



STAFF REPORT ACTION REQUIRED

Office Modernization Program – Pilot Projects

Date:	June 1, 2015
To:	Government Management Committee
From:	Chief Corporate Officer
Wards:	All
Reference Number:	P:\2015\Internal Services\RES\Gm15022re (AFS 19716)

SUMMARY

The purpose of this report is to seek approval for funding to undertake three pilot projects as part of the Office Modernization Program (“OMP”). The Office Modernization Program is a key initiative for optimizing the City of Toronto’s real estate portfolio, with the aim to achieve 10-15% cost savings. When all three recommended pilot projects are completed, annual savings of \$1.08 million per year are expected. City Council recently directed the City Manager to undertake a City-Wide Real Estate Review to maximize the value of City assets and find efficiencies in operations. The OMP advances a number real estate goals identified in the real estate review, as well as broader strategic actions for the City, including:

- ✓ **Strategic Actions #23-26 - Fiscal Sustainability:** Reduce long-term real estate and overhead costs
- ✓ **Strategic Action #6 - Environmental Sustainability:** Reduce energy consumption and improve environmental health
- ✓ **Strategic Action #21 - Organizational Excellence:** Improve communication, collaboration and innovation; leverage technology to improve productivity
- ✓ **Talent Blueprint Focus Areas #1 & #3 - Employee Engagement & Workforce Capacity:** Meet changing needs of the workforce, improve employee engagement and the City's recruitment appeal

The OMP will update the City's current office standards, last established in 1999, to create modern and collaborative office environments that meet current needs of employees and City Divisions. The timing for the pilots is connected to opportunities to collapse leases expiring in 2016. The Chief Corporate Officer will report to City Council in Q3 2016 with the results of the pilots, including cost savings from implementation, employee feedback,

and overall business impacts. The report back will also recommend new office space standards and a rationalization plan to reduce office leases, which currently cost the City over \$6 million annually. Overall, it is expected that the OMP will lead to greater efficiencies and cost savings for the City of Toronto in 2016 and beyond.

RECOMMENDATIONS

The Chief Corporate Officer recommends that:

1. City Council amend the 2015 Approved Capital Budget for Facilities Management & Real Estate (FM&RE) by adding a new capital project "Office Modernization Program" (OMP) with a cash flow funding of \$3.12 million in 2015, to be funded from the Capital Financing Reserve (XQ0011) for implementing two of the three recommended pilot projects as part of the OMP.
2. City Council request the Chief Corporate Officer to provide an update on the pilot project activities after completing the detailed design and costing to finalize the pilot project cost and identify future year funding sources to be considered as part of the 2016 Budget process.

Financial Impact

Estimated project cost to modernize three (3) pilot locations is \$9.15 million as shown in Table 1 below:

Table 1: Timelines and Funding for Pilot Projects

Pilot	2015 Cash Flow	2016 Estimates	Estimated Project Cost	Projected Savings	Estimated Payback
1. Metro Hall 2nd Floor	\$100K + \$870K Design + Swing Space	\$4.33M Construction	\$5.30M	\$581,336/year	8.3 years
2. Metro Hall 15th Floor	\$2.15M Design + Construction	N/A	\$2.15M	\$294,378/year	6.9 years
3. NYCC 1st Floor	N/A	\$1.7M Design + Construction	\$1.70M	\$207,644/year	7.5 years
Total	\$3.12M	\$6.03M	\$9.15M	\$1.08M/year	

Implementing flexible work options (mobility, telework) and shared work spaces can improve the business case and payback periods significantly by reducing underutilized spaces.

Council approval is required to adjust the 2015 Approved Capital Budget for Facilities Management & Real Estate (FM&RE) by the addition of a new capital project "Office

Modernization Program" in the amount of \$3.12 million gross and \$0 net, with 2015 cash flow funding provided from the Capital Financing Reserve (XR0011) for various design development including architecture, furniture/ergonomic, IT consultation as well as a part of the construction costs for two pilot projects in 2015. There are sufficient funds in the Capital Financing Reserve to support the pilot initiative of modernizing and establishing standard workspaces at the three locations as identified in the Table 1 above.

The preliminary project cost is estimated to be \$9.15 million for the three pilot locations. After a full design is completed, FM&RE will finalize the project cost for the pilot initiative and identify future year funding source(s) as part of the 2016 Budget process for consideration.

All pilot projects will generate space savings, which allows the City to collapse office leases into saved space, or avoid entering into new leases by accommodating current growth requirements.

