Research to support the Economic Development and Culture Division strategic directions report

Summary report

June 2022

Creating leaders, inspiring people and bringing perspectives together to achieve what matters most.

Background and objectives of the study

Toronto has now transitioned away from the crisis phase of the COVID-19 pandemic which provides an opportunity for the municipal government to take a fresh look at its approach to supporting economic development and recovery while considering new strategic models to shape future economic and cultural development.

The Toronto Office for Recovery and Rebuild (TORR), and the Building Back Stronger report have already outlined some key principles and activities supporting these future plans. In addition, the City of Toronto's Economic Development and Culture Division (EDC, the Division) commissioned PwC to provide research to inform the development of its upcoming Strategic Directions Report in 2022/3.

The key findings from PwC's research are outlined in this summary report. The findings are based on a review of the strategies currently in place at the City and those under development, a review of major global trends impacting the city, a SWOT assessment of Toronto that considers how its competitive position has changed over the course of the pandemic, a review of the future economic performance of different sectors of the economy, interviews with EDC staff responsible for business growth services and sector focused programs and a jurisdictional review focused on recent economic development policies of five other cities (Montréal, New York, London, Chicago and Sydney).

EDCs mission

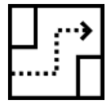
The research was developed in the context of EDC's mandate and role. Its mission statement is:

"to advance Toronto's prosperity, opportunity and liveability by:

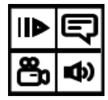
1. *Fostering employment and investment opportunities*
2. *Encouraging Toronto's cultural vibrancy through more and enhanced cultural experiences*
3. *Engaging partners in the planning and development of the city's economic and cultural resources"*

Key global megatrends

Like all cities, Toronto is being impacted by key megatrends that are shaping its future. These key trends include:



The rise of remote work: which is reducing the importance of physical proximity to central business districts



Digitalization of the economy: which is changing the skills workers need

Global competition for talent: Leading to increased competition between jurisdictions

Changing demographics: leading to labour shortages and changing needs from an aging population

Growing inequalities: pushing more households into inadequate housing and precarious financial positions

Climate change action: which will impact Canada's economic mix and may lead to rising costs

Focus on supply chain resilience: The rise of protectionism and nearshoring to counter geopolitical and resilience concerns

These megatrends will impact Toronto in different ways to other cities. To inform how, we developed a SWOT assessment focussing on the changes to Toronto's relative competitive position during the COVID-19 period and spoke with some key stakeholders to identify specific impacts.

Toronto's competitive position during COVID-19

The table below focuses on the key strengths and weaknesses of Toronto derived from reviewing how Toronto's relative position in global city rankings evolved before, during and after the pandemic. It is colour coded to show areas of improvement over this period (green, material improvement in ranking), areas that did not change materially (amber) and areas that were seen to have deteriorated (red, material deterioration in ranking).

We note that using global city rankings has some limitations. First, they measure relative competitiveness rather than absolute competitiveness, meaning that a drop in Toronto's rankings could be due to an increase in other cities' position. Secondly, comparisons between rankings are complex given different underlying methodologies and data sources.

Notwithstanding the above, some improvements were seen in Toronto's existing strengths during COVID-19 such as the tertiary education system, the city's reputation for safety and the strength of the financial centre.

However, other areas were felt to have deteriorated including the vibrancy of the start-up ecosystem, the reputation for high quality urban planning, the reputation for quality of living and the healthcare system. A number of these areas of deterioration were linked to one-off COVID-19 impacts from how stringent lockdown measures impacted businesses so it is too early to say whether they will endure.

Strengths
• Home to the University of Toronto, a world-leading university • One of the safest cities in the world • Leading global financial centre
• Rich and diverse talent pools • Dynamic local markets (size, start-up ecosystem, resilient market, stability) • Availability, access and quality of health care • Strong business environment • Globally recognized location for international students to pursue post-secondary education
• Vibrant start-up ecosystem • Globally recognized high quality urban planning • Strong and positive worldwide reputation for quality of living

Weaknesses
• Compared to other global cities, Toronto does not stand out as a tourist destination
• Housing affordability and access to property are key concerns for citizens of Toronto • Lack of housing supply, which could become a huge issue for the city given projected demographic growth • Traffic congestion and relatively limited cycle/pedestrian attractiveness • Weak capacity of health infrastructure (capacity of the system, number of beds, number of doctors) • Limited economic impact of start-ups • The city's economy lacks global leading companies, scalable start-ups and unicorns
• COVID-19 response (including lockdowns and pressure on healthcare system) • Weak penetration of green finance into Toronto's financial centre

Source: PwC analysis based on review of 18 Global city indices and stakeholder engagement.

How these trends may impact Toronto

Our consultations with major organizations in the city with roles in real estate, education, start ups, tourism, and events, plus interviews with EDC staff were used to assess what the megatrends and relative competitiveness shifts meant for the city and EDC's role in supporting economic development and cultural vibrancy.

