



STAFF REPORT ACTION REQUIRED

Toronto Region Financial Services Strategy for Enhancing Global Competitiveness

Date:	October 27, 2009
To:	Economic Development Committee
From:	General Manager, Economic Development, Culture and Tourism
Wards:	All Wards
Reference Number:	P:/2009/Cluster A/EDCT/ECON DEV/November/ed0911-041

SUMMARY

This report recommends that Council endorse the recommendations contained in the strategy entitled *Toronto Region Financial Services Strategy for Enhancing Global Competitiveness* to strengthen the financial sector in Toronto and refer the request for additional resources to implement the associated sector strategy to the General Manager, Economic Development, Culture and Tourism.

The TFSA was created in 2001 by the City of Toronto, in partnership with the financial services industry and educators, to enhance and promote Toronto as a premier North American financial centre. It has been a catalyst for collaborative action to strengthen and expand the financial services industry and an advocate for positive change. In 2009, the TFSA contracted Boston Consulting Group (BCG) to conduct a strategic review of Toronto's financial sector and provide recommendations to further enhance its global positioning. The methodology to develop the strategy included global benchmarking, competitive assessment of Toronto's strengths and weaknesses, expert interviews and industry consultations, evaluation and prioritization of opportunities, and development of a mobilization plan. The strategy is consistent with the four pillars of the City's *Agenda for Prosperity*: Proactive Toronto- Improve Business Climate; Global Toronto- Internationalization; Creative Toronto- Enhance Productivity and Growth, and, One Toronto- Economic Opportunity and Inclusion.

Toronto has a timely and time limited opportunity to capitalize on the increasing global recognition of the stability and integrity of its financial system and position itself strategically for long term success. The strategy provides an action plan to do so.

RECOMMENDATIONS

The General Manager, Economic Development, Culture and Tourism recommends:

1. the Economic Development Committee endorse the recommendations of the BCG strategy, *Toronto Region Financial Services Strategy for Enhancing Global Competitiveness*, to be distributed at the Committee meeting on November 12, 2009;
2. the Economic Development Committee refer the request for additional resources to support implementation of the BCG recommendations to the General Manager, Economic Development, Culture and Tourism; and
3. Council and staff continue to collaborate closely with the Toronto Financial Services Alliance (TFSA) on the development and implementation of the strategy through the Economic Development, Culture and Tourism Division to:
 - a. have the Mayor participate on the Financial Services CEO Leadership Council;
 - b. collaborate with stakeholders to proactively position and promote Toronto region as a premier international financial centre;
 - c. work with stakeholders on the establishment of four leading hubs to enhance global competitiveness as identified in the strategy;
 - d. develop policies and strategies to further attract, develop and enhance Toronto's Talent Advantage; and
 - e. provide sector development assistance.

Financial Impact

There are no direct financial implications for the City resulting from the adoption of this report. The 2009 Approved Operating Budget for EDCT includes in the base budget \$125,000 contribution to TSFA. TSFA has requested an increase of \$120,000 in 2010 and an additional \$100,000 in 2011. The General Manager of EDCT will address the request for additional resources by seeking other sources of funding without requiring an increase to EDCT operating budget

ISSUE BACKGROUND

The Financial Services industry is a critical engine of the Toronto region's economy. Shortly after amalgamation, recognizing the importance of this industry to residents and businesses, the City initiated consultations with industry representatives, business associations and academic institutions to develop a collaborative approach to strengthen and expand Toronto's Financial Services sector. The Toronto Financial Services Alliance (TFSA) was subsequently established in 2001 as a City-Industry-Academic partnership with a mandate to enhance and promote Toronto as a premier North American financial centre.

The TFSA has members from roughly 40 Toronto- based financial services companies, academic institutions, industry associations, and professional services firms. The City is a key founding member and a driving force throughout the organization. TFSA is currently led by a Leaders' Forum consisting of member- firm CEOs, including the Mayor, who meet annually to set its direction and endorse current work plans. A Board of Directors meets quarterly to manage the overall operations of the TFSA and its strategic undertakings. The Board currently numbers 16 senior representatives of the financial industry and affiliate businesses. The Chair of Economic Development Committee is a member of the Board. The General Manager of EDCT and the Director of Strategic Growth and Sector Services attend Board meetings regularly. The TFSA also has four operating committees resourced primarily by industry representatives and City staff as required. Sector Development staff actively participate on all the above entities while performing much of the day to day operations of the TFSA. The provincial and federal governments have become actively involved over the past year.

In 2008, financial services (FS) directly employed 220,000 people in the Toronto region and an additional 130,000 people indirectly, accounting for a total of 350,000 people, or over 12% of total employment in the region. Financial services jobs are inordinately valuable to the economy, creating on average almost twice the value in direct Gross Domestic Product (GDP) as jobs from other sectors.

