

**Report to / Rapport au:**

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

**27 November 2017 / 27 novembre 2017**

**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 – THIRD QUARTER 2017**

**OBJET: RAPPORT D'ÉTAPE FINANCIER DU TROISIÈME TRIMESTRE 2017**

**REPORT RECOMMENDATIONS**

**That the Ottawa Police Services Board:**

- 1. Receive this report for information.**
- 2. Approve the creation of the Chief's Initiative capital project of \$940,000 through a transfer of amounts from existing capital projects as detailed in the report.**

**RECOMMANDATIONS DU RAPPORT**

**Que la Commission de services policiers:**

- 1. Prenne connaissance du présent rapport.**
- 2. Approuve la création d'un fonds d'immobilisation de 940,000\$ pour les initiatives du chef grâce au transfert de sommes de projets d'immobilisations existants.**

**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. The accuracy of this projection improves with each quarter as the OPS' expense and revenue patterns become more certain.

The Asset Management report required under Board Policy CR-4 Asset Management is also included with this report.

## **DISCUSSION**

Based on current information, staff has identified projected operating budget pressures of \$7.7 million to year-end. A plan has been put into action to deliver \$6.1 million of in-year solutions to partially offset these pressures, resulting in a year-end deficit of \$1.6 million. Canada 150 and Ottawa 2017 costs and recoveries are expected to balance creating no net budget pressure for OPS.

The \$7.7 million of budget pressure flows primarily from the six sources identified in the 1<sup>st</sup> and 2<sup>nd</sup> quarter reports which in some cases have changed in magnitude: overtime costs, the shortfall of Collision Reporting Centers (CRC) revenue, Workplace Safety and Insurance Board (WSIB) costs, long term disability insurance (LTDI) costs, insurance claims and settlements, funding for the Multi-Year Action Plan (MYAP) for Bias Neutral Policing and the unplanned issuance of Naloxone. Revenue shortfalls and additional vacation entitlements, as a result of the recognition of previous years' professional experience, have created additional pressures. Budget adjustments are being recommended in 2018 to bring provisions in-line with actual costs and to reduce future financial risk.

The \$6.1 million of management interventions underway to partially offset these pressures include: a one-time deferral of planned fleet replacement, a discretionary spending freeze implemented in May 2017, a reduction to 2017 project funds, a reduction to 2017 business continuity activities and a delay in civilian hiring. A number of favourable variances have emerged that are also part of the plan: deferred radio usage fees, and paid duty revenue.

Each of these significant variances is summarized in Table 1 and discussed in more detail below.

As expected, the year-end position is still dependent on any changes in the various pressures and solutions that have been identified to date, and are discussed below.

## **Identified Pressures & Solutions**

## a) Overtime

The Service is experiencing significant overtime pressure. A \$2.0 million deficit is forecast based on current trends, with staffing pressures and workload identified as the primary underlying factors. This is a significant reduction from the pressure of \$3.1 million identified in the 2<sup>nd</sup> quarter report and it is expected this pressure will be reduced further as OPS senior managers continue working on an overtime mitigation strategy. A budget increase of \$2 million is part of the 2018 budget proposal to reduce the budget risk of overtime.

## b) Efficiencies

A \$2M efficiency target was adopted as part of the 2017 budget. The primary contributor was expected to be new on-going annualized revenue of over \$2.0 million from the Background Check fee schedule proposal. Tabling, consultation, consideration and approval has been delayed while staff focus on stabilization of the new On-line Background Check service. Due to the delayed implementation there will be a \$1.4M in-year shortfall in the efficiency target.

The elements of the 2017 efficiency plan are as follows:

1) The Background Check fee proposal will deliver \$1,400,000 of new revenue.

2) The time and attendance project (e-Time), a back-office transformation project, will save \$400,000 from reduced compensation payments (primarily overpayment of salary and benefit continuance for members moving to long term disability).

<b>Table 1 - Ottawa Police Service 2017 Projected Year End – Significant Variances</b>	
<b>Pressures</b>	<b>(\$000)</b>
Overtime	(2,000)
Efficiencies	(1,400)
WSIB	(1,100)
CRC Revenue	(1,000)
Insurance Claims & Settlements	(400)
Multi-Year Action Plan for Bias Neutral Policing	(400)
LTDI	(400)
Recognition of Previous Professional Experience	(400)
Revenue Shortfall	(400)
Naloxone	(200)
<b>Total Pressures</b>	<b>(7,700)</b>
<b>Solutions</b>	
Fleet Replacement	2,400
Discretionary Spending Freeze	1,200
Project Funds	700
Paid Duty Revenue	500
Business Continuity	400
Radio Fees	300
Compensation	300
Facilities Operating Costs	300
<b>Total Solutions</b>	<b>6,100</b>
<b>Projected Operating Surplus(Deficit)</b>	<b>(1,600)</b>
<b>Projected Costs - Canada 150</b>	<b>(\$1,700)</b>
<b>Projected Recoveries – Canada 150</b>	<b>\$1,700</b>

3) The planned \$200,000 of reduced court overtime costs and other savings have occurred.

