



**AUDITOR GENERAL'S
REPORT
ACTION REQUIRED**

Operational Review of Invest Toronto Inc.

Date:	December 3, 2014
To:	The Board of Directors of Invest Toronto Inc.
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

At the request of City Council, the Auditor General's Audit Work Plan included an operational review of Invest Toronto.

Based on our review, it is our view that the operations, services, and activities performed by Invest Toronto to achieve its mandate were carried out with efficiency, effectiveness, and economy. However, Invest Toronto has not brought forward a long-term strategic plan because of unresolved calls for a regional approach to economic development.

This report contains three specific recommendations along with a management response to each of the recommendations. The first recommendation emphasizes the need for the City to clarify its long-term strategy for investment promotion and attraction activities. Once this has been done, Invest Toronto can address the second recommendation and develop a long-term strategic plan which contemplates the financial and operational impact of direction given by the City.

The Auditor General also recommends this report be forwarded to the City's Audit Committee.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council request the City Manager, in consultation with the General Manager, Economic Development and Culture, to report through the Economic Development Committee by June 2015 on the recommended approach for the City's efforts to promote Toronto as an investment destination. Such a report to address:

- a. The advantages and disadvantages of a regional economic development agency including any impacts on the operations of the City and/or its economic development corporations, specifically Invest Toronto, Build Toronto, and Toronto Port Lands Company; and
 - b. The recommended levels of City funding for foreign direct investment promotion and attraction activities, giving consideration to the opportunity for cost savings and operational efficiencies through integration of Invest Toronto's activities into a regional investment promotional agency and/or the Economic Development and Culture Division.
2. Subject to any decisions or actions taken in the implementation of recommendation #1 above, City Council request the applicable organization(s) responsible for investment promotion and attraction activities for Toronto to submit a 3-year rolling strategic plan to the City. The City Manager be requested to forward the plan to the Executive Committee and/or Economic Development Committee for information.
 3. This report be forwarded to the City's Audit Committee.

Financial Impact

The implementation of recommendations in this report will clarify the City's long-term strategy for investment promotion and attraction activities and, in turn, for Invest Toronto. The extent of any resources required or potential cost savings resulting from implementing the recommendations in this report is not determinable at this time.

BACKGROUND

In September 2012, the City's Budget Committee considered Invest Toronto's 2011 Audited Financial Statements. At that time, the Budget Committee recommended that City Council request the Auditor General to conduct a value for money audit on Invest Toronto.

In October 2012, City Council adopted the amended recommendation that "*City Council request the Auditor General to conduct a value for money audit on Invest Toronto, and that the Terms of Reference for the Value for Money Audit be in keeping with the business model and hybrid nature of Invest Toronto.*"

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX23.20>

The objective of this review was to assess whether Invest Toronto's operations, services, and activities were carried out with efficiency, effectiveness, and economy. The audit focused on the period from January 2012 to December 2013, which precedes City Council's appointment of all 12 citizen members to the Board of Directors of Invest Toronto in February 2014.

Our review of the operations, services, and activities of Invest Toronto, took into account its size and scale as well as the hybrid nature of its operations. Our audit methodology included the following:

- Review of various reports including “The Prosperity Agenda” and “New Model to Enhance Toronto’s Economic Competitiveness”, which recommended the establishment of Invest Toronto
- Review of the Shareholder Direction
- Review of City Council and Board of Directors minutes and reports
- Review of Annual Reports and Audited Financial Statements
- Interviews with Invest Toronto staff and staff from the City's Economic Development and Culture (EDC) Division
- Review of documents, management reports, policies, procedures and related records
- Evaluation of management controls and practices.

Based on our review, it is our view that the operations, services, and activities performed by Invest Toronto to achieve its mandate were carried out with efficiency, effectiveness, and economy.

Since its inception, the key control governing Invest Toronto operations is the significant involvement of the Chief Executive Officer, Chief Financial Officer, and/or Executive Vice President of Operations in all aspects of Invest Toronto's activities.

