

Report to / Rapport au:

**OTTAWA POLICE SERVICES BOARD
LA COMMISSION DE SERVICES POLICIERS D'OTTAWA**

26 September 2022 / 26 septembre 2022

Submitted by / Soumis par:

Chief of Police, Ottawa Police Service / Chef de police, Service de police d'Ottawa

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SUBJECT: FINANCIAL STATUS REPORT – SECOND QUARTER 2022

OBJET: RAPPORT D'ÉTAPE FINANCIER DU DEUXIÈME TRIMESTRE 2022

REPORT RECOMMENDATIONS

That the Ottawa Police Services Board receive this report for information.

RECOMMANDATIONS DU RAPPORT

Que la Commission de services policiers d'Ottawa prenne connaissance du présent rapport à titre d'information.

BACKGROUND

The quarterly financial report summarizes the current financial position of the Ottawa Police Service (OPS), outlines the operational issues affecting the OPS' finances and presents the projected year-end financial position for the organization. This report presents a mid-year projection of the Service's year-end financial position, outlines the significant variances that are known at this time, and identifies solutions. The accuracy of projections in this report improve with each quarter, as the OPS' expense and revenue patterns become more certain.

This report also includes the quarterly update on the 2022 Efficiencies Strategy – an Ottawa Police Services Board (Board) directed action that requires the OPS to identify \$7.05M in permanent base funding reductions and the elimination of 20 permanent full-time equivalents (FTEs) (for details please see Document 4).

In 2022, as in previous years, the OPS will leverage management interventions to control costs as much as possible without impacting the OPS' commitment to providing adequate and

effective policing with a focus on Community Safety and Well-Being (CSWB), duty of care, and public trust with residents of Ottawa. The OPS is currently tracking \$14.6M in pressures including pressures due to events and demonstrations, inflationary costs, and a reduction in revenue relative to pre-pandemic levels. Highlighted pressures are summarized as follows:

Events and Demonstrations

There has been an increase in the number of events and demonstrations compared to 2021. The OPS continues to track towards planning and responding to over 150 known events and demonstrations including one-day and multi-day events (e.g. March for Life, Rolling Thunder demo, Canada Day, Royal visit, Panda game). It is anticipated that this increase in events and demonstrations will continue for the foreseeable future. As such, the OPS has started to build out its Special Events team to plan and manage events and demonstrations to ensure community safety prior to, during, and after events and demonstrations. With support from partner services, this approach has been successfully used for several events this year following the illegal demonstration in February. Unfortunately, this new posture, with significant planning and prevention activities before an event as well as ensuring adequate deployment of officers leading up to and following – while most effective in maintaining public safety, is also costly. For example, applying a similar approach to managing St Patrick's Day – viewed by the community as successful – to the Panda Game will see a forecasted threefold increase in costs year over year.

The OPS will continue to rely on partner agency police resources and off-duty member overtime to manage major events and demonstrations. However, in 2022, the impact of limited recruitment of new officers resulted in the OPS becoming highly dependent on utilizing outside agencies - even for smaller events. Without the addition of new resources, the OPS will continue to manage in this way. Direct costs associated with this approach have been largely funded by Public Safety Canada as they are in alignment with pre-approved reimbursement criteria. Unfortunately, this staffing model relies on overtime and results in the deterioration of member wellness (fatigue) and reduces organizational resiliency (burn-out, sick-time). This was especially true for Canada Day when the organization had to cancel member's annual vacation, for the first time ever, to be able to provide adequate and effective policing. The OPS is actively strengthening its support to members for health and wellness and looking to reduce the reliance on overtime through filling vacancies and requesting additional resources. This was outlined in the Strategic Staffing Plan that was presented to the Board's HR Committee on August 30, 2022, and will be further detailed in the 2023 budget.

Supply Chain & Inflation

The pandemic and geopolitical conflict continue to place pressure on the supply chain and have destabilized the world economy resulting in a significant increase in inflation. The biggest impact for the OPS is within fleet as it relates to fuel costs. The OPS is experiencing a 50

percent increase in fuel costs over the budgeted amount. Costs of other necessary goods, services and equipment (vehicle repairs and parts, towing etc.) have also increased relative to previous periods.

DISCUSSION

The increased attention to events and demonstrations, broader economic instability, and the requirement to meet a \$7.05M efficiency target, requires the OPS to leverage several management interventions to balance its budget.

Management interventions actioned to date in 2022 have included a discretionary spending freeze and line-by-line budget reviews with each Directorate. An unintended delay in planned recruitment activities due to the illegal demonstration that occurred in the city in February, as well as the general difficulty in hiring due to low unemployment rates, has resulted in unanticipated vacancy management savings. Most of the solutions identified below are one-time in nature and aren't anticipated to be available in future year's budgets.

