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TORONTO

STAFF REPORT
ACTION REQUIRED

The Creation of a Foreign Direct Investment Regional Agency - Update

Date:	August 21, 2015
To:	Economic Development Committee
From:	General Manager, Economic Development and Culture
Wards:	All
Reference Number:	

SUMMARY

Encouraging Foreign Direct Investment (FDI) is probably the single most frequently used international strategy by local and regional authorities to further local economic development. This Report updates work currently underway to create a new regional agency focussed on FDI. These functions are currently performed by Invest Toronto and the Greater Toronto Marketing Alliance (GTMA). The creation of a new FDI agency has been underway for about three years by a committee led by the GTMA now co-chaired by Mayor Tory and Mayor Ryan (Pickering). One major component of their work was a study commissioned by the GTMA undertaken by PwC. This study has set the stage for the work undertaken to date – see:

http://www.greatertoronto.org/wp-content/uploads/2014/02/Roadmap-to-Revitalization-Final-Report-Summer-2013.pdf.

Since the staff report entitled "Towards a Regional Development Agency (Foreign Direct Investment Agency), adopted by City Council at its February 10, 2015; the Provincial government through the Ministry of Economic Development, Employment and Infrastructure has committed over $700,000 in transitional funding to a new interim non-profit organization colloquially called ‘Newco’. The interim organization has been incorporated with basic by-laws. The main purpose of the interim organization is to plan out the establishment of a full new organization, its governance, initial strategy, roles and positioning.

This report discusses the rationale for the new regional FDI agency, City of Toronto impacts, transition issues and expected next steps.

RECOMMENDATIONS

The General Manager of Economic Development and Culture recommends that:

1. City Council endorse, in principle the establishment of a new regional foreign direct investment attraction agency which would include functions currently carried out by Invest Toronto, subject to a further report to Council on the specifics of the proposed organization, including its governance, funding formula and core operating elements such as strategy and positioning and subject to the City's financial contribution being approved in the 2016 budget process.

2. City Council direct the Deputy City Manager and Chief Financial Officer to work with the General Manager, Economic Development and Culture, to review funding options for the City's contribution to a new regional agency and recommend to Council how best to realign funding support for the impacted economic development functions.

3. City Council direct the City Manager in consultation with the General Manager for Economic Development and Culture, to report to Executive Committee and City Council on the implementation impacts for Invest Toronto and recommendations on how best to transition to a new regional agency.

Financial Impact

There are no financial implications in the 2015 budget year.

In its 2016 Budget submission, the Economic Development and Culture Division (ED&C) is requesting funds to cover the City's portion of the annual contribution for the new regional FDI agency (expected to be in the range of $1 mil) and requesting that ED&C's budget be increased in order to assume some marketing and support responsibilities that will be required due to Invest Toronto being replaced by the new regional agency (estimated to be $400,000 annually). ED&C is further suggesting that a possible source for these requests is the funding presently being used to finance Invest Toronto. Based on current plans, there is no expectation for a need for significant incremental City funds after 2016 due to the impacts of forming the new FDI regional agency.

The Deputy City Manager & Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

At its meeting of February 20, 2013, City Council adopted the report *"Collaborating for Competitiveness – A Strategic Plan for Accelerating Economic Growth and Job Creation in Toronto"*. The report contained actions that are intended to strengthen and grow Toronto's high-value sectors particularly those with high economic multipliers; and strengthen support for retaining and expanding manufacturing within the City. City Council adopted the following action included in the report "Collaborating for Competitiveness":

C.2.1: Foster effective foreign direct investment attraction (business and capital) through a better co-ordinated sales and marketing approach.

http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.ED19.4

At its meeting of February 10, 2015, City Council provided the following direction to staff:

1. City Council request the City Manager to report as soon as possible on the options for the City of Toronto with regard to its participation in a large foreign direct investment (FDI) agency for the Greater Toronto Area, including impacts on Invest Toronto and the City's Economic Development and Culture Division.