Invest Toronto can continue to strengthen its control framework as operations mature. Minor administrative improvements were reported directly to management and focused primarily on formalizing processes for:

- interactions with public and private sector partners
- monitoring the effectiveness of investment services
- prioritizing travel to key markets to generate new investment prospects
- procurement practices

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

COMMENTS

Invest Toronto was incorporated on November 13, 2008 to work with the City of Toronto, private partners and others to develop and implement a strategy to effectively market the City and attract business investment to Toronto. The City approved Shareholder Direction set out that Invest Toronto should strive to achieve the City's objectives through the following services and activities:

- designing and carrying out of marketing and investment activities, including but not limited to branding and advertising for business investment;
- organizing and participating in trade missions in accordance with strategies developed co-operatively with the City;
- coordinating initiatives with other public sector agencies and private sector businesses; and
- providing marketing advice to Build Toronto, and when appropriate referring investors to Build Toronto, the City, or other relevant City agencies and corporations.

<http://www1.toronto.ca/City%20Of%20Toronto/City%20Manager's%20Office/Agencies%20and%20Corporations/Invest%20Toronto%20Shareholder%20Direction%202009.pdf>)

The business case for establishing a new purpose-specific City corporation with a focused mission to market Toronto identified that "*although there are many players who share some responsibility for marketing Toronto, there is no one clear voice for Toronto and no dedicated resource to focus on attracting new business investment.*" Invest Toronto was created to be that voice.

<http://www.toronto.ca/legdocs/mmis/2008/ex/bgrd/backgroundfile-15926.pdf>,
Attachment 1)

Even so, several interested parties including the Intergovernmental Committee for Economic and Labour Force Development, the Toronto Board of Trade, Greater Toronto CivicAction Alliance, and the Greater Toronto Marketing Alliance, have called for a regional approach to economic development and/or investment promotion for the City.

As a consequence, in his report to the Board on March 26, 2013, Invest Toronto's then Chief Executive Officer indicated "*A clear resolution on this situation is necessary to remove the "holding" pattern approach to growing Invest Toronto ... Whether through Invest Toronto or a larger regional entity, it is clear that we need to ramp up activity and commitment to match Toronto's activities in promoting itself to the levels of our "competitors" globally and commensurate with our status as North America's 4th largest city.*"

The City has not yet determined its position on calls for a regional economic development agency.

Clarify the City's Long-Term Strategy for Investment Promotion and Attraction Activities

In 2011, Council requested City staff "*review the establishment of a regional economic development agency, including initiating discussions with regional, and other key stakeholders, and report to the Economic Development Committee in early 2012*". To date, there has been no report tabled in response to this request.

(<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.EX10.1>)

In 2013, Council approved its economic development strategy, *Collaborating for Competitiveness*. While the strategy does indicate steps that will be taken to foster regional cooperation, it does not address the potential for participating in a regional economic development agency.

In completing this review, the City must contemplate the potential impact of a regional agency on its long-term strategy for investment attraction and promotion activities. This in turn will have a significant impact on the way forward for Invest Toronto.

The City should clarify whether its long-term strategy is for:

- (1) Invest Toronto to continue operating at status quo within existing budget constraints while collaborating with its public sector partners to represent both Toronto and the region's interests; or
- (2) Invest Toronto to grow its operations, in which case additional funding will be needed to increase activities to market Toronto and to provide support for potential investment opportunities; or
- (3) The City to integrate and leverage its investment promotion and attraction activities into a regional economic development agency.

There are several models possible, should the City choose to support the establishment of a regional economic development agency responsible for international investment promotion and attraction activities. In supporting a move to such an agency, the City will need to determine if it would be best served by the creation of a new regional agency, leveraging of an existing regional body, or expanding the mandate of Invest Toronto to serve the interests of the city as well as the region.