Although the OPS is forecasting to balance at year-end it doesn't have the flexibility in its budget to do so on an ongoing basis. The main reasons for this one-time flexibility are unexpected levels of vacancies in 2022 and the administration fee incorporated in the federal funding for large events. The savings in salary and wages from a significant number of vacancies is due to the recruitment freeze in 2021 that resulted in the OPS starting 2022 under complement when historically the OPS starts the year over complement to account for retirements that typically occur in the first quarter of the year. This issue was compounded by the illegal demonstration that required the whole service to focus almost exclusively on that event. When the OPS did turn its attention to recruitment, the labour market was tight, and it continues to be difficult to fill positions. This is true across the country with low unemployment rates.

Secondly, the Federal administration payments that are part of the National Capital Extraordinary Policing Contract with Public Safety Canada will aid in providing relief to any year-end pressures since the agreement will cover corporate administrative costs. Provided another large-scale prolonged demonstration doesn't occur in the future, this one-time financial relief can't be forecasted in subsequent years.

These factors may lead to the assumption that the OPS has flexibility annually when, in fact, once all vacant positions are filled, the OPS will have limited flexibility in future year's budgets to absorb pressures.

The OPS has identified several pressures and potential solutions in the second quarter as outlined in Table 1 followed by corresponding notes.

Table 1: 2022 Year End – Significant Variances		
	Key Pressures	Amount
a)	Non-Discretionary Operational Pressures	\$10,200,000
b)	Revenue Pressures	\$3,400,000
c)	Pandemic Expenses	\$1,000,000
	Total Pressures	\$14,600,000
Key Solutions/Offsets		
d)	Federal and Provincial Funding	\$9,100,000
e)	Vacancy Savings	\$3,500,000
f)	Management Interventions	\$2,000,000
	Total Solutions	\$14,600,000
	Surplus/(Deficit)	-

PRESSURES

a) \$10.2M Non-Discretionary Operational Pressures

The OPS identified pressures in the first quarter related to non-recoverable overtime for policing events and demonstrations, inflation, legal settlements, and WSIB claims and services. In addition to those items identified in the first quarter, one legislatively required pay equity item (job evaluation settlement) that was flagged as a risk in the first quarter has materialized as a \$4.5M pressure in 2022. Major pressures are as follows:

- \$4.5M - Job evaluation settlement payment
- \$2.0M – Non-recoverable overtime for policing events and demonstrations
- \$1.4M - Fleet fuel
- \$1.3M - WSIB
- \$1.0M - Legal claims and settlements

b) \$3.4M Revenue Shortfall

During the pandemic, the OPS experienced a shortfall in anticipated revenues resulting in additional operational pressures (revenue losses upwards of 50 percent on some revenue streams when compared to pre-pandemic revenue). This is anticipated to continue through the remainder of 2022 and includes the elimination of fees for all volunteer background checks, and reduced recovery from policing contracts at the airport, from red light cameras, and from false alarm revenue shortfalls.

c) \$1M Pandemic Expenditure Pressures

The OPS has experienced significant expenditure pressures due to the ongoing pandemic. This pressure includes the purchase of additional PPE and enhanced cleaning protocols implemented to protect members and the public. These costs will continue throughout 2022 but are not anticipated to be as significant as in previous years.

SOLUTIONS/OFFSETS**d) \$9.1M Federal and Provincial Grant Funding**

The Federal Government, through Public Safety Canada, is expected to reimburse the OPS for costs incurred from policing the illegal demonstration as well as other large demonstrations that have occurred in 2022 and that is in keeping with the grant agreement.

In prior years, the City had allocated funding to the OPS from the Provincial Safe Restart Grant to help cover the incremental costs and revenue shortfalls related to the pandemic. The OPS does not have funding for these expenditures and will be relying on the Province/City to offset these pressures in 2022, as they have in previous years.

e) \$3.5M Vacancy Savings

The OPS commenced fiscal year 2022 under complement due to the hiring freeze that was implemented throughout 2021. The hiring freeze, in addition to regular attrition, and the illegal demonstration in the first quarter of 2022 resulted in a higher number of vacancies than usual, a diminished recruit pool, and delayed the recruiting and hiring efforts of the OPS. Beginning in mid-2022, the hiring freeze was removed and, as a result, the OPS is now working to hire 80 to 95 new recruits through the remainder of 2022 and into 2023.

On the civilian side, the OPS is also dealing with high vacancy numbers due to the very competitive labour markets and record low unemployment numbers. Though work is well-underway to staff these vacancies, efforts have taken longer than is typical and have, again, resulted in unanticipated savings through extended vacancies.

