

HALIFAX

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Item No. 3 (ii)
Budget Committee
May 26, 2020
May 28, 2020

TO: Chair and Members of Budget Committee (Standing Committee of the Whole on Budget)

SUBMITTED BY: Original Signed by 
Jacques Dubé, Chief Administrative Officer

DATE: May 21, 2020

SUBJECT: Corporate Accommodations – CB190011

SUPPLEMENTARY REPORT

ORIGIN

Regional Council review on May 19, 2020 and May 21, 2020 of the revised 2020/21 Capital Budget.

LEGISLATIVE AUTHORITY

HRM Charter Section 61(5)(a): the Municipality may acquire property, including property outside of the Municipality, that the Municipality requires for its purposes or for the use of the public.

Administrative Order Number 2018-004-ADM (the *Real Property Transaction Policy*), Section 10(1): property leases with no maximum term and a maximum financial commitment of less than \$1,500,000 may be approved by the Chief Administrative Officer and signed by the Mayor and the Clerk.

RECOMMENDATION

It is recommended that Halifax Regional Council approve the proposed capital budget of \$3.627 Million dollars for fiscal year 2020/21 to capital budget account CB190011 - Corporate Accommodations.

BACKGROUND

As a part of the Corporate Accommodations Strategy, Corporate Real Estate is working towards the delivery of a multi-year plan to reduce and optimize the footprint of HRM's administrative offices, while gaining operational efficiencies for departments through co-location and creation of more collaborative spaces, improving workspace ergonomics and making HRM office spaces more inclusive and accessible. The program timeline is strategically designed to align with key upcoming lease expiration dates, reduce the need for construction swing space and minimize operational and budget impacts to the extent possible.

One of these key expiry dates is HRM's largest office lease at Duke Tower, Scotia Square. HRM currently occupies 63,000 sf of office space, 1,664 sf of storage space and a variety of smaller, semi industrial spaces such as the Parking Enforcement office, the Print Shop and the HRM Data Centre. The lease for most of this space will expire February 28, 2021.

The current market vacancy rates of 20% in the Central Business District (CBD) are significantly higher than the historical average vacancy rate of 12%. The timing of the lease expiry in February 2021 coupled with the above average vacancy rates suggests that we are well positioned to benefit from the current market conditions and negotiate more advantageous lease terms for HRM.

PLANNING & DEVELOPMENT

In 2015 when the Corporate Accommodations Study was initiated, Planning & Development was identified early in the process as an existing pressure and given priority in project sequencing. Since the business unit was created in 2014, it has been divided across three locations: Alderney Gate, Mellor Avenue and Bayers Rd. This continued separation has had a negative impact on staff morale and engagement and created operational inefficiencies related to file collaboration and management and fragmented service delivery. However, given the limited options available at that time, the consolidation of Planning and Development was recommended for 2022/23 when alternate space options would be available.

The subsequent capital budgeting process for 2019/20 as well as a reduction in available capital funding for 2020/21 required the Corporate Accommodations Program implementation schedule to be spread over a longer timeframe; this pushed the expected completion date of Planning & Development's accommodations project to 2024/25.

Throughout this process, Planning & Development have continued to grow and evolve to meet the needs of HRM. In 2015 the expected total staff count, including a 5-year growth projection, was 215 FTEs. Today's current staff count is 225 FTE's with a growth projection to 260 FTEs over the next 5-10 years. At their current staffing level, Planning & Development has grown beyond the capacity of the previously proposed accommodations location at Alderney Gate.

The upcoming expiry of the existing Duke Tower lease and other potential Business Unit relocations created an optimal opportunity for Planning and Development's consolidation to occur sooner.

DISCUSSION

The groups currently located in Duke Tower do not need to be in immediate proximity to each other, although they have all identified a need to remain in the downtown Halifax core, near City Hall. Consequently, the occupants were divided into 4 groups for their future accommodations. Some minor strategic adjacencies were identified, and those divisions or business units have been grouped together in the "Multi Business Unit" which is comprised of Corporate Communications, GREA, Access & Privacy, Risk & Insurance and the Public Safety Office. The other groups are Halifax Transit (Administration), Legal Services and ICT.