During our review, it came to our attention that while the Greater Toronto Marketing Alliance (GTMA) has historically been the regional body responsible for attracting international investment and employment to the Toronto Region, municipal funders of the GTMA, including Invest Toronto, have raised concerns with the effectiveness of the organization. Any regional agency the City intends to leverage must be able to effectively promote the region and market the City.

Establish a Long-Term Strategic Plan for Invest Toronto

Invest Toronto operations are funded through grants from Toronto Port Lands Company, another City corporation. When Invest Toronto operations were initiated, the plan was for its investment promotion and attraction activities to grow to a budget of \$4 million annually. However, because of the City's ongoing operating budget pressures, the annual budget has been held to approximately \$2.6 million. In total, since 2009, Toronto Port Lands Company has provided approximately \$10.9 million to cover the operating and capital expenditures of Invest Toronto.

The existing annual budget generally reflects the minimum level of funding needed for Invest Toronto to operate as an arms-length corporation and deliver its mandated services and activities. These funds would be required regardless of the scale of Invest Toronto's operations. Economies of scale would mean that any incremental increases to the base budget would go directly to funding additional activities to market Toronto internationally and to servicing identified investment opportunities.

Once the City has clarified its long-term strategy for investment promotion and attraction activities, efforts can be made to optimize the levels of City funding either for Invest Toronto or towards Toronto's participation in a regional agency. In the absence of clear direction from the City, there is no impetus to develop alternative funding sources and achieve greater financial independence over the long term.

Where Invest Toronto is expected to continue operating within its current financial constraints, any growth in its services and activities will be limited. If the City is not willing to fund Invest Toronto in a manner that enables it to more fully pursue its mandate, opportunities for operational efficiencies and cost savings from integrating Invest Toronto into EDC should be revisited. EDC's existing infrastructure could be leveraged to provide operational support and services for potential investment opportunities, freeing up funding for activities that directly market and promote Toronto as an investment opportunity.

It should be noted that reintegrating Invest Toronto into EDC is contrary to the original business case for establishing Invest Toronto as an arms-length City corporation. The business case specified that it was "*essential that the new model provide an integrated approach where the private sector and the City work together in a coordinated fashion*". The business case further indicated that keeping these functions within the City "*does not support the necessary partner engagement and responsiveness needed for success in the future, and it may not be possible to attract and retain the core competencies required or effectively attract private investment*." Furthermore, this is inconsistent with the practice of other major cities that have created arms-length agencies with resources devoted to foreign direct investment promotion and attraction activities.

CONCLUSION

This report contains three recommendations along with a management response to each of the recommendations. The first recommendation emphasizes the need for the City to clarify its long-term strategy for investment promotion and attraction activities. Once this has been done, Invest Toronto can address the second recommendation and develop a long-term strategic plan which contemplates the financial and operational impact of direction given by the City.

A separate letter has been issued to management outlining recommendations for minor administrative improvements that came to our attention during the audit. These recommendations will strengthen Invest Toronto's control framework as its operations mature.

The Auditor General recommends this report be forwarded to the City's Audit Committee.

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SIGNATURE

Jeff Griffiths, Auditor General

13-ITO-01

ATTACHMENTS

Appendix 1: Management's Response to the Auditor General's Operational Review of Invest Toronto Inc.

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
	Invest Toronto's activities into a regional investment promotional agency and/or the Economic Development and Culture Division.				
2.	Subject to any decisions or actions taken in the implementation of recommendation #1 above, City Council request the applicable organization(s) responsible for investment promotion and attraction activities for Toronto to submit a 3-year rolling strategic plan to the City. The City Manager be requested to forward the plan to the Executive Committee and/or Economic Development Committee for information.	X			Once decisions are made with respect to the matters covered in Recommendation #1, this request will be submitted immediately to the appropriate management and, if applicable, the appropriate Board.
3.	This report be forwarded to the City's Audit Committee.	X			