The OPS is anticipating \$3.5M in savings in 2022 because of the aforementioned vacancies.

f) \$2.0M Management Interventions

Considerable management interventions have been implemented in the past, and continue into 2022, to manage the OPS budget, including:

- \$1.5M from discretionary spending freeze in services, supplies, and equipment-related costs; and
- \$0.5M from a mission-critical travel order.

In Year Financial Risks

The OPS manages many financial risks throughout the year of varying levels of magnitude and likelihood. There are several risks above and beyond those noted that have a high likelihood of being impactful and creating pressures for the OPS in 2022. These risks, which are being carefully monitored, include:

HIGH RISK \$1.5M - \$6M

- Senior Officers Association (SOA) contract negotiations – SOA collective agreement expired at the end of 2018 and if settled may result in a pressure of \$0.5M to \$1M.
- Impact from insurance liability claims and legal settlements due to the uncertainty of the amount and timing of when claims will be processed. This pressure could range from \$1M to \$5M or more.

LOW RISK

- Cost recovery for the illegal demonstration - federal partners through the National Capital Extraordinary Policing Costs program have advised that costs are expected to be reimbursed. However, this process will not be finalized until the fourth quarter of 2022.

2022 Purchases Made Under Chief's Delegated Authority

In 2021, the Board delegated the authority to the Chief to approve purchasing related to the lifecycle management of the OPS fleet of vehicles and conducted energy weapons (CEWs). The following list itemizes those purchases that were approved through that delegated authority in the second quarter:

1. Purchase Order 45101964: \$1.4M for the purchase of 400 conducted energy weapons. Delegated authority was provided at the January 24, 2022, Board meeting.

2. Purchase Order 45101608: \$1.0M for the purchase of 25 Ford Interceptor's. Delegated authority was provided at the December 20, 2021, Board meeting.

2022 Purchases Made Under Special Circumstances Clause

The unprecedented illegal demonstration resulted in the OPS having to procure surge capacity in the form of police officers from other services, accommodations, and towing services, related to the events and demonstrations outside of regular procurement practices. The Financial Accountability Procedures (FAP) Manual allows for such procurement when special circumstances exist, in the opinion of the Chief of Police, as per section 3.2.4.8 of the FAP Manual. In total, the OPS purchased \$7.2 million in goods and services using the special circumstances clause identified above. The detailed list of the items bought in this manner can be found in Document 2.

2022 Efficiencies Update - \$7.05M budget reductions

The 2022 OPS Budget included \$5.05M in permanent budget base reductions proposed by the OPS, as well as an additional \$2M brought forward by the Ottawa Police Services Board (the Board), for a total of \$7.05M (including the elimination of 20 permanent positions). The OPS has endeavored to reach the target as follows:

- outsourcing the Collision Reporting Centres (to be completed November 2022)
- performing a line-by-line review of its budget (completed)
- implementing a discretionary spending freeze and performing restructuring activities (completed).

Finding these efficiencies has been challenging, and while efficiencies have been partially re-invested in priority strategic initiatives, there have been negative implications for the Service and its members. These include but are not limited to: a reduction in training opportunities for members, delayed improvements for fleet and facilities, a reallocation of 20 FTEs, and lost flexibility to staff to respond to new and emerging issues in the community (e.g. cybercrime).

An update on the progress of this effort is included in Document 4.

Quarterly Reporting Requirements

Section 2(e) of the Board's Policy BC-2 on Monitoring Requirements requires the Chief to provide the Board with information on specific operational issues.

With respect to financial reporting, these requirements include:

- Document 1 provides the Second Quarter Financial Report – Summary by Directorate.
- Document 2 provides a list of all contracts awarded under delegated authority by the Chief that exceed \$25,000 during the second quarter of 2022. In total, \$3.3M in purchase orders were issued under delegated authority in the second quarter. The breakdown of these purchase orders is shown in Table 2 on a category-by-category basis. Expenditure definitions are included in Document 2.

Table 2		
Summary by Type		
Contracts Awarded Under Delegated Authority		
Type	Amount (\$)	Percentage (%)
Goods & Supplies	\$1,436,037	43%
Fleet & Equipment	\$1,041,488	32%
Information & Technology	\$465,887	14%
Professional Services	\$228,318	7%
Consulting Services	\$133,759	4%
Facilities & Construction	-	-
Total	\$3,305,489	100%

- Document 3 provides a summary of the OPS' capital budget works in progress and indicates those accounts which will be closed, in accordance with Section 3.1.3.4 of the Financial Accountability Procedures Manual. That section enables the Chief Financial Officer to close capital projects by returning any remaining balance to the originating sources and funding any deficits.