2. City Council authorize the City Manager to undertake and report back on discussions with federal, provincial, regional and municipal officials, as required, regarding proposals for a large regional foreign direct investment (FDI) agency, including:

    a. possible mandate, structure, governance and budget;
    b. alternative organizational approaches;
    c. implementation issues and the best ways to overcome these issues; and
    d. key success factors from the City of Toronto's perspective

http://www.toronto.ca/legdocs/mmis/2015/ed/bgrd/backgroundfile-74611.pdf

At its meeting of June 10, 2015, City Council provided the following direction to staff:

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.

http://app.toronto.ca/tmmis/viewagendaitemhistory.do?item=2015.au2.3

COMMENTS

The City's FDI attraction efforts were significantly enhanced with the establishment of Invest Toronto late in 2008. Prior to the establishment of Invest Toronto, the City pursued FDI attraction through a small staff group in the Economic Development and Culture Division. And since the late 1990's the City has also been a partner in the Greater Toronto Marketing Alliance (GTMA) and continues to be a funding partner through Invest Toronto. The City established Invest Toronto in 2008 while maintaining its membership in the GTMA. One reason was a recognition that more resources were needed for FDI but there were no indications then that others would increase their investment in the GTMA (including the Province and Federal authorities) and so the City decided to form its own organization. Since that time, several other GTA municipalities and regions have invested more in their own FDI activities while also maintaining their membership in the GTMA. This has led to a fragmentation of effort while at the same time there has been little involvement financially by either the Provincial or Federal governments.

About three years ago the GTMA initiated a process to secure greater funding. This was Co-Chaired by now Mayor John Tory as the then head of CivicAction and Mayor Dave Ryan who was the public sector co-chair of the GTMA. One major component of their work was a study commissioned by the GTMA and undertaken by PwC. This study has set the stage for the work undertaken to date – see:

http://www.greatertoronto.org/wp-content/uploads/2014/02/Roadmap-to-Revitalization-Final-Report-Summer-2013.pdf.

In addition to the study, the GTMA formed an advisory group which involved representatives from the private sector and regional and municipal economic development officials, including from the City of Toronto. Over time this advisory group refocused the discussion to propose a new, well-funded, regional agency concentrating on FDI, colloquially referred to as 'Newco'. The balance of this Report provides an update on recent progress and a discussion on the implications for the City of Toronto.

Rationale for New FDI Organization

There are a number of reasons for why a new FDI organization, at the regional level, should be seriously considered:

- FDI is important. New investment brought by these new companies (or expansion by foreign-owned companies already here) bring, on average, higher paid jobs, higher productivity, more exports and more innovative technologies than locally-based companies. They also bring more international connections and themselves attract more new companies as part of their supply chain.
- Many local FDI players working independently have created market confusion, have fragmented resources (missing opportunities for efficiencies and economies of scale) and have lacked meaningful co-ordination. This has led to an underwhelming track record for the region taken as a whole in attracting new business investment into the City of Toronto and the GTA, as pointed out by PwC.
- Both the Provincial and Federal governments are faced with too many local players so that their support locally and overseas has been less than optimal (‘who do we work with?’).
- The above point is also one reason why financial resources from these other orders of government for FDI promotion to local and regional organizations in the GTA have been very low and only provided on a project-by-project basis
- As a result of the above factors, it is almost impossible to pro-actively mount major sales efforts for larger investments and thus most local efforts only result in small 'wins'.
- The competitive landscape between cities and urban regions for investment is greater than ever. In addition to ensuring that a city or region puts its most compelling case for investment forward, making sure that its efforts are noticed takes very significant resources. The PwC Report highlighted that the Toronto region and its components lag behind many competitive centres in the level of investment through FDI efforts.

Source: PwC analysis

- Most companies do not view the Greater Toronto Area as a set of individual municipalities and regions but as an integrated economic market.
- In the work over the last two years by the GTMA’s Task Force on Revitalization, what has emerged is a consensus that is what is most needed to ensure the best chance for significant impact is true co-ordination and a committed common sense of direction. The status quo will not achieve this.
- The main advantages of a much larger, new agency include:
    - More aggressive and well-funded sales efforts that can compete more effectively on the world stage
    - Greater capacity to target larger, more complex companies with sophisticated marketing and sales strategies

- Better research and tactical planning to support sales efforts and better tracking and servicing of leads and successes
- Greater involvement by the Provincial and Federal governments. This a key to success in many of the emerging markets
- Significantly more jobs and investments across the region, including in the City of Toronto

Current Status of the Newco Proposal

The initiative has matured from one focussed on the revitalization of the GTMA into a well-advanced proposal to establish a new regional agency. This initiative proposes to meld the GTMA and Invest Toronto together with the addition of significant new funding resources coming from the Provincial and Federal governments. This will create a major sales and marketing organization that will attract significantly more new investment than currently happens, from around the world to Toronto and to the rest of the GTA.

