

**CITY OF HAMILTON
PERFORMANCE AUDIT REPORT 2017-04
PUBLIC WORKS – OFFICE ACCOMMODATIONS**

INTRODUCTION

Office accommodation is a significant cost for the City, contributing to an annual budget in excess of \$55 million for rent, utilities, and building upkeep. The majority of administrative staff is located in the downtown area with 1,662 administrative staff¹ in seven larger buildings that provide approximately 348 thousand square feet of usable space² within the central area. (This includes 150 administrative staff in Wentworth Street Operations Centre). In 2016 the City paid rent in excess of \$3.3 million for space in three downtown buildings, accommodating 641 people in more than 140 thousand square feet. The remaining 1,021 staff was accommodated within four owned buildings providing almost 208 thousand square feet of space.

All space occupancy whether leased or owned, drives costs for ongoing maintenance, janitorial services, utilities, and security. Space reconfiguration which Audit Services defines as the repurposing of space that is associated with asset replacement, growth, and reorganization, is ongoing and further increases annual accommodation expenses by more than \$1 million annually. Generally speaking, excess space capacity is a strain on financial resources, while conversely poor staff accommodations can reduce productivity and impact employee turnover.

Office accommodation is currently delivered within a decentralized model. Under this model, priorities and funding are determined by divisions and departments. The Accommodations Group within Facilities provides expertise on the delivery of office accommodation projects by managing, designing, and completing each project, as well as developing guidelines.

The Portfolio Management Committee, with membership from across the Corporation, including customer facing operational areas as well as enabling services such as Real Estate, Finance, and Legal, provides a corporate lens for the City's real estate management. Among its responsibilities, the Committee vets and provides oversight for proposed corporate office accommodation projects such as the Lister Annex.

Issues related to office accommodation continue to arise for the City (and many corporations) as space reconfigurations, lease renewals, and office housing requirements evolve. It is inevitable that corporate space requirements will continue to change as technological developments significantly impact the work environment.

¹ Excludes staff in Library, Public Health, Police and Fire operations

² Useable space excludes vertical penetrations such as elevators and stairwells and so it equates to floor space that can be utilized by occupants for day to day activity

Furthermore, buildings acquired in the past may not continue to be well suited for existing and/or future needs. In 2017, reports addressing staff accommodation (Lister Annex - PW17042 and 50 Main Street East -new Provincial Offences Administration – PW17044) were brought forward as strategic opportunities. To ensure continued best use and mix in accommodation, and in light of expiring leases, in 2016 Facilities Management committed to developing a Master Office Accommodation Plan (MOAP), which it anticipates providing before the end of 2018.

AUDIT OBJECTIVES

The objectives of this audit were to:

- Evaluate how governance and oversight promotes the effective and efficient utilization of accommodation
- Assess the appropriateness of policy and procedures related to the provision of space and how they support the effective and efficient delivery of corporate accommodations
- Evaluate the value for money received on corporate reconfigurations
- Review reporting on corporate accommodation (including budgets, benchmarking and key performance indicators) for understandability and reliability, and how efficiency and effectiveness of space utilization is reported

SCOPE

This audit focuses on corporate accommodations provided in the leased and owned buildings with higher square footage and staff counts in the downtown area. (See Appendix B to Report AUD17029 for the included buildings). Detailed testing focused on the period from January 1, 2016 to May 31, 2017. Library, Public Health, Police and Fire operations were specifically excluded. Facilities provided for the citizens' use and benefit have been excluded (recreational facilities and stadiums) as well as operational centres such as transit garages.

METHODOLOGY

The following audit techniques were used individually and in combination:

- Review of applicable reports, policies, procedures, agreements, and legislation
- Interviews with various City Personnel
- Examination of reports, transactions, accounting records, and supporting documents
- Research on other municipalities' policies, procedures, and other activities related to corporate accommodations

FINDINGS

I. Benchmarking on accommodation efficiency is not readily available

Square feet per person (sqft/person) and cost per square feet (cost/sqft) are commonly recognized measures for space utilization. Facility's Guidelines for office and work space per person (Appendix C) are comparable to the limited data available for other municipalities. However, when actual space utilization is considered, there is a significant range in sqft/ person between each of the buildings reviewed (Appendix B). Within the leased portfolio the benchmark ranges from 203 to 256 sqft/person. While the refitted Lister Block achieves 167 sqft/person, the owned portfolio includes buildings with space utilization as high as 327 sqft/person. Facilities views the 167 sqft/person achieved in the Lister Block as a target to work towards, and while this ratio would generate significant savings for the City, it will take time and may not be achievable in all properties.