A complete list of the efficiency initiatives to date for 2017 is outlined in Document D.

The 2017 \$2.0 million efficiency target is the continuation of several years of significant bottom line savings. Over the past 5 years, OPS has achieved in excess of \$11 million of annual savings, as a result of budget reductions and new revenue opportunities. A summary of the efficiencies for this period is also provided in Document D.

c) WSIB

In Q1, staff identified a significant increase in the Workplace Safety and Insurance Board (WSIB) costs. In the last 2 quarters, this amount has continued to grow and is now expected to create deficit pressure in the range of \$1,100,000. The increase in WSIB claims is mainly a result of new presumptive legislation allowing Operational Stress Injury (OSI) claims, along with an increase in the volume of claims and lost time.

d) Collision Reporting Centers (CRC) Revenue

Sales of collision reports continue to be lower than planned. The CRC model was developed assuming that reports from 55% of collisions would be sold. To date, the actual figure has been closer to 15%. Staff are working with the insurance companies to explore the reason for the low sales figure. The 2017 Budget was adjusted downwards by \$200,000. A further adjustment of \$200,000 is recommended in the 2018 budget. Staff are estimating that there will be a \$1,000,000 revenue shortfall in this area by year-end.

e) Insurance Claims & Settlements

Staff is expecting a pressure of \$400,000 in this area. The City is self-insured for claims up to \$3.0 million. Currently, there are over 90 outstanding claims. As settlements occur, they are approved by the Board and paid. The 2017 experience is a continuation of the trend that has developed over the past 5 years where-by claims are exceeding the budget. Staff will be looking to adjust this budget line item during the 2018 budget process.

f) Multi-Year Action Plan for Bias Neutral Policing

Current cost projections for the development of the Multi-Year Action Plan for Bias-Neutral Policing are approximately \$400,000 this year. This estimate includes the cost of staffing the project, undertaking the 2017 OPS Workforce Census and

launching the 2017 Diversity Audit. This project was not included in the 2017 budget but funds have been provided in the 2018 budget to continue this project.

g) LTDI

On April 13th, 2017, the OPS was given notice that Great West Life will be increasing Long Term Disability Insurance (LTDI) premium rates by 12%, effective May 1st, 2017, as a result of the rising number of LTDI claims. This change will create a pressure of \$400,000.

h) Recognition of Previous Professional Experience

Earlier this year the Board and the Ottawa Police Association (OPA) agreed to consider the previous professional experience of civilian members when awarding annual leave as part of their employment offer with OPS. This practice occurs with sworn direct entry members but had not been applied to civilians. The effective date for this change is 1 January 2016.

A first implementation step has been taken by reviewing employment files of members who held permanent employee status upon joining OPS and awarding the appropriate leave entitlements. The impact of the 2016 / 2017 awards is \$400,000 in this financial year. A second implementation step is now underway with staff reviewing employment files of members who held temporary employee status upon joining OPS, followed directly by the achievement of permanent status in a position requiring the same professional experience.

i) Revenue Shortfalls

A shortfall in several revenue accounts is being experienced. With the move to on line background checks, there has been a reduction in express fees collected, resulting in a \$300,000 shortfall. In addition, we are experiencing a small shortfall of just under \$100,000 in alarm revenue as a result of the volume of false alarm calls compared to the estimate used in the budget.

j) Naloxone

Naloxone has been approved for use by OPS officers in order to provide them with a tool to deal with the increase in the incidences of opioid overdose. This decision has added a budget pressure of \$200,000.

k) Fleet Replacement

A key solution to the budget pressure facing the OPS is the one-time deferral of the planned replacement of approximately 60 fleet vehicles. This action will – on a one time basis - enable the Service to transfer \$2.4 million from the Fleet Replacement

Reserve to the Operating Budget. The deferral plan will be managed by extending the service life and the rotation of low and high mileage vehicles. The implications of this solution will potentially increased future maintenance costs and lower future auction sale values.

Unused funds in the Fleet capital projects (2015 to 2017) have been returned to source. As per the recommendation in the second quarter report, this amount (\$2.4 million) has been contributed to the 2017 operating budget.