Considering how global trends will affect Toronto, the ten key issues that need to be prioritized to support Toronto's future were identified as the below (ranked in no particular order). These, however, do not all refer to actions that can be undertaken by EDC given its mandate and ability to impact (considering the available tools and levers).

It is recommended that EDC focuses on issues **one through four** below and that it contributes to issues **five through ten** within the scope of its work (i.e. supporting arts and culture to improve the city's attractiveness as a place to live, etc.)

Top ten recommended focus issues

1. Supporting the **start-up ecosystem**
2. Improving the city's **attractiveness as a tourist destination**
3. Helping **small and medium-sized enterprises** (SMEs) and encouraging business ownership
4. Providing **businesses with space**
5. Improving the city's attractiveness **as a place to live** (quality of living)
6. Enabling and **complementing technology adoption** in businesses and skills development
7. Addressing **skills shortages,** especially digital skills
8. Mitigating the impact of **high rental prices** for businesses and other organizations
9. Supporting residents with **housing affordability**
10. **Reimagining the downtown core** in light of significant likely reductions in commuter traffic

The recommended focus areas above were developed through sessions with EDC management while considering EDC's mandate and its ability to influence different issues (recognising the levers available to the division and the various roles of other City divisions, provincial and federal governments), and the global megatrends identified. Below we describe these issues in greater detail.

The first four issues were identified as supporting the **start-up ecosystem, Improving the city's attractiveness as a tourist destination, supporting SMEs** and providing **businesses with space.** These are all central to the Division's mission statement and critical for Toronto's position as a leading global city.

As the strengths and weaknesses chart shows, the perception of Toronto's start-up business environment deteriorated during the pandemic.

In helping start-ups and SMEs it was felt that the Division can have a major role as a connector between educational institutions, small and large businesses and other government bodies. The Division has an array of SME and start-up programs available providing networking, training and incubator opportunities but there is the potential to do more, such as in aiding the scaling of start-ups post incubator stage.

Toronto’s position as a tourist destination is still seen as a weakness overall relative to other top tier global cities based on our analysis. Therefore, bolstering Toronto’s **attractiveness as a tourist destination** was also seen as critical and the Division should continue to support a wide range of cultural programs, festivals and events to improve Toronto’s vibrancy, along with working in partnership with Destination Toronto. These will help tourism to recover and grow from the pandemic and aid the many businesses that rely on tourism. They will also help advance Toronto's attractiveness as a place to live.

Many of the activities supporting tourists and cultural vibrancy will also improve Toronto’s **liveability for residents.** Overall, our research suggested that this should continue to be a major focus issue for Toronto, even though it does not fall within the scope of work of EDC.

The remaining focus issues were supporting **technology adoption** in businesses, addressing **skills shortages**, mitigating the impact of **high rental prices** for businesses and other organizations, supporting residents with **housing affordability** and **reimagining the Downtown Core** following COVID-19.

The common theme amongst these issues is that they were seen as important for Toronto’s future but that there is less clear alignment with the Division’s mandate and its ability to impact them, even though the Division may have some limited influence. For instance, EDC supports a number of seminars for entrepreneurs and businesses, which indirectly affects some of these issues. EDC can also collaborate with other Divisions and partners to help ensure that businesses have access to space – this was the case for the development of the Indigenous Centre for Innovation and Entrepreneurship.

Availability of labour was seen as a major concern for almost all sectors and this is increasingly acting as a constraint for growth, especially in the area of digital skills. Lack of affordable business space is impacting start-ups and SMEs that are being pushed away from the city. Other businesses noted a lack of space for new industrial and commercial facilities with employment lands dominated by office space.

There has been widespread concern about the issue of housing affordability and its knock-on effects on the economy and standard of living. These include the labour supply impact where key workers are priced out of the housing market, potentially leading to outward migration from the city to lower cost areas. High house prices may also deter entrepreneurship as people are sensitive to how much mortgage debt they are carrying increasing risk aversion.

While the Division can continue to play a convening and coordinating role, these issues fall more squarely in the mandate of provincial government and other City of Toronto divisions where, for example, there are a number of major programs supporting the adoption of industry 4.0 technologies in business and skills development.