Reducing the space requirements within the properties listed in Appendix B to report AUD17029, from current levels of 209 sqft/person to 190 or 180 sqft/person could theoretically result in annual lease savings in the mid-term ranging from \$800 thousand to \$1.2 million, respectively. However, this will require a concerted effort and funding over numerous years to complete space development.

In light of the goal to reduce sqft/person, Audit Services expected there would be detailed analysis of the sqft/person benchmarks for the entire portfolio. During the audit however, sqft/person was only made available for total buildings, due to effort required to generate the benchmark at a higher level of detail. Difficulty in obtaining reliable data on the number of employees within a specified space and the corresponding square feet utilized limits Facilities' ability to generate the benchmark at a level that highlights the specific spaces with low density. Management identified the need to calculate sqft/person for various spaces within buildings in order to provide the MOAP to Council in 2018.

As a component of the MOAP, work is starting to generate detailed sqft/person. Management indicated this will be developed and delivered without processes or tools that support tracking of the benchmark on an ongoing basis. As a result, the work in the MOAP will provide the current sqft/person, without the benefit of a mechanism to easily track the benchmark on an ongoing basis. Accordingly, the benchmark would need to be manually recalculated periodically for monitoring and informed decision making.

During discussions with Facilities management, it became apparent that there was a lack of agreement on how Archibus, (which is the software currently utilized for other areas of Facilities operations) and other technology, could provide a reliable, cost effective solution for the ongoing calculation of sqft/person.

Audit Services believes the chosen technology solution(s) and related processes need to be implemented to ensure the benchmark is:

- Reliable and readily available at a level of detail that would support both strategic and tactical decision making
- Easily updatable to support the ongoing decision making and reporting related to space utilization
- Comparable over time and with other municipalities

The ongoing provision of the benchmark would enable Facilities to evaluate space utilization and target areas of inefficiency to generate cost savings.

Recommendation

1. That Facilities implement processes and tools to support reliable and timely generation of sqft/person and costs/sqft at a level which will support ongoing decision making related to space utilization and savings opportunities.

Management Response: Agree. Facilities, as a member of Master Office Accommodation Plan (MOAP) Committee is in the process of laying out a plan to measure and analyze current space data, establish Key Performance Indicators (benchmarking), set targets for improvement (e.g. target office density), quantify savings possible, develop tools and processes, and lay out an implementation plan, that will support ongoing decision making. As a starting point, a consultant was engaged by Facilities in order to gather & validate space data including, office occupant densities, lease costs, operating costs, business-specific functional requirements, effectiveness of the space, quality and adequacy of meeting rooms and other common spaces, blocking & stacking, state of repair, and recommend site-specific opportunities for optimization and feedback from occupants.

Action & Response:

- a. *Gather and analyze space data by March 2018.*
- b. *MOAP Committee to establish benchmarking and targets lay out a plan by the end of 2018.*

II. Corporate oversight on accommodation upgrades needs improvement

While roles and responsibilities for accommodation projects are divided between operational divisions and the Accommodations Group within Facilities, corporate oversight needs improvement. Generally, operational areas initiate project scope and provide funding, paying for moves and space upgrades. Accommodations manages, designs, costs, and completes each project, approving invoices recognized within the applicable operational area. While Accommodations has developed guidelines on the size of offices and workstations, it does not have the authority to enforce them.

Larger projects benefiting more than one division are the exception. The Portfolio Management Committee provides significant oversight on the largest accommodation projects such as the Lister Annex and 50 Main St East, but is not reviewing in sum the work completed through individual projects.

Accordingly, there is no corporate window that provides aggregated information on all the smaller corporate projects undertaken throughout the year.

If available, this information could allow for closer monitoring of space utilization toward recognized goals, efficiencies, related spending and savings opportunities, and support corrective actions.

