European development measures and opportunities for the Baltic Sea Region

Cities for citizens

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ERNST & YOUNG

Quality In Everything We Do

Foreword

► European development measures for the BSR targets problems in specific sectors and areas but overlooks situation on the ground.

► Citizens' movements all around the world results in urbanisation, de-population of rural areas and consequent pressures on cities.

► Cities now operate in a global competition for talent and investment in an increasingly urban world.

► Every city in the world needs to be clear about its value proposition to citizens and businesses.

► In reality comparatively few cities across the world are building for a future aligned with an ambitious vision that meets the needs of all their stakeholders, especially citizens.

► Ernst & Young has run a thorough research to create a model to help city leaders engage, enthuse and energize all their stakeholder groups and build the consensus needed to drive forward their strategy for urban development.
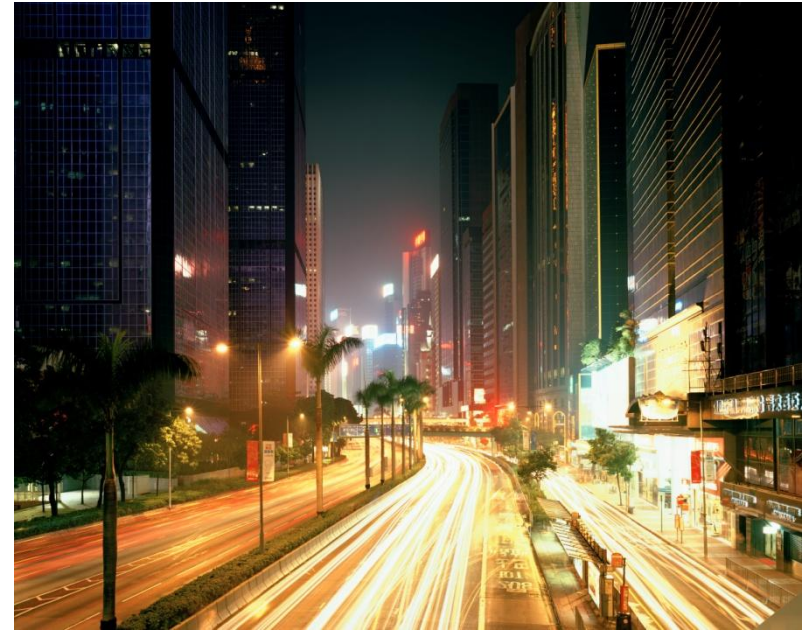
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European development measures

The focus of European development measures in BSR

The main EU focus for the region is envisiged in the **EU Strategy for the Baltic Sea Region**:

- ► Reduce nutrient inputs to the sea
- ► Preserve natural zones and biodiversity
- ► Reduce the use and impact of hazardous substances
- ► Become a model region for clean shipping
- ► Improve cooperation in the customs
- ► Reinforce sustainability of agriculture, forestry and fisheries
- ► Improve the access to energy markets
- ► Improve transport links
- ► Become leading region in maritime safety and security
- ► Reinforce maritime accident response capacity
- ► Decrease cross border crime

Investments and **funds from multiple sources** are available in the region:

- ► ***Focus on specific sectors and industries***

- ► ***Focus on specific regional or sectoral problems***
- ► ***Fragmented cooperation for widespread problems***

EY risk and opportunities assessment

10 top risks for the government and public sector:

1. Triggering a double-dip recession through fiscal consolidation
2. Delaying climate control and sustainability initiatives
3. Failing to manage debt and fiscal policy
4. Speculative financial attacks and sovereign debt downgrades
5. Insufficient public investment in education
6. Inability to maintain delivery effectiveness due to reduction of resources and HR transformation needs
7. Failing to manage costs of pensions, health care and elderly care for an aging population
8. Inability to address international terrorism and border control issues
9. Failing to plan for long-term demographic shifts
10. Weaknesses in public governance and poor accountability

10 top opportunities for the government and public sector:

1. Strengthening new forms of global governance
2. Overhauling financial sector regulation
3. Reviewing the core purpose of government
4. Driving change through IT
5. Developing new delivery models
6. Increasing public-private partnership (PPP)
7. Industrial policy to encourage growth in leading-edge sectors
8. **Rethinking regional and urban development**
9. Promoting and enhancing corporate social responsibility (CSR) practices for alternative public service delivery models
10. Enhancing the role of government in the economy

The challenge for cities

The world is urbanizing at an unprecedented rate.

