing municipalities in the medium-term (notwithstanding a short-term increase in public sector employment as a result of federal investments in infrastructure and innovation) mean that municipalities will not have as many positions to fill. Nevertheless, fiscal pressures will continue to force municipalities to seek cost savings through more part-time work, contract work, and reductions in labor entitlements. No longer will municipalities be able to attract employees using above average compensation and benefits. Competition for talent with the private sector, particularly for occupations with skills shortages, will need to be based on other persuasive factors.



THE CHANGING FACE OF THE WORKPLACE WILL REQUIRE CHANGES IN HUMAN RESOURCE MANAGEMENT

Millennials are quick to move from job to job. As attrition among this population of employees expands and contracts like an accordion, their mobility will place added pressure on recruiting. Baby Boomers and Gen Xers, meanwhile, are a potential stop-gap solution for predicted skills shortages.

To engage older workers, and hopefully keep them from retiring, a flexible work environment, work-life balance, and quality of life may entice them to remain in the workforce.

Conversely, to engage Millennials, and hopefully retain them a little longer, although they will still likely leave after four or five years, a work environment that offers learning challenges and professional development is key. However, the need to retain Gen Xers and their Boomer predecessors will provide fewer opportunities for Millennials to advance in their careers. Catch 22.

The challenge for municipalities will be to balance these competing demands, innovatively. As a for-instance: providing Millennials with professional learning, development and growth, and leveraging Baby Boomer colleagues to teach and mentor while picking up technology know-how in the process, could go a long way towards engaging employees across all demographics.

THE DIVERSITY AND INCLUSION FACTOR

New Canadians and visible minorities will comprise a significant percentage of the labor force. In Ontario's GTA population hub alone, this group will make up 40% by 2031. Municipalities that successfully diversify their workforces, and more importantly, create inclusive and welcoming organizational cultures (i.e. a dedicated space for daily prayer, celebrating a cornucopia of cultural holidays) will have a distinct competitive advantage in attracting minority employees. Municipalities and the public sector in general are among the first organizations in Canada to enact policies and programs in the area of diversity and inclusion, and, the first to link diversity and inclusion to employee engagement: a leadership role of great import.

The common denominator across this changing face of the workforce, is employee engagement: the new currency of recruiting, retaining and cultivating highly productive talent.

IN CONCLUSION

Impending trends in the labor force will dramatically impact all organizations; municipalities are no exception. The workplace of the future is fraught with challenges in terms of labor force tightening, skills shortages and fiscal constraints. Tomorrow's talent terrain also offers huge rewards for those willing to analyze and assess, act and engage. Maneuvering through this quagmire can be made easier by tapping into critical insights and perceptions through a well-planned and implemented employee engagement survey. In turn, workforce findings will help guide and shape human resource strategies to position your municipality for success well into the years ahead.



Appendix

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