Audit Services noted that Accommodations primarily focuses on tactical delivery of space, and there is little monitoring of total accommodation development costs and space usage across the Corporation. With effort, Accommodations was able to provide detailed information including project costs and plans developed for specific projects that Audit Services reviewed. Project costs can include architectural design, wiring, construction, and furniture and fixtures. Furniture and fixtures are either purchased or recycled from the existing inventory of surplus stock. However, consolidated information on the number of staff accommodated, and the total costs, including new and reused furniture and fixtures for each of the projects completed was not readily available. Accommodation's estimated annual project spend of more than \$1.5 million in both 2015 and 2016 is a reasonable estimate given that in both 2015 and 2016 furniture purchases made within the exclusive contract with Technion exceeded \$1.1 million annually.

Through discussion with senior staff responsible for corporate accommodations, it became apparent that they focus on delivering accommodation projects, using the established Guidelines. However, Accommodations don't generate summary data on the value of work completed, such as whether the project provided additional workstations or enhancement to existing workspace. The total number of projects initiated but not completed in a given period was also not readily available.

Facilities Management raised to us concerns about offices and workstation projects that exceed the existing Guidelines and provided information on specific projects. The non-complying projects reviewed were approved by General Managers and Audit Services concluded they were not indicative of systemic levels of non-compliance. However, we noted as exceptions occur, it may become more difficult to maintain compliance with the Guidelines for upcoming projects, which in turn will make it more difficult to reduce the sqft/person.

Accordingly, more information on accommodation projects, such as type of project, project cost, number of employees housed, compliance with guidelines and additional approvals obtained, is needed for mature oversight, and to support the development of the City's accommodation strategy and subsequent implementation. This type of information would allow for better benchmarking and assessment of compliance with accommodation guidelines or standards.

For example, within space management best practices, churn rate which is defined as the number of people moving spaces compared to the total number of people housed is one of the benchmarks considered.

Higher churn rates increase moving costs and impact employees. The current data available does not support the generation of churn rates.

Recommendations

2. That Facilities support corporate monitoring on accommodation projects, by implementing systems and processes to collect data for;
 - Evaluating the alignment of accommodation projects with accommodation strategy, and
 - Benchmarking purposes.

Management Response: Agree. Facilities currently monitors accommodation projects and has systems and processes to collect data. Process improvement and alignment of accommodation projects with accommodation strategy and targets will be deliverables of the Master Accommodation Plan Committee whose work is currently underway and will be completed by the end of 2018.

3. That the Portfolio Management Committee undertakes periodic monitoring of the accommodation project activity collected by Accommodations.

Management Response: Agree. Facilities Management and the Chair of PMC will establish a process to integrate regular (quarterly) reporting of accommodation project activity into the PMC agenda. Ultimately, the MOAP will be used as the benchmark for monitoring the results of project activity by the end of 2018. Similarly, updates to MOAP will be the basis for accommodation planning, budgeting and project approval after 2018.

III. Planning and budgeting for corporate accommodation requirements needs to be addressed

Space requirements are dependent upon the level of the workforce. Currently no ongoing formal process exists for forecasting future accommodation requirements at a corporate level. A mechanism is needed to periodically and reliably assemble future corporate space requirements for a mid-term period (3-5 years), so that accommodation can be adjusted through acquisition, lease or sale, which requires significant lead time. This is especially relevant given the transition to a multi-year approach to business planning and budgeting. While Facilities Management indicated that the MOAP will assess upcoming corporate space needs, triggered largely by current lease expiration, this is an ongoing issue that needs an ongoing solution. The scope of this responsibility fits within the Portfolio Management Committee's terms of reference, which include the integration and coordination of activities to manage real estate holdings.

Due to their nonrecurring nature, Audit Services noted that many smaller accommodation projects are not specifically budgeted, and are funded from within existing budgets. Staff within Budgets and Planning confirmed that there are no corporate guidelines nor is specific direction provided within the business planning or budgeting processes, related to addressing one time accommodation costs.

Recommendations

4. That the Portfolio Management Committee in conjunction with Business Planning and Budgeting incorporate space requirement forecasts in a manner that will support consolidation of identified needs, so as to better support midterm planning and current budgeting for space requirements.