In the past few months, the following steps have been taken. These are preliminary and the permanent new agency will not go forward until a final and full approval has been agreed to amongst all the funding partners.

- A new interim non-profit organization has recently been incorporated with basic by-laws to allow planning and start-up funding to flow to the project from the Province. The Province, through the Ministry of Economic Development, Employment and Infrastructure (MEDEI) has committed over $700,000 for this initial work.
- This new ‘temporary’ organization has two members– Invest Toronto and the GTMA (‘members’ are required for this non-profit organization). Its Board is composed of five elected officials (Mayor Tory for Toronto) and several leading private sector representatives. If the proposed new agency goes forward, a permanent Board structure and membership will need to be agreed upon. The current Board is focussed on directing research, planning, approval processes and preparation aspects for the new permanent organization.
- A ‘Transition Committee’ has been struck to advise the interim Board. It consists of Board members from both Invest Toronto and the GTMA, the CEOs of both organizations, representatives of the municipal and regional economic development departments and is chaired by Toby Lennox, formerly of the Greater Toronto Airports Authority (GTAA).
- Also assisting the planning and development of the new regional FDI agency is a committee of all local economic development officials (EDOs) in the GTA municipalities and regions (called the EDO Working Group). This group is providing advice to the Transition Committee on the specifics of who should do what between the new Organization and the local departments as well as advice on the mandate, strategies, initial organization structure and tactics of the new organization. This group is also helping achieve 'buy-in’ across the GTA. MEDEI is also participating on this group.

- The GTMA has announced, in anticipation of the new FDI regional agency being formed, that they will close on December 31, 2015.
- It is expected that three key start-up studies will commence shortly: governance, strategy and positioning/branding. These are expected to report through to the Interim Board late this fall.

All parties are striving to have approvals in place and the new organization up and running by the beginning of 2016.

Prior to start-up, all funding participants within the region as well as the Province and the Federal governments will need to agree to the establishment of the new organization, including its funding; name of organization; Board policies and procedures; Board composition in terms of numbers; where Board members should come from (geographic as well as other aspects such as elected, business, other); method of appointment of the Board; Executive structure of the Board (Chair, Vice-Chair, etc) and appointment process for these positions; initial mission, vision and positioning; targeting strategies; and staff structure. It is expected that all operational and strategic elements will need to be revisited and more fully developed by the new permanent Board when it is established.

Funding

As reported earlier this year, the proposed funding model on an annual basis is as follows:

Province	$2.5 million
Federal	$2.5 million
Local Regions/City	$2.0 million (City of Toronto portion would be about $1.0 mil annually)
Businesses	$0.5 million
Total	**$7.5 million**

The Province has committed to $2.5 million each year for at least three years (with a review at some stage in the future) as well as over $700,000 in 2015 to assist with start-up activities. The federal government has not made a firm commitment but have indicated a positive willingness to review a request. Discussions are ongoing with regional and municipal governments and there have been generally positive reactions to date and no refusals. Assuming the local funding share is divided on the basis of population, this means Toronto’s share would be about $1 mil annually. One source of this would be the funding currently flowing to Invest Toronto. This Report includes a recommendation to review options for an appropriate funding mechanism in the 2016 budget process.

Impacts and Considerations for the City of Toronto in Joining NewCo

The City has a variety of choices at this time that essentially revolve around three main approaches: going it alone, combining our own FDI in conjunction with a regional agency or committing to a regional agency as our FDI vehicle. This Report recommends the last option – adopt a new regional agency as the City’s vehicle for FDI and fold Invest Toronto into it.

One advantage for the City in undertaking FDI on its own (most other local governments in the GTA have relied on the GTMA solely while some have added their own modest efforts) is that priorities and positioning are completely under the City's control. This is always the biggest risk when joining forces with others in that there is a natural loss of some control. On the other hand, going with a regional body that has robust added funding from the Provincial and Federal governments very significantly improves the overall success over what going it alone could achieve. The extra funding is not going to be available to a fractured and duplicative system. Another key aspect to consider is that a win anywhere in the region benefits the region as a whole as well as the local municipality to which it locates - suppliers, clients and employees usually are located across the region and thus are benefited by a newly locating company anywhere in the GTA.