One lease identified as part of the recommended pilot program is 200 Wellington St. (2nd Floor), adjacent to Metro Hall, which is projected to cost the City an estimated \$12.50 million (NPV) over a 30 year term (gross rent is currently \$581,336 per annum). By modernizing the 2nd floor in Metro Hall (Pilot Project #1), the lease will not be required beyond the expiry date of July 31, 2016. Staff at the leased location can be accommodated in more efficiently designed space at Metro Hall, providing a positive cash benefit to the City in the medium term. For the other two pilot projects, space savings will result in future cost avoidance. Preliminary analysis estimates annual cost savings of \$294,378 for Pilot #2, and \$207,664 for Pilot #3.

Following the pilot program, City staff will develop an office rationalization plan and identify further opportunities to collapse leases and rationalize office space. The City currently spends over \$6 million annually on office rents. Estimated annual operating costs for City-owned office buildings (including Civic centers and corporate office buildings) is \$34 million. Total annual costs for leased and owned facilities is approximately \$40 million. The target savings of 10-15% for OMP would save the City \$4 million to \$6 million annually.

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

DECISION HISTORY

KPMG LLP, under the City's Service Review Program, identified portfolio optimization and consolidation of externally leased office space as a source of significant value. The report recommended that the City investigate the opportunity to reduce the number of leased facilities and repatriate workspaces to City-owned properties. Two reports included relevant recommendations: "*Service Efficiency Studies of Cross-Corporate Functions - Facilities Management and Real Estate*" and "*Service Efficiency Studies of City Agencies - Shared Services Review*":

<http://www1.toronto.ca/wps/portal/contentonly?vgnextoid=bf676056e60c3410VgnVCM1000071d60f89RCRD&vgnextchannel=2ba485a6820c3410VgnVCM10000071d60f89RCRD>

At its meeting on March 31, April 1 and 2, 2015, City Council adopted the report titled "*Operational Review of Build Toronto Inc.*" City Council directed the City Manager to ensure the ongoing review of real estate holdings and the City Wide Office Modernization Program consider alternate accommodation solutions to allow for the development of high value sites: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.AU1.7>

At its meeting on May 5, 2015, City Council adopted a report titled "*Consolidated City-Wide Real Estate Framework.*" The report summarized key findings from KPMG LLP and the Auditor General regarding various real estate matters. City Council directed the City Manager to identify options for improving real estate operations and portfolio management across City agencies, corporations and divisions. The OMP advances a number of real estate goals identified in the report:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX5.5>

At its meeting on May 26, 2015, Executive Committee adopted a motion regarding Flexible Work Arrangements / Alternative Work Arrangements for City Staff, to be considered by City Council on June 10, 2015. The recommendation requests the City Manager to provide specific measures that can be implemented to facilitate flexible hours and alternative work arrangements for City employees:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX6.20>

ISSUE BACKGROUND

The City of Toronto currently has a number of facilities that provide office accommodation for employees. These buildings include Civic Centers, annexed offices adjacent to Civic Centers, corporate offices and leased locations.

The Office Modernization Program is a key initiative for optimizing the City of Toronto's office portfolio. The program will include short, medium and long-term goals that will look at how the City views its real estate assets and how those assets can be better utilized. The program will aim rationalize space and improve business output, ultimately reducing accommodation costs while improving service delivery and overall work settings.

Before the OMP can be developed and executed, it is imperative to undertake a pilot phase. The pilot projects provide the small-scale, short-term venue for testing and analysis to help the City learn how a large-scale project will work in practice.

COMMENTS

The Office Modernization Program will update the City's current office standards, last established in 1999, and identify opportunities to optimize the real estate portfolio. By collapsing office leases, avoiding future leases, and reducing energy consumption there is a real opportunity to achieve a target of 10-15% in cost savings.

In addition to office space standardization, the OMP will also contemplate alternative work models where appropriate, such as flexible work options (mobility, telework) and shared work spaces. Currently, there are a number of job functions within City Divisions that are mobile in nature (i.e. Municipal Licensing & Standards, Toronto Building, Public Health), where mobility and shared seating arrangements can be implemented around existing business practices. Implementing mobility and shared seating provides a significant return on investment by reducing dedicated workstations for mobile job functions and reallocating spaces to a greater variety of employees.

The OMP is expected to generate additional benefits in terms of employee experience, recruitment and retention, as well as creating more productive and collaborative work environments. The pilot phase is a critical step in the process. The pilots will provide an opportunity to test research finding, assumptions, and new industry standards prior to the development of a broader implementation plan for OMP.

Industry Context

Public and private sector organizations who have undertaken office modernization initiatives have experienced greater employee engagement, reduced absenteeism, improved productivity, and reductions in real estate costs.