In 2015/16, Colliers Project Leaders was engaged to conduct a study of HRM's existing accommodations, complete a benchmarking analysis and provide recommendations for a consistent standard and future state. From that study, the Corporate Accommodations Standards and Plan were developed and subsequently approved by the CAO in November 2017. Over time, the Plan has had to evolve to adapt to organizational and operational changes, however the core program objectives and goals have remained consistent.

Program Goals & Objectives:

1. Reducing space and thereby achieving long term cost savings;
2. Providing inviting, open and modern workplaces;
3. Improving accessibility and inclusivity in the office environment;
4. Improving ergonomics, operational efficiency and functionality; and
5. Creating consistency and fairness in the allocation of workspace for staff.

Since the program was approved, renovations to ~26,000 sf have been completed, with a further ~16,000 sf currently under construction. By the end of fiscal 2023/24, we are targeting to have completed renovations of ~200,000 sf, providing refreshed space and meeting the stated program objectives for 1,100 HRM staff. Meeting this target will enable HRM to achieve the following:

- **22% overall reduction in space requirements** needed for the core program (44,000 sf) 35,000 sf owned space and 9,000 sf leased.
 - 35,000 sf of HRM owned space is expected to be available for lease on commercial market by April 2024.
 - Estimated lease revenue from this space is approximately \$8,750,000 over ten years.
 - 9,000 sf of leased space located at 7 Mellor, home to HRP East Division, can be reallocated once Planning has been relocated to alleviate existing space pressures and improve site security for HRP, starting in April 2022.
- **32% reduction in space per person.** In 2016 the average amount of space per person within the core administration offices was 280 sf.
 - By end of fiscal 2023/24 HRM is on track to achieve at 32% reduction in space on a per person basis bringing the amount of space per person down to an average of 190 sf.
 - Renovations to date have already reduced the space per person to ~260 sf.
 - \$1,500 - \$2,000 per person/per year reduction in cost of office accommodation – up to \$2,000,000 per year in cost reductions by 2025

Even with the increased density of HRM office spaces, we are still achieving brighter, more modern workplaces with improved ergonomics, more accessibility and inclusivity features, more meeting and collaborative space, and improved efficiency and service delivery with the co-location of teams.

These objectives, improvements and cost reductions can only be achieved through continued implementation of the program.

FINANCIAL IMPLICATIONS

The relocation of the existing occupants from Duke Tower to newly renovated and furnished premises and the subsequent renovation of Duke Tower and relocation of the entire Planning & Development business unit has the following financial implications:

- 1) **FY 2022/23 - Increase in annual lease costs by ~\$700,000.** The leased portion of the accommodation portfolio will increase by ~32,000 sf which will result in annual increase to lease costs commencing in 2022/23.
- 2) **FY 2024/25 - New Lease Revenue ~\$875,000.** Following completion of the major accommodation projects at Alderney Gate and Eric Spicer, the remaining vacant space could be leased to a commercial tenant. This could generate approximately \$875,000 in revenue on an annual basis starting in 2024/25, which would offset the projected lease expense increases as per item 1 above and provide \$1,750,000 in net savings over the ten years beyond 2022/23.
- 3) **Accommodations project implementation improvements.** If Planning & Development is relocated to new space, the 2nd floor of Alderney Gate could be utilized as construction swing space between 2022 – 2024 to facilitate accommodation projects at both Alderney Gate and Eric Spicer. This availability of this swing space will save time and money by eliminating the need to phase construction or acquire swing space from another landlord.
- 4) **Scotia Square Customer Service Centre.** An additional \$208,000 in annual lease cost savings could be realized starting March 1, 2021 if the Scotia Square customer service centre is no longer required. This would provide an earlier cost offset to the projected increase to the lease program. This would result in a net savings of \$2,080,000 over ten years.

CAPITAL REQUIREMENTS:

Capital budget funding will need to be reallocated to earlier in the program in order to deliver the proposed projects for both the existing Duke business units and Planning & Development.

The planned Duke relocation projects for fiscal 2020/21 are currently under funded by \$1 Million. The project to relocate Planning & Development will require an additional \$2.3 Million to CB190011 in fiscal 2021/22. Capital project funding of \$3.5M is currently planned for Planning & Development in 2023/24 & 2024/25.

Carry forward funding from previous year of **~\$1.6 Million** already committed (contracts signed, PO's issued) for projects currently in progress.