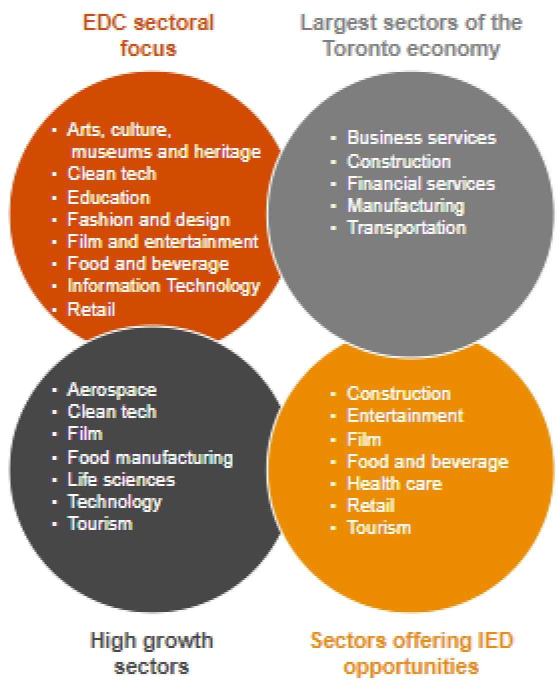
Analysis of key sectors for the city

Another key element of the work was to inform the Division’s future sectoral focus. The assessment recognised that different sectors of the economy support different objectives and have different characteristics:

For example:

- Some sectors of Toronto’s economy are particularly impactful in providing high wages, jobs and tax revenues;
- Some sectors are currently small but will be key drivers of future economic growth;
- Some sectors are particularly impactful in bolstering Toronto’s cultural vibrancy; and
- Some sectors have particular potential to support Inclusive Economic Development (IED) by providing career laddering and more stable employment for labour force members with different levels of education and employment experience.

The research and stakeholder consultations identified the following sectors as being important for Toronto’s future.



The category **"EDC sectoral focus"** summarizes the most prevalent sectors which have focussed EDC support programs and/or business growth services staff dedicated to help them currently. For example, the Division supports the cultural industries extensively given its mandate including museums and heritage, entertainment, music and film.

The **"largest sectors of the Toronto economy"** category includes major employers like financial and business services, manufacturing, construction and transportation. In many cases these sectors are dominated by large, mature companies for whom it was felt that EDC should take a less active role, given the resources of these companies. Although the Division still has a major part to play in supporting SMEs and start-ups in these sectors, for example in Fintech.

"High growth sectors" are the ones that will have an outsized role in driving Toronto's future economic growth. These were identified as technology, life sciences, clean tech, food manufacturing, film, tourism and aerospace. Given their potential, these sectors should be given high priority in designing the Division's next strategic plan.

The final category is comprised of those sectors offering **Inclusive Economic Development (IED)** opportunities**.** Our research highlighted the strong desire for EDC activities to help broaden the beneficiaries of growth, especially in light of the pandemic that has tended to hit lower income communities harder and the global trend of rising inequality. The identified sectors are large in terms of employment and have the potential to support more stable employment with lower barriers to entry and higher incomes.

While many of the Division's current programs are designed to support Indigenous, Black and equity-deserving groups (the different communities that are not fully sharing the benefits of growth which could be defined by income, educational level, gender, ethnicity, Indigenous status amongst other ways) the Division does not yet have a formal definition for IED. It is highly recommended that the Division develop a working definition to help guide its future strategy and associated activities. Determining a definition can also benefit other City Divisions that share similar goals and advance collaborative activities that can support IED.

Two ways of supporting IED from a sectoral perspective are to:

1. Support the sectors where equity-deserving groups currently have higher than average employment and where increased focus has the potential to support improved employment and income opportunities (including construction, film, retail, healthcare, entertainment, tourism and food and beverage manufacturing).

2. Focus on increasing the representation of equity-deserving groups in sectors where they are currently underrepresented.

Key findings

In this section we describe the key recommendations and findings from our research for consideration in the Division's future strategy. Overall, we found there is strong alignment between the Division's activities, its mission statement and the key issues impacting the city.

Given the megatrends identified and the recommended focus areas, additional recommendations are for the Division to assess next steps with consideration to the following:

1. Whether the Division could increase its focus and support on **supporting startups,** especially the scaling of these businesses. Further interventions could include helping to connect start-ups to research and academic partners, facilitating knowledge and innovation exchange, helping them to commercialize, helping them access financing, helping them to protect their IP and with support programs that will build leadership capacity.

2. Incorporating **Inclusive Economic Development** more fully into EDC's activities by formally including it in the EDC mission statement. This would be enabled by developing a formal definition of what constitutes IED. A definition of IED could help guide how support can be provided by targeting sectors in which equity-deserving groups have high current representation (recognising that these tend to be lower wage sectors) while also focussing on opportunities for equity-deserving groups in sectors where they are currently underrepresented.

3. Adopting a more **formal approach to determining which sector strategies are developed** and when. This should consider factors such as the importance of the sector to cultural development, IED and economic growth and the extent to which EDC has the tools and levers to positively impact the sector.

4. Linked to the above, the Division should consider the development of **additional sector strategies** in areas such as technology, life sciences, food manufacturing, construction, and health care as the development of these sectors is aligned with EDC's objectives and mission.

5. EDC should continue to take a collaborative approach on **housing affordability, skills and cost of business premises,** working closely with those Divisions in the City and province leading in these areas.

The report has been prepared for the City of Toronto in accordance with the terms of our engagement letter dated January 17, 2022 and for no other purpose. We do not accept or assume any liability or duty of case for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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