Global workplace trends are optimizing space allocation through a variety of design and workplace initiatives, including:

- ✓ **Open Concept Plans:** Open office environments with co-location workstations, shareable offices, and more group spaces for collaborative work
- ✓ **Shared Seating:** Shared seating arrangements for employees that spend significant time away from their desk due to job requirements
- ✓ **Less "Me" Space, More "We" Space:** Fewer/smaller private offices
- ✓ **Less Storage Space:** Paperless environments and/or high-density central filing
- ✓ **Modern Furniture:** Efficiently designed workstations that fit current technology, hardware and ergonomic standards
- ✓ **Expanded Mobility:** Promoted mobility (i.e. teleworking) where appropriate

These concepts are standardized in a number of private and public sector organizations (including Government of Canada and Provincial agencies)

Governance Structure

The Office Modernization Program has been guided by a number of City executives and Division heads. The steering committee is comprised of 13 executive level members with representation across all three (3) clusters and is chaired by the Chief Financial Officer & Deputy City Manager. In addition, a project team was created that comprised of staff from key divisions involved in implementation of the project, such as IT, HR, Real Estate Services and Facilities Management. The OMP governance structure is provided in Appendix A.

Gensler Review and Key Findings

Through an RFP process, City staff hired Gensler (international experts in space design) to assist in the review of City office environments and make recommendations for new office standards. The discovery process involved qualitative and quantitative research, including executive interviews, site visits, activity analysis, City-wide employee survey, real estate benchmarking, and a review of current IT and furniture standards.

The review conducted by Gensler determined that there are significant opportunities to improve the utility and efficiency of office spaces. Gensler's recommendations on workspace improvements and new standards will be applied to the pilot projects.

Pilot Projects

Gensler recommended Pilot Project locations based on Divisional/Cluster volunteers, opportunity for greater efficiencies, employee readiness and floorplate suitability.

Based on recommendations from Gensler, the pilots selected were:

1. Metro Hall, 2nd floor
2. Metro Hall, 15th floor
3. North York Civic Centre, 1st floor (Toronto Buildings)

Strategies that will be implemented and tested through the pilots include:

- **New Furniture Standards:** Standardized furniture; efficient and ergonomic designs at lower cost per unit
- **New Floor Design:** Open concept floor plate, increased shared spaces, less private offices; better access to natural light.
- **Modern Office Technology:** Portable technology, Wi-Fi, remote access and booking systems for meetings rooms

- **Greater Variety of Spaces for different Work Styles:** Better mix of focus areas, touchdowns, meeting rooms, collaborative spaces and private offices
- **Flexible Meeting Rooms:** Collaborative zones include bookable and non-bookable options in both open and closed spaces

New floorplans balance the need for various work modes by creating five (5) key environments, including spaces to focus, collaborate, socialize, learn and support. A sample floorplan is provided in Appendix B.

Risks and Dependencies

The Office Modernization Program incorporates staff's best available forecasts for the various financial inputs and best practices around office space design. However, the achievement of these forecast is dependent on the following factors:

- **Project Contingencies** – including potential for cost overruns and scheduling delays
- **Technology Deployment** – IT is a critical component of OMP and forecasts rest on successful implementation of technology upgrades
- **Swing Space Challenges** – including cost and timing challenges
- **Adoption of Flexible Work Options** – successful implementation of flexible work arrangements, where appropriate
- **Employee Experience** – feedback on workspace flexibility, open concept design, productivity, health and engagement

The three pilots will inform the refinement and improvement of these dependencies prior to full implementation of the program.

Overall Plan and Next Steps

Following the execution of pilot projects and feedback analysis (i.e., cost savings, employee impact, business improvements), the Chief Corporate Officer will report to City Council with recommendations for implementing new office standards, followed by an office rationalization plan:

Horizon	Objective
Short-Term	Establish Space Standards and Pilot Projects – design new standards; implement pilots with 3 Divisions in their existing office space, target 10-15% savings
Medium-Term	Consolidate Office Spaces – Evaluate City office buildings and leases for space consolidation and rationalization opportunities; examine benefits of selling property to improve ROI
Medium/Long-Term	Assess Business Practices - evaluate HR, IT and other corporate policies to improve workforce mobility/flexibility

The office rationalization plan will include an Office Evaluation Framework, currently being developed by City staff, to determine appropriate office locations for City employees, balancing affordability, accessibility, staff experience and the need to bring City services closer to communities. The first report back to City Council is estimated to be in Q3 2016, following completion of the pilot program.

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SIGNATURE

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ATTACHMENTS

Appendix A: Office Modernization Program - Governance Structure
Appendix B: Sample – Current Floorplan vs. Modernized Floorplan