In 1950, only 29% of the world's population was classed as urban dwellers. By 2050, the UN* predicts that this will have risen to 69%. Regionally this figure will be:

► 90% in North America

► 88% in Latin America

► 84% in Europe

► 75% in Oceania

Consequently, cities are becoming more densely populated.

► In 2000, 16 of the world's top 30 most populous cities had over 10 million inhabitants.

► By 2025, the UN predicts that only one of the top 30 will have fewer than 10 million.

The globalisation has shifted interrelation between urban and rural.

Globalization has meant that cities all over the world are more interconnected than ever before, as capital and people move freely between them. These trends are a trigger point.

These trends have increased the competition for talent and capital worldwide. Now is the time to act.

Every city must be clear about its value proposition in order to attract people and investment. Cities must:

► Provide a sustainable, vibrant community for citizens to live, work and enjoy life.

► Foster economic growth by providing the right conditions for business.

► Promote an entrepreneurial ecosystem that supports the commercialization of innovation and attracts foreign investors.

Competition for resources has never been so fierce.

As resources – the talented people and capital that drive innovation – are more mobile than ever, they will migrate to those places that have the most aligned offer in terms of brand, strategy, investment, infrastructure, services and culture.

They also face a unique set of challenges and issues from stakeholder groups competing for supply and demand side resources.

► Supply side is essentially money/capital.

► Demand side is impacted by people and power.

In attempting to strike the right balance between these two forces, city leaders must also consider the unique set of challenges and issues they face from competing stakeholder groups.
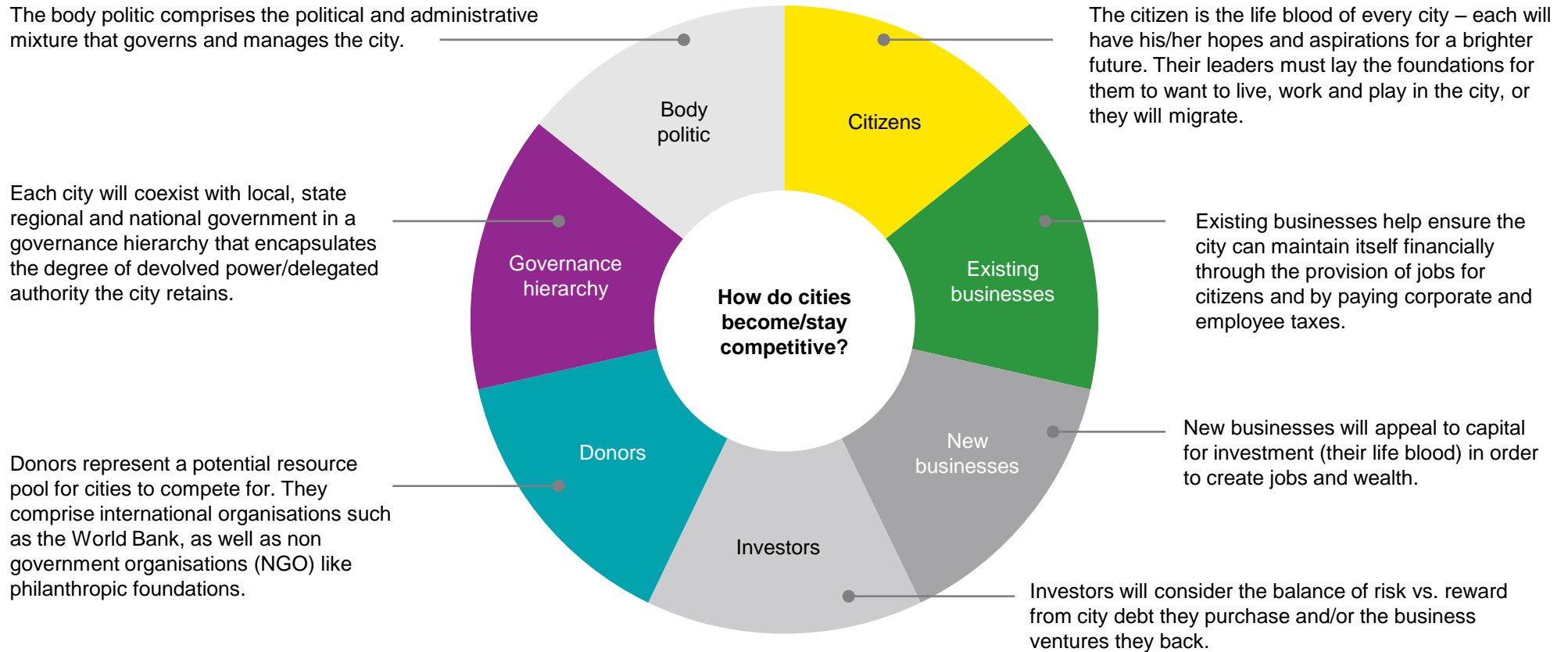
Section 2