Financial Services firms are also a major driver of the information technology sector. In addition to being a large employer of information technology professionals, past interviews with IT and new media companies confirm that they have performed better than other jurisdictions partially because they have strong linkages to the Financial Services cluster. Building upon the recommendations contained in the *Talent Matters* study (www.toronto.ca/business_publications/talent-matters.htm), the TFSA has been working to build other valuable linkages with stakeholders such as Toronto Region Immigrant Employment Council to ensure newcomers have equal access to employment opportunities in financial services. This contribution to jobs, GDP and community has increased significantly in importance for the region over the past five years, as the growth in financial services has exceeded the loss of GDP attributable to the decline of the region's manufacturing sector.

By creating a common voice for the Financial Services industry, the TFSA has also been effective in leveraging funding. In 2006-07, following along the policy direction articulated in the City Council approved *Toronto Labour Force Readiness Plan*, the TFSA partnered with Deloitte to research and prepare *Talent Matters*, a landmark study of the human resource needs of Toronto's financial sector funded by the federal government. The report identified three key areas for collaborative action: eliminating barriers to hiring and integrating new immigrants; improve financial services education; and enhance Toronto's financial services brand. All of these recommendations serve not only to help meet the labour force needs of the industry but to enhance the competitiveness and attractiveness of Toronto as a whole locally and internationally.

As a result of the work done by the TFSA and Deloitte in producing *Talent Matters*, in 2008, the Ontario Ministry of Training, Colleges and Universities agreed to fund the TFSA \$4 million over three years to develop and implement a Centre of Excellence (CoE) and Training in Financial Services. The City of Toronto contributed \$100,000 towards the initiative.

The TFSA has since executed on the recommendations of the report presented to Economic Development Committee in 2008. An interim Project Director has been in place over the past year and several deliverables, including a CoE micro website (www.tfsa.ca/coe) and marketing collateral, have been completed. A number of priority actions have also been identified for the 2010-12 period. An Executive Director and Research position search is currently underway. While the Ontario government has seeded the project for the first three years, continued industry and government support will be required beyond 2011.

In March 2008, the TFSA also partnered with the City of Toronto, Ontario Government, Consulate General in New York and the financial services industry in Toronto, with TD Bank Financial Group as the lead firm organizing an event to promote the sector. The event was very successful attracting roughly 150 executives from New York's financial community. A subsequent debriefing session was hosted by TD Bank Financial Group's CEO Ed Clark and attended by Ontario Finance Minister Duncan and TFSA President Ms. Janet Ecker. A decision was made to create a Financial Services Working Group chaired by Ms. Ecker and Mr. Don Drummond to flesh out how Toronto, Ontario could develop an international niche position in financial services.

Through an RFP process, the above Working Group subsequently contracted Boston Consulting Group (BCG) to develop a strategy and specific policy options to enhance the competitiveness of Toronto among global financial services centres. The objective of the strategy is to increase Toronto's competitiveness as an international financial centre and in so doing:

- Create more financial services jobs in the Toronto region:
- Increase the industry's GDP contribution and overall economic impact
- Enhance the conditions for financial services to grow internationally
- Attract international investment and financial services to the Toronto region

The funding partners for the project included the City of Toronto, Province of Ontario, Government of Canada, an industry consortium of pension funds, banks, insurance companies, the TMX Group, industry associations, and BCG itself.

COMMENTS

The BCG strategy comes at an opportune moment. Toronto's financial sector has emerged from the recent global financial crisis relatively unscathed. In fact, the crisis has shone a positive spotlight on our Financial Services sector's reputation for safety and stability has garnered significant global interest and praise. The TFSA has proposed a

target for Toronto to become the 2nd most important financial centre in North America and among the top 5-7 globally by 2015. To do this requires a focussed and sustained strategy. It also requires a collaborative approach and must be undertaken with some urgency.

The BCG strategy outlines nine initiatives to enhance the global competitiveness of Toronto based on three themes for action: 1. Build four leading hubs; 2. Align for success, and 3. Fortify competitive foundations.

Execution of the strategy will require proactively engaging a mix of levers by both governments and financial services companies. Common goals and a vision shared by governments and industry are essential, as well as a coordinated and collaborative approach to implementation. An independent partnership body involving government participation and industry membership is recommended by BCG as the most effective structure to drive this coordinated strategy for the Toronto region. The best known example of such a partnership structure exists in the UK known as International Financial Services London (IFSL) - a model on which the TFSA is based.

At present, TFSA focuses mainly on advocating on behalf of industry groups on policy issues, initiating competitiveness studies, and collaborative promotion of the sector. In order to drive the focused and coordinated effort required to implement the above strategy would require additional resources. A significantly expanded TFSA partnership would be best suited to fulfill the mandate of executing the recommendations. Stakeholders consulted in this process all agree - the most significant challenges in moving the needle on Toronto's global competitiveness will be in execution.