Management Response: Agree. Facilities continues to sit on Portfolio Management Committee (PMC). Facilities is currently working with PMC membership and chair through the MOAP Committee to discuss both long term and medium term planning, as well as budgeting for space requirements by the end of 2018.

5. That Facilities Management periodically co-ordinate and report to Portfolio Management Committee on mid-term planning around staff accommodation.

Management Response: Agree. Facilities continues to sit on Portfolio Management Committee (PMC) and connects regularly with PMC. Facilities is currently working with PMC membership and chair through the MOAP Committee to discuss both long term and medium term planning, as well as budgeting for space requirements by the end of 2018.

Increased codification of accommodation principles and practices is required

Accommodations is driving efficiency of space provision through space design that complies with current Space Guidelines which provide sizes for offices and workstations based on assignment. (Appendix C). These Guidelines appear in line with practice in other municipalities. In situations where design is non-compliant with the Guidelines (office or workstation sizes are larger than prescribed), General Manager approval has normally been sought; however, the Guidelines do not stipulate this requirement.

The current Guidelines also provide recommended sizes for other auxiliary and common spaces. Achieving optimal space utilization is not limited to room or workspace size. Accommodations also utilizes other principles that are consistent with industry practice related to matters such as maximization of light and collaborative work space. Documentation and dissemination of all the guidelines and principles that Accommodations considers in designing office space would better inform internal clients and support enforcing space utilization. The provision of this information would also assist internal clients in understanding how adherence to accommodation guidelines and principles will benefit staff and the Corporation.

Recommendation

6. Facilities should continue to bolster existing Guidelines and include information such as principles on space design and make Guidelines more widely available to the Corporation to build greater structure, and understanding around the benefits of standardized space development.

Management Response: Agree. Facilities currently follows space Guidelines. Strengthening of existing Guidelines and making Guidelines more widely available will be deliverables of the Master Accommodation Plan Committee whose work is currently underway and will be completed by end of 2018.

IV. Planned accommodation density at 50 Main St East will likely not improve the Corporate benchmark

One of the large projects Audit Services reviewed was the corporate accommodations plan for the 21,750 square feet of space in the 3rd, 4th and 5th floors of the refurbished 50 Main St East building (50 Main St.). Although identified as a strategic opportunity, Audit Services concluded that it will not likely result in the City improving upon its current space utilization benchmark. The consultant's report included in PW17044, identified three City tenants (Law, Risk and Audit) to occupy 15,400 square feet of usable space, which in total is comparable to their current space utilization. However the current floor plans reflect occupancy of 19,950 usable square feet for these same three tenants. While Facilities confirmed that the planned 63 work spaces comply with City Guidelines, the new space design and planned use will result in space utilization of 316 sqft/person. Also the plan leaves 1,800 square feet of space unoccupied and available for future project teams or swing space, which creates uncertainty in the eventual overall utilization that will be achieved. Audit Services noted that the size and the security requirements of the building may make it more difficult to fully utilize this space for the identified future purpose.

The current plan for the office development of 50 Main St results in more than 7,300 square feet being added to the City's total amount of useable space. This is due to 2,700 usable square feet of vacated space remaining under lease, and the net addition of more than 4,600 usable square feet in new space. Given that operating costs are at least partially driven by square footage, this increase could result in higher costs to the City, as well as lower space utilization.

Audit Services noted that the best space utilization has been achieved when a comprehensive space plan for a whole building is created at one point in time following established guidelines and practices, such as the Lister Block redevelopment. On the other hand, Wentworth Operational Centre which has been reconfigured on a piecemeal basis and has pre-existing fixed structural constraints provides lower accommodation density at 327sqft/person. With respect to 50 Main St, Facilities identified that divisional functional requirements and the existing footprint for the building contribute to higher sqft/person benchmarks in the building.

Audit Services concluded that achieving higher space utilization in the future at 50 Main St. may be more difficult and costly, particularly as the current space is tailored for the new occupants' use, with design not typical of other space development, and with the remaining undeveloped space being small. Also, future space reconfiguration would likely be costly and disruptive.