Ernst & Young research

The competing stakeholders cities face

The diagram below represents the various stakeholder groups competing for a city's resources. The mix will vary on a city by city basis.

The body politic comprises the political and administrative mixture that governs and manages the city.

The citizen is the life blood of every city – each will have his/her hopes and aspirations for a brighter future. Their leaders must lay the foundations for them to want to live, work and play in the city, or they will migrate.

Each city will coexist with local, state regional and national government in a governance hierarchy that encapsulates the degree of devolved power/delegated authority the city retains.

Existing businesses help ensure the city can maintain itself financially through the provision of jobs for citizens and by paying corporate and employee taxes.

Donors represent a potential resource pool for cities to compete for. They comprise international organisations such as the World Bank, as well as non government organisations (NGO) like philanthropic foundations.

New businesses will appeal to capital for investment (their life blood) in order to create jobs and wealth.

Investors will consider the balance of risk vs. reward from city debt they purchase and/or the business ventures they back.

Body politic

Citizens

Governance hierarchy

How do cities become/stay competitive?

Existing businesses

Donors

New businesses

Investors

While all cities are different and each faces a unique blend of multiple and competing stakeholders – there are some underlying themes that universally hold in terms of applying an urban strategy to increase a city's attractiveness. So how does a city leadership engage, enthuse and energise all its stakeholder groups and build the consensus needed to move on a progressive journey towards a compelling vision?

Ambitious and sustainable – building a strategy to shape tomorrow's great cities

A combination of sustainability and ambition, underpinned by leadership, are needed to build a strategy for urban success – in terms of its attractiveness to innovative people and businesses; and nurturing an environment that is high performing, creative and balanced. This must be backed by robust analysis and insight in order to sell the vision to all stakeholders and move the ambition to reality by securing the right resources.

Ernst & Young has developed a simple model that demonstrates the key requirements for city leaders based on what quadrant they are mapped to. The quadrant has two axes: 'ambition/aspiration' and 'city sustainability'. Cities will need to undertake change in order to migrate towards the top right corner. Once there, they should always aim to stay there.