RISK CONSIDERATION

The existing program timeline is strategically designed to align with key upcoming lease expiration dates, reduce the need for construction swing space and minimize operational and budget impacts to the extent possible.

The fundamental objective of the program is to control or flatten costs over the next 10-20 years. If the program is abandoned, or significantly delayed or altered, the cost of employee accommodation will exceed the cost of the current strategy significantly, likely in the order of 25-30%, and the savings herein also lost.

If funding is not approved, the following impacts would result:

- Most of the **\$1.6 Million** in existing contract commitments for projects already in progress would still be due. Further penalties would likely be incurred as a result of contract cancellations.
- Continued higher accommodation cost of \$2000 per employee/per year (**\$2M per year**)
- Continued occupancy of space that is already beyond capacity with no room for any further growth once the hiring freeze is lifted.
- 5-year renewal required of some existing lease space at base rental rates 50% higher (\$18.50 psf) than the rates for the proposed new space (\$12.00 psf)
- Risk on lease rates for renewals of other lease agreements. This is an unknown and would be subject to negotiation. With the current market conditions, most landlords will want to secure a minimum 5-year commitment which would result in a corresponding delay to the delivery of the entire program.
- Projects are interdependent requiring completion in sequence (see attached timeline). If one part of the program is delayed, it impacts the entire program.
- Continued operational inefficiencies and fragmented service delivery
- Continued negative staff morale and management credibility owing to failed staff engagement
- HRM accommodations are not renovated to provide ergonomic, accessible and inclusive workplaces.

ENVIRONMENTAL IMPLICATIONS

There are no known negative environmental implications.

ALTERNATIVES

HRM could choose not to proceed with the Corporate Accommodations program at this time and instead renew the existing leases and keep staff in all current premises. This is not recommended as current accommodations are no longer meeting business unit requirements, create operational inefficiencies and fragmented service delivery and are contributing to continued lower staff engagement and morale.

ATTACHMENTS

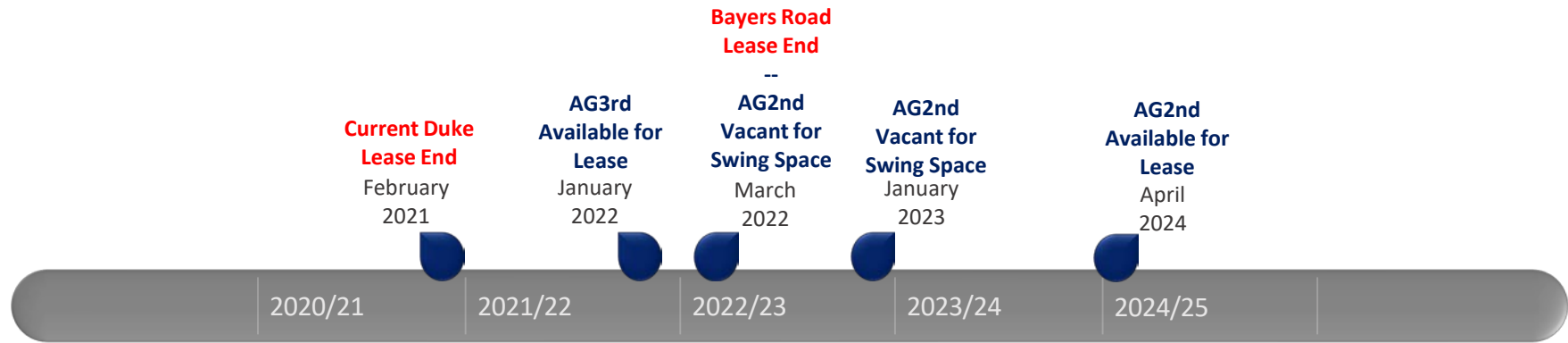
Attachment A - Corporate Accommodations Program Timeline - Overview

A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

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Alderney Gate 6th Floor In Flight – October 2020

Fire Administration, Prevention & Logistics In Flight – December 2021

Duke Replacement – Legal, ICT, Transit Admin, Multi-BU April 2020 – March 2021

P&D Consolidation & Relocation to Duke 3rd April 2021 – March 2022

Alderney Gate 5th Floor April 2022 – March 2023

Eric Spicer - TPW April 2023 – March 2024