TOWARDS AN EXPANDED PARTNERSHIP

Since its creation, the TFSA has operated with a resource base of 1.5 FTEs comprised of a part-time President, Sector Development Officer and administrative support with two offices at Metro Hall. Funding for the initiative has primarily come from the City through its provision of sector staff, in-kind and cash contributions. In 2009, the cash contribution amounted to \$125,000. Industry membership dues and specific project funding have supplemented the remainder of the budget requirements. Financial Services sector staff have played a significant role in TFSA undertakings. The CoE initiative and the BCG recommended strategy have expanded the mandate of TFSA far beyond its current capacity.

Recognizing the above constraints, BCG has proposed a two-stage implementation process to successfully execute the strategy. It includes a CEO Leadership Council, and a revamped TFSA (Secretariat). BCG recommends a six-month "mobilization stage" -- a consultant-led process to provide start up of the initial work teams, the development of detailed business cases and action plan for each of the nine initiatives proposed. The Ontario government is being asked to finance this stage. Stage two involves the staffing up of the TFSA in order to implement the action plans derived from the earlier

mobilization phase. Implementation will be jointly funded by contributions from industry, Provincial and municipal government.

Operating costs for the TFSA in 2009 are projected to be \$2.1 million primarily owing to mobilization costs of \$1 million over and above TFSA/CoE operating costs. Total TFSA resources reflect 2.5 FTEs and include a project director for the CoE. Mobilization costs continue in 2010 and TFSA staffing levels ramp up to 13.5 FTEs on a staggered basis. The 2010 budget projections are higher than 2009 as a new marketing/branding program is initiated for the CoE. In 2011, TFSA operating costs normalize as mobilization funding ceases although costs for a follow-on global marketing initiative for the CoE continue. Accordingly, local government is being asked to increase its contribution by \$120,000 in 2010. Historically the City has contributed approximately 60% towards the TFSA's operating budget. By 2011, municipal funding would be reduced to 14% under a normalized scenario and is lower on a percentage basis than municipal funding for the UK's International Financial Services London (IFSL). It should be noted that industry contributions will rise significantly to meet the strategy and resourcing requirements outlined above. Cash funding requirements for this are illustrated below.

\$000's

Estimated Base Resource Requirements (cash only)				
TFSA Resource Requirements	Actual 2009	2010	2011	Total 3 year
Toronto/Municipal*	125	245	345	715
Fed/Prov	1755	2349	1382	5486
Industry	170	700	700	1570
Total	2050	3294	2427	7771
*Combines TFSA and Centre of Excellence resources. 2009 City/Municipal costs are for calendar full year and include only base funding cash contributions, in-kind contributions excluded. Mobilization costs of \$2 Million in total are factored in to Federal/Provincial allocations equally in 2009 and 2011.				

Translating the strategic areas of focus into action needs to be a priority of both the financial services industry and all three orders of government. It will take leadership, resources and focus. Gaining early traction and demonstrating progress on the strategy and recommendations during the next six to eight months timeframe will be critical to build confidence and continued support and commitment of key stakeholders. The current timing is particularly compelling.

CONCLUSION

The City's foresight in initiating the Toronto Financial Services Alliance and the active participation of its members and the industry as a whole have helped to retain and create employment and strengthen Toronto, Ontario and Canada's economy.

At this point in time, the global financial crisis has put Canada and Toronto under a temporary spotlight of global attention. While recessions have many negative consequences, they also create opportunities for new success stories. Toronto's Financial Services cluster is now better known and more highly regarded than ever. The work of the City and TFSA to coalesce the industry, research and prepare *Talent Matters*, and develop and pursue a Financial Services Centre of Excellence have positioned Toronto to take advantage of this opportunity which is sure to wane unless purposefully seized and leveraged. The region's economy needs the financial services engine more than ever.

Importantly, the BCG strategy has taken place through the combined will and collaborative participation of three orders of government and multiple Financial Services industry stakeholders. The initiatives to build leading hubs; align for success, and fortify competitive foundations are all consistent with and support the four pillars of the City's *Agenda for Prosperity*.

Successful implementation will also require an ongoing collaborative and coordinated effort. As an established government – industry – academic partnership, an expanded TFSA is best suited to coordinate this effort. Recognizing the current financial constraints, a two-stage implementation process is proposed to be funded by contributions from industry, Province and municipal governments.

CONTACT

Christine Raissis, Director
Strategic Growth and Sector Development, EDCT
Tel: 416-392-3385
Fax: 416-397-5332
E-mail: craissis@toronto.ca

Susan Viegas, Sector Development Officer
Financial Services, EDCT
Tel: 416-397-4817
Fax: 416-392-3374
E-mail: sviegas@toronto.ca

SIGNATURE

Michael H. Williams, General Manager
Economic Development, Culture and Tourism