Ambition/aspiration
Defined as the clear articulation of a future state bought into by all stakeholder groups. To make the journey to the future state a reality it will be championed by great leadership, embraced by the body politic, and supported by the governance hierarchy, donors and investors.
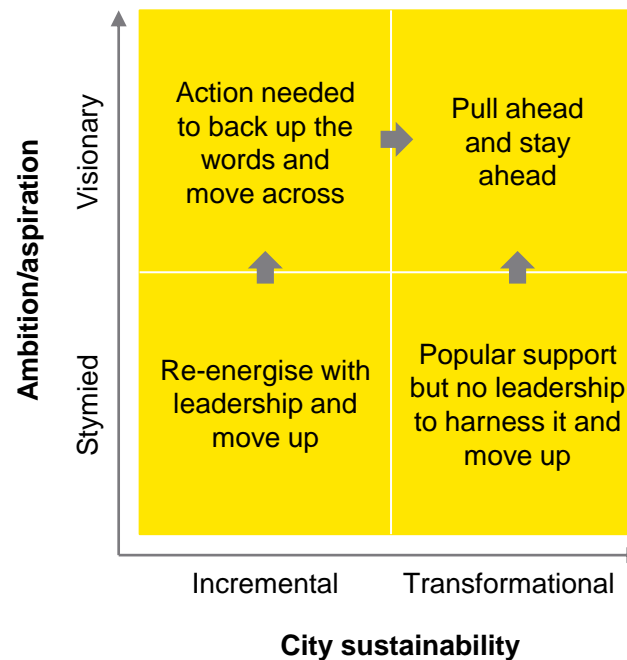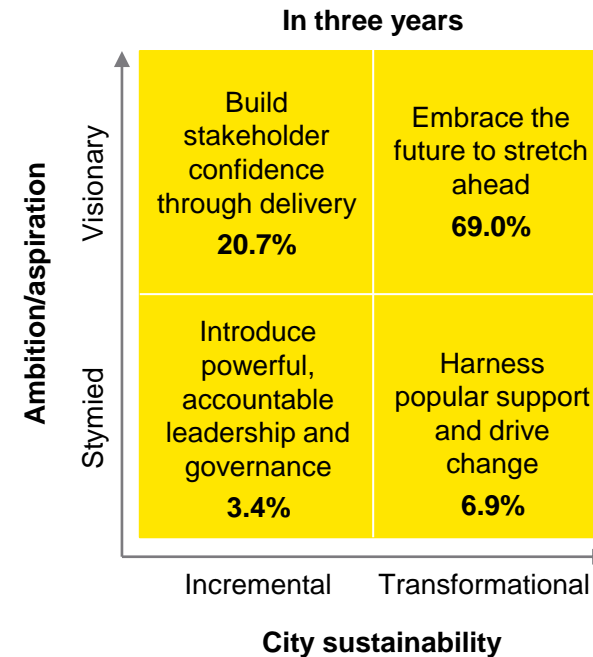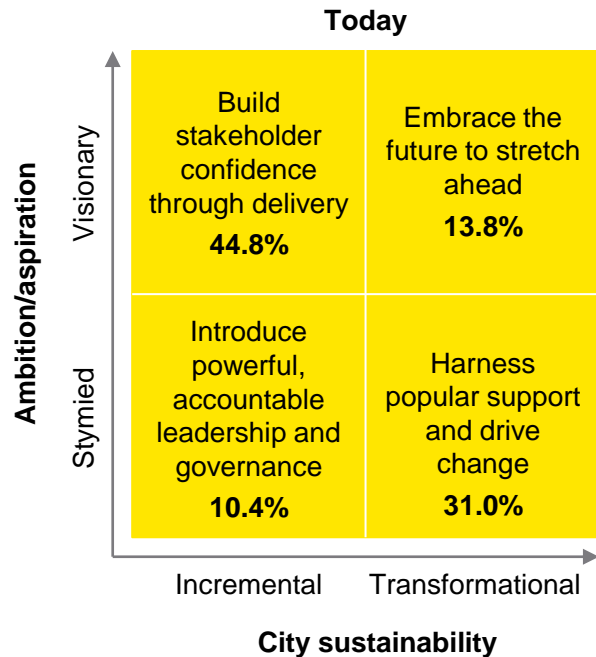
City sustainability
Defined as the ability of a city to manage and grow its resource base – social, economic and environmental. A sustainable city will be well run and financially sound, growing in size by citizen numbers and businesses located there, and in harmony with its local/regional environment.

Ambition/aspiration (vertical axis: Stymied → Visionary)

City sustainability (horizontal axis: Incremental → Transformational)