Annual Reporting Requirements

Policy CR-4 of the Ottawa Police Services Board Policy Manual, *Asset Management*, requires that, on a yearly basis, the Chief shall:

1. Provide a report to the Board listing the assets assigned to the OPS and their Net Book Value.

2. Report on one category of real assets on a rotational basis to include:
 - a. Value
 - b. Expected useful life
 - c. Annual maintenance cost
 - d. Replacement plan
 - e. Disposal options.

The first requirement of the policy is satisfied in Document 5, entitled “Summary of Assets Assigned to Ottawa Police Service”. It provides an overview of the assets assigned to the OPS and the associated net book value for the five-year period: 2017 to 2021. The assets are divided into five categories and have a total net book value of \$65.96 million as of December 31, 2021. The largest category of asset is “Buildings and Improvements” which accounts for almost \$47.5 million of the total.

The total value of assets assigned to the OPS during the reporting period peaked at \$72.2 million in 2017 and has been declining every year since. This decrease is mainly attributable to holding onto assets for longer periods of time and allowing more depreciation to reduce residual values. This trend is particularly evident within the IT/Telecommunications and police equipment categories.

The second requirement of the policy is to report on one category of assets on a rotational basis. For the reporting year of 2021, the category is Vehicle Assets. Document 6 provides a summary of the vehicles that are assigned to OPS, including the net book value, average expected useful life for accounting purposes, the annual maintenance cost, and disposal options.

The net book value of these assets is \$6.73 million as of December 31, 2021, and is mainly comprised of Patrol vehicles and other marked and unmarked vans, SUVs, trucks, and sedans. The annual operating budget includes a provision of \$2.6 million to maintain these assets.

Replacement of these vehicles is planned with an “ever-greening” program, whereby OPS sets aside a specific amount of money to replace a portion of these assets each year to avoid large annual fluctuations in the replacement plan. These funds are provided from within the OPS’s annual capital plan, under the project heading of Fleet Program. In addition, large lump sums have been set aside in the Fleet Program, every 3 years or so, for the purchase of specialty vehicles such as the command post, the armoured vehicle, vessels etc, as their large purchase prices make them difficult to afford in the regular annual replacement plan. The OPS has also increased the program

to match vehicle purchases for the growth in our sworn compliment as part of our sworn staffing strategy.

Risks around this asset category include the following:

- a) Erosion of the replacement plan by unplanned reductions to the Fleet program because of pressure on the operating and/capital funds
- b) Keeping abreast of emerging technological trends, particularly around in-car ergonomics and new and improved fuel-efficient options, including the purchase of hybrid and full electric vehicles
- c) Supply chain issues which impact manufacturer production deadlines
- d) Inflationary pressures
- e) Exposure to foreign exchange rate volatility
- f) US/Canadian trade and tariff issues
- g) Maintaining adequate business continuity measures
- h) Unexpected maintenance cost increases
- i) Non-integration with other OPS service-wide initiatives which could lead to operational ineffectiveness or unnecessary spending

FINANCIAL IMPLICATIONS

As outlined in the report.

SUPPORTING DOCUMENTATION

Document 1: 2nd Quarter Financial Report – Summary by Directorate

Document 2: Purchase Orders Issued Under Delegated Authority

Document 3: Capital Budget Works in Progress

Document 4: 2022 Efficiencies Update

Document 5: Summary of Assets Assigned to OPS 2021

Document 6: Summary of Police Vehicles 2021

CONCLUSION

The OPS is leveraging all options available to manage financial pressures and achieve a balanced budget at year-end. This report has highlighted several pressures and risks that will be closely monitored and managed through the remainder of 2022 to avoid a

deficit position. The report has also noted some of the impacts to the Service and its members because of the interventions employed to date.

A key pressure will continue to be relying on significant overtime to provide reasonable capacity for events and demonstrations to ensure the community remains safe.

Additionally, the OPS will be monitoring member sick time, fatigue, wellness, and the ability to continue to rely on off-duty members on overtime to effectively manage events and demonstrations.

The global inflationary impacts, revenue reduction, and the high-risk items (contract negotiations and legal settlements) identified also have the potential to impact the OPS' year-end position.

As in prior years, the OPS will be attempting to offset pressures with management interventions. As these figures become more accurate, management interventions will be adjusted accordingly to ensure we remain fiscally responsible without risk to the public.

The next quarterly financial report and efficiencies update will be tabled with the Board on October 24, 2022. The Service has achieved 44 percent of its efficiency savings target, with some identified opportunities for additional savings. Despite this, the Service is trending towards not being able to achieve the entire target in 2022. The Service will work with City of Ottawa partners to address this gap, and will continue to seek opportunities for efficiency, improvement, and reinvestment.