Recommendation

7. That for future Corporate projects, prior to recommending project approval and commencement of construction, The Portfolio Management Committee address the risk of suboptimal space utilization, and to this end require that business cases include space utilization benchmarks as well as any rationale for substantial variance from approved guidelines.

Management Response: Agree with recommendation. MOAP Committee will establish Key performance indicators, targets and lay out a plan by end of 2018. Facilities shall report to PMC on every project against a sqft/person target occupant density benchmark, prior to space planning & construction. This can be done as soon as KPI and targets are established.

While we agree with the recommendation we disagree with the use of 50 Main St. East as an example in consideration of the following:

- *Target occupant densities & KPI are still being carefully established, therefore there is no evidence of suboptimal occupancy at 50 Main St. East.*
- *Office sizes at 50 Main St. East are successfully reduced from current leased location and compare well with other municipalities renovating for similar function this year (e.g. Burlington & Niagara Region), as well as current City of Hamilton guidelines.*
- *Functional requirements of Legal, Audit & Risk necessitate less density (confidentiality requirements, significant volume of file storage for daily access, meeting spaces serving broader corporate function, interior circulation).*
- *Good design requires consideration of the function within the space to ensure it will be effective for its intended use, as was done for 50 Main St. East by the design team.*
- *Design and occupancy must work within existing footprint of building (e.g. mullions, fire exits, and elevator locations).*
- *Lease terminations were carefully managed and costs were avoided where possible. The associated business case for lease terminations and occupancy at 50 Main St. East was carefully considered and results in a net benefit to the City.*

After careful re-examination, Facilities concludes that space utilization at 50 Main St. East has been optimized in consideration of the above.

OTHER MATTERS

During the course of the audit, facilities staff noted that the budgeting and reporting of energy costs continues to be an ongoing concern. These costs which include electricity and natural gas, were budgeted at more than \$33 million in 2016, and represent the largest group of costs within a buildings and grounds budget of over \$55 million. Energy budgets reside within specific business units when those costs are directly attributable to their operations, which is in compliance with the 2009 Council-approved Cost Allocation Methodology (FCS09064).

Business units are responsible to ensure that the energy budgets are appropriate. The Office of Energy Initiatives is responsible for managing the City's energy usage, energy intensity efficiency, and data reporting. The Office acts as resource during the budgeting process providing guidelines for rate increases and other advice. The Office also reports annually on consumption and costs that are within its mandate. While the reporting is extensive, it does not include information comparing budgeted to actual energy costs.

Given the focus on energy consumption and the high costs, reporting on the corporate financial results for energy compared to the Council- approved budget would improve transparency of and accountability for budgeting and actual results. Audit Services noted that staff has validated financial information provided in past Annual Energy Reports.

Recommendation

8. That the Public Works Office of Energy Initiatives work with Corporate Services to incorporate within the Annual Energy Report, linkages to approved budgets and financial results to improve the understandability and transparency of energy reporting.

Management Response: Agree. While Energy reporting is not directly relevant to Space Accommodations and the rest of this audit, we acknowledge that Energy reporting can be improved. However that improvement should not be limited to reporting. In addition, budget lines for Energy should be centralized to the purview of The Office of Energy Initiatives. Energy reporting can be improved for 2019 budget year.

Because these findings have no relevance to the initial mandate of the report, it has been requested to remove them and address as a new assignment, at a later date.

Facilities can work with Finance to look into the feasibility of centralizing budget lines to the purview of the Office of Energy Initiatives.

CONCLUSION

Office accommodation, and related ongoing maintenance and space reconfiguration are significant costs for the City. As a result, the underutilization of space is a strain on the City's financial resources. Conversely, poor staff accommodations impact productivity and staff turnover. Office accommodation is currently delivered within a decentralized model, with divisions setting priorities and providing funding. The Accommodations Group within Facilities provides expertise on the delivery of office accommodation projects. More corporate oversight and focus on benchmarking related to space utilization could result in cost savings. Increased emphasis on forecasting of space requirements will better support planning and budgeting for space requirements. While current Guidelines on workspace size provide direction that is generally adhered to, more standards around other design principals and their benefits will build greater understanding and support for standardized space development.