With the formation of Invest Toronto in 2008 and the transfer of FDI responsibilities to it, the City, through funding from TPLC, assigned significantly more resources to the pursuit of FDI with a corresponding increase in results. Roughly speaking the number of new 'sales' of companies declaring an intention to open an operation in Toronto has tripled to close to 25 in 2015. The City's Economic Development and Culture Division has worked closely with Invest Toronto (and the GTMA on occasion) on many of these files, especially in helping with sector expertise and with assistance in locating new quarters and navigating the local economy. While these are positive results, pressure has been put on the existing City staff. Thus one impact of a new, much larger, FDI effort will be the need to be able to service these new leads and wins appropriately.

Invest Toronto has also been helpful in organizing and supporting trade and investment missions by staff and elected officials and absorbing some of the costs. Some of the support has come by way of paying for City-specific marketing support such as brochures, USB sticks with a variety of information and videos and in travel costs. This marketing support is very helpful for trade missions and in describing Toronto to inbound missions. While a new regional agency will be very sophisticated in its missions and materials, there will still be a need to have Toronto-specific materials and travel capacity that will not be absorbed by the new agency. The City will require additional capacity for "after care" in assisting the large FDI leads that would like to locate within the City of Toronto and then to follow-up after they open their operations here.

In evaluating the establishment of a new regional organization, the following considerations will be further reviewed by City staff:

- An appropriate degree of say on the Board commensurate with the size of the City's economy and the amount of its funding, including representation by elected officials and community members.
- A Board structure that includes elected members and representatives of all the key aspects of the region's economy including educational and research institutions, unions and individuals from a variety of business sectors that are representative of the entire region. The demographics of the Board should also reflect the region's diversity as well as be from the highest levels of their organizations.
- The name of the organization should include 'Toronto' prominently

- Assurances that the funding partners are committed to the organization for a long enough period to evaluate its results (probably a minimum of three to five years).
- Assurances that existing staff from Invest Toronto and the GTMA will have every opportunity to join the new organization.
- A firm commitment in the vision and mission statements to accountability and definitive results in line with the amount of investment and effort.
- A flexible enough scope and set of responsibilities to maximize synergies within the region and to provide a clear path to success when selling the region - all in a framework where the City and the other local governments still have the opportunity to pursue their own established relationships, but exercised in a way that does not conflict with the activities of the regional organization.
- Board policies and procedures which reflect best practices in corporation governance, transparency and accountability.

Next Steps

The temporary Board, the Transition Committee and the EDO Working Group will continue their efforts to best define the new organization's initial, vision, mission, structure and relationships with the individual municipalities and regions. They will also focus on a myriad of transition issues involved with melding Invest Toronto and the GTMA into the new organization as well as with the challenges of starting a new organization.

Key steps that are still to be completed include:

- Determine the list of key parameters that all funding partners will need to know before committing and then work with the partners to obtain their approval to those parameters (Board composition, Board selection methodology, Chair and Vice-Chair appointment process, funding formula, CEO selection process, name, key responsibilities of the new organization and role clarity between the new organization and the local, regional, provincial and federal organizations).
- Obtain a funding commitment from the federal government
- Obtain municipal and regional funding commitments to the extent possible before 2016 budget approvals and then in the 2016 budgets. In Toronto's case, this Report recommends that staff return to Council with a request for agreement to the new agency once the key elements of the new organization have been proposed.
- Develop an implementation plan that includes all the human resource concerns of joining Invest Toronto and the GTMA into the new agency.

The Transition Committee has set a goal of having the new organization up and launched by early in 2016. An expeditious process is best to minimize human resource issues with current staff (morale challenges due to uncertainty, the threat of losing competent staff amidst the uncertainty), to maximize market continuity (ensuring current leads are pursued energetically and not left languishing) and new leads are generated to allow an active sales pipeline from the outset and to keep momentum going with all the key funding stakeholders.

Conclusion

Currently the Toronto region is underperforming in attracting investment from around the world in comparison to other North American Regions. This is primarily due to the lack of funding currently invested in FDI attraction as well as the number of organizations involved in similar work that are diluting the Toronto sell. A properly funded regional FDI attraction agency that is the result of effective inter-municipal/regional collaboration and with the full involvement of the federal and provincial governments will allow the Toronto region to better compete with other global regions in attracting FDI, and in doing so, will grow the City of Toronto's economy significantly faster than through the status quo.

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