- Action needed to back up the words and move across
- Pull ahead and stay ahead
- Re-energise with leadership and move up
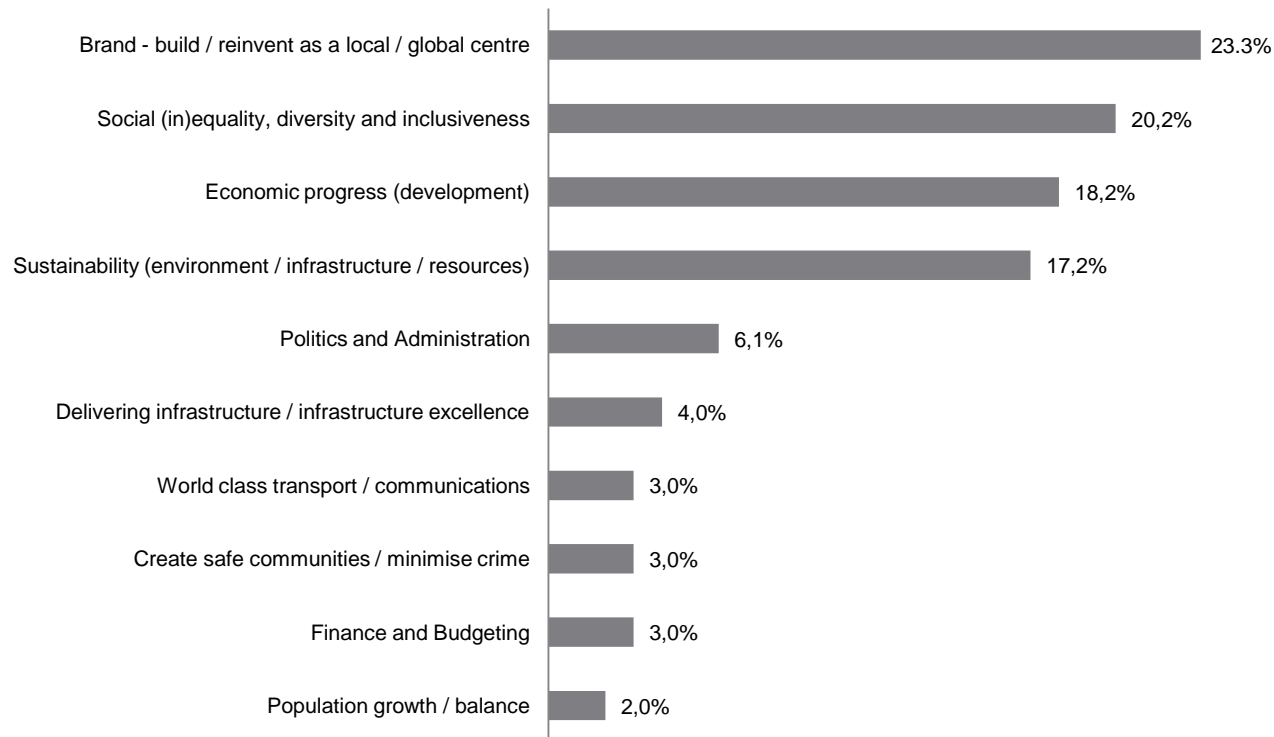- Popular support but no leadership to harness it and move up

Section 3
Our findings

In the Ernst & Young model, which quadrant do you place yourself in today and where do you see yourself in three years?

Today

Ambition/aspiration — Visionary / Stymied

| Build stakeholder confidence through delivery **44.8%** | Embrace the future to stretch ahead **13.8%** |
| Introduce powerful, accountable leadership and governance **10.4%** | Harness popular support and drive change **31.0%** |

Incremental — Transformational

City sustainability

In three years

Ambition/aspiration — Visionary / Stymied

| Build stakeholder confidence through delivery **20.7%** | Embrace the future to stretch ahead **69.0%** |
| Introduce powerful, accountable leadership and governance **3.4%** | Harness popular support and drive change **6.9%** |

Incremental — Transformational

City sustainability

We were not surprised to discern that the majority of respondents saw themselves in the top left or bottom right hand quadrants of our model, with a focus on harnessing popular support to drive change and building stakeholder confidence through delivery.
A question that can posed at this point is this: how realistic is it to expect that every city we interviewed will actually be able to migrate as they have declared over the three year period? In fact, are the findings here more aspiration than reality? If this is the case, what actions must city leaders and policy makers undertake to ensure the political/executive functions are aligned with the administrative/delivery capabilities to enable success?

What is your vision for the city?

Criteria	Percentage
Brand - build / reinvent as a local / global centre	23.3%
Social (in)equality, diversity and inclusiveness	20,2%
Economic progress (development)	18,2%
Sustainability (environment / infrastructure / resources)	17,2%
Politics and Administration	6,1%
Delivering infrastructure / infrastructure excellence	4,0%
World class transport / communications	3,0%
Create safe communities / minimise crime	3,0%
Finance and Budgeting	3,0%
Population growth / balance	2,0%

Criteria Definitions

► *World class transport/communications:* e.g., as metro and cross-city connectivity to increase urban mobility.

► *Create safe communities/minimise crime:* make the city safer.

► *Finance and budgeting:* they want it to be well managed, self-sufficient, tax-friendly for citizens.

► *Population growth/balance:* they want a diverse mix of people to live there, and want to migrate there.

► *Politics and Administration :* transparent and accountable, engaging with citizens and stakeholders, a model of good governance.

► *Delivering infrastructure/infrastructure excellence:* a great socio-economic blend, with a reputation for delivery excellence.

► *Economic progress (development): such* as improving citizen economic well being to building a science park or business hub.

► *Sustainability (environment/infrastructure/resources)*: various factors from energy and the developed landscape, to symbiosis with the region.

► *Social (in)equality, diversity and inclusiveness:* a rich mix to promote better living and attract more people.

► *Brand – build/reinvent as a local/global centre:* they want fame globally – culturally, economically etc.

Note: these criteria were created by assessing and categorising the comments provided by each respondent. Consequently, while they have been subjected to editorial interpretation, they do conform to the broad definitions provided in the call out box. Of interest:
► Safe and relatively crime free communities ranked as one of the lowest scoring criteria.
► Social equality, diversity and inclusiveness ranked equal first with creating a city brand (being famous globally for something).

What do you want the city to be famous for in ten years time?

We will have the same high life quality standards as we observe in developed countries

One of the most attractive places in Europe for generating and attracting talent and creativity

We want to be caring and economically viable

We want to be in the premier league of world cities

The best small city in the World

I want us to be famous for being a modern city, but with a historical identity

A world model for urban policies

The greenest, affordable, city in the World

A city that promotes justice and equality to its citizens

The best big city on Earth!

A fun and functional city

One of the most important business centres in Latin America

A growth engine for the region

A safe and responsible city – because citizens are crucial, not institutions

A high quality of life and social cohesion

An attractive world metropolis with a rich history

The greenest big city in the World

A place where people want to live, work and play

An international city for conferences and trade fairs

These comments are the personal reflections of the city leaders/mayors we interviewed and are intended to demonstrate what lies behind the current vision in terms of how their city will be perceived externally.

What do citizens think?

Liveable Cities: challenges and opportunities for policymakers

Commissioned by Philips, the Economist Intelligence Unit conducted a study of 575 urban professionals, seeking their views on what matters most in making a city liveable. Some of the report's findings are of interest to our study are set out below.

► The top three most important factors that make a city an attractive place in which to live and work are: jobs market and cost of living (58%), public transport, road links and parking (47%); and safety and security (44%).

► The main motivating factors for why the respondents live in the city are: to seek better work opportunities (39%); born in the city/always lived there (29%); and posted there by an employer (24%).

► The primary factors to improve city life and make it less stressful are: public transport, road links and parking (59%); the general environment and cleanliness (35%); and the jobs market and cost of living (30%).

► The primary benefits for their employer in being located in the city are: access to talent/labour (63%); the city has a high profile and a good reputation (54%); and transport links to other key cities/markets (37%).

► To make the city more competitive for business the main priorities for the city mayor/leadership to focus on are: improving public transport/roads (61%); improving schooling/education (33%); and encouraging multinational companies to set up business (32%).

Philips Index for Health and Well-being: A global perspective Report 2010

This study focuses on the thoughts and drivers of health and well being among citizens. It is based on responses from 31,566 people in 23 countries. Key findings of interest are:

► Economic factors are a key driver of stress – having enough money to pay bills (55%), the economy (52%) and losing one's job (47%) all scored heavily among citizens.

► Within the survey, global city dwellers identified safety/crime, access to healthcare/hospitals, and availability of employment as the most important criteria for consideration when choosing a community in which to live.

There are two conclusions to draw from these findings that resonate with our study:

► Cities that consistently deliver economically for the individual can leverage this to help them (i) retain and attract talent, and (ii) attract investment to create more jobs.

► The perception of safety, the availability of health infrastructure and the feelings of employment security all need to be taken seriously by policy makers if they wish to retain and grow their population, especially talent.

Some of the findings within these reports have a direct bearing on our study conclusions. To attract people and especially talent the three most important criteria for policy makers to deliver successfully on are job creation, transport and safety. If we link this back to the findings of our previous slide, we can see that the top three criteria among the policy makers we surveyed are not aligned with what the Philips and EIU reports are telling us about managing citizen expectations. In our model we identify people as the demand side of the equation: they have individual (and collective) demands and needs that policy makers and politicians must strive to deliver. Failure to do so may result in depopulation, or the best talent migrating out of the city and a less skilled workforce remaining, which might adversely affect perceptions of the city by wealth creators and investors.

Section 3

Concluding thoughts

Cities for citizens – what do our results mean?

1. Competition for resources is global, not local, because people and capital are highly mobile. City leaders must therefore outline a vision that appeals to citizens and investors alike, in order to attract and retain the resources they need for the city to grow.

2. The respective size of a city is not important; all have the capacity to deliver a vision and attract resources, and in doing so become the best they can be. The vision and strategy needed to deliver it must be sustainable and ambitious – and underpinned by strong leadership.

3. However, many cities and national governments continue to face intense funding difficulties as a result of the financial crisis. Because financial sustainability is vital, a mixture of different funding mechanisms – both public and private – must be considered.

4. Consequently, a world class financial management capability is essential. Managing the numbers, modelling options, optimising resources – these will enable city policy makers to assess different funding scenarios and consider the implications they raise.

5. Some cities have pinned their hopes to large infrastructure projects; to kick start economic activity, and to attract business, investors and talent. But the competition for capital and developers is now global and investor appetite will not meet current demand. So city brand is critical, and a unique offering may be the deciding factor.

6. Prioritising the allocation of resources to meet strategic goals is needed, along with innovative thinking about service design and delivery models. Income earning city enterprises; either co-owned and/or co-delivered with the private sector, are a better way to generate funds than raising taxes.

7. Investors and donors, as well as businesses and citizens will expect city leaders to ensure that maximum stakeholder value is assured. A world class financial management capability will build stakeholder confidence in the leadership and the administration, who must strive to be transparent in their reporting and welcome accountability to citizens – their voters. If they are doing a great job, they should tell the voters and welcome the scrutiny that will follow.

How to make cities in BSR stronger ...

... financial sustainability is vital

Front of mind	What could help	Potential prize
How do we know the vision is compelling enough to attract the talent and capital we need?	Create a framework to regularly test the affinity citizens and businesses have with it.	Stakeholder affinity with the vision may impact city voting behaviour, and the migration of people and businesses.
Will the strategy make our city competitive in relation to our peers and attract the entrepreneurs we require to create jobs for our citizens?	Model alternative options and test the strategy with the broader business community, taking on board their perspective about the ease of doing business.	Supporting entrepreneurialism will encourage wealth creators to remain in the city. Engaging the business community regularly with the vision ensures that it can stay aligned with their needs.
Does our governance model and reporting framework embrace transparency and build confidence that we are truly held accountable?	Structure and empower independent organisations to freely monitor performance and financial management, and report openly about what they ascertain.	Investors and wealth creators will view a city more positively if it embraces robust governance, transparency and independent monitoring. Accountability will also drive performance improvement into city wide bodies and deliver better tax payer value.
How do we know that our investment strategy is sufficiently appealing to capital markets and do we have a good enough mechanism in place to raise finance?	Branding is critical, so a unique offering is required. Create an investor prospectus that considers the allocation of risk and is realistic about the funds available in what is a highly competitive marketplace.	To attract the levels of finance needed, a fair balance of the risks allocated between investors and city government is recommended. Thinking innovatively about the repayment mechanism is equally attractive to capital.
Do we have a world class financial management capability that will enable us to: prioritise the allocation of resources; model service delivery options; and demonstrate our financial competency to citizens, capital and wealth creators?	The financial plan must be driven by the city's strategic goals and transparency of the services which contribute most to these objectives. This will allow the city leadership to allocate scarce resources to the areas of greatest priority	A service led approach, supported by insight and rigour, will drive ownership across the city organisation. It will also build confidence that the annual plan appropriately aligns city resources with the outcomes that will best deliver strategic goals.

Thank you for the attention!