#### l) Discretionary Spending Freeze

A discretionary spending freeze order was issued in May 2017 to OPS managers. It requires that spending be focussed on goods and services that support the health and safety of members and critical operations and infrastructure. It is estimated that \$1,200,000 will be saved in 2017 as a result of the order.

#### m) Project Funds

There are two significant project based budgets in OPS: Service Initiative (SI) and the Project Fund. Each of these budgets will be reduced. Planned work has been cancelled or deferred for re-consideration in 2018. This action will save \$700,000 in 2017.

#### n) Paid Duty

Paid Duty revenue has provided surpluses in past years and the budget for the past few years has been adjusted upwards accordingly. Even with this adjustment taken into consideration, a small surplus of \$500,000 is still being projected. City requests related to construction and the light rail project account for the high level of requests.

#### o) Business Continuity Program

The planned program activities will be deferred to 2018, creating a \$400,000 savings in 2017.

#### p) Radio User Fees

The delay in on-boarding OPS to the new radio system will generate a savings of \$300,000 in unspent radio user fees. Some funds from this project were used to replace aging radios that could no longer be serviced.

#### q) Compensation - Civilian Hiring

An eight week delay in civilian hiring will generate savings of roughly \$300,000 in 2017. The timeframe for staffing a civilian position is now 82 working days, or roughly 4 months.

#### r) Facility Operating Costs

In past years, facility operating costs have provided surpluses and the same trend is projected for 2017. These charges flow to OPS from the City as a recovery for facility maintenance services. The savings are expected to be \$300,000.

#### s) Canada 150 and Ottawa 2017

The 2017 budget shows an expected cost of \$1.5 million for Canada 150 and Ottawa 2017 events. Full recovery of costs is expected and planned, resulting in a net zero impact on the 2017 budget.

As of the end of June, with respect to Ottawa 2017 events the OPS has incurred \$600,000 in costs, which have all been recovered. It is estimated that costs will reach \$1.0 million by year-end. In discussions with City staff we have been told to expect 100% recovery of the incremental costs of the events.

Canada Day costs are regularly covered under the \$2 million Nation's Capital Extraordinary Costs Grant from the Federal Government. We anticipate the additional costs of the Canada 150 three day event encompassing Canada Day (approximately \$700,000) will be covered through an increase in this Federal grant. Active discussions with Federal officials and OPS are underway on this matter.

#### Chief's Initiative Capital Project

Staff is requesting approval to create a new capital project of \$940,000 entitled the Chief's Initiative. It is a strategy to support the implementation of a range of key one-time initiatives that were identified as the 2018 budget was being developed, and at the same time help to reduce pressure on the 2018 budget. It will be funded through a transfer of the balances remaining in the following existing capital projects: Portable Radio Replacement (Account # 903450); Business Transformation (# 906213); and Business Solutions 2013 (# 907076).

#### 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 A, which provides the 3rd Quarter Financial Report – Summary by Directorate.
- Document B, which provides a list of all contracts awarded under delegated authority by the Chief that exceed \$25,000 in the period of July to September 2017. In total, \$6.22 million in purchase orders were issued under delegated

authority in the Third Quarter. This is a significant increase compared to typical activity and reflects the Chief's enhanced delegated authority for the Information Management and Information Technology Roadmap. The breakdown of these purchase orders by category is shown in Table 3. Expenditure definitions are included in Document B for reference.

<b>Table 3 Summary by Type Contracts Awarded Under Delegated Authority</b>		
<b>Type</b>	<b>Amount (\$)</b>	<b>Percentage (%)</b>
Professional Services	4,883,344	79%
Facilities & Construction	833,109	13%
Fleet & Equipment	241,701	4%
Information & Technology	130,920	2%
Goods & Supplies	89,420	1%
Consulting Services	39,904	1%
<b>Total</b>		<b>100%</b>

- Document C provides a summary of the OPS capital budget works in progress and indicates those which will be closed, in accordance with Section 3.1.3.4 of the Financial Accountability Procedures Manual. It enables the Director General to close capital projects by returning any remaining balance to the originating sources and fund any deficits.
- Document D provides a summary of the status of the 2017 efficiencies, as well as historical data from 2012 – 2016.

#### Annual Reporting Requirements: Asset Management

Policy CR-4 of the Ottawa Police Services Board Policy Manual 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 E, 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 2012 to 2016. The assets are divided into five categories and have a total net book value of \$73.2 million at December 31, 2016. The largest category of asset is “Buildings and Improvements” which accounts for almost \$51.5 million of the total.

The total value of assets assigned to the OPS was generally at a level of \$60 million from 2012 to 2013 but has been increasing since. This increase is mainly due to a new generator and other additional work at Elgin and the finalization of the Huntmar construction project. The Police Equipment category has also increased significantly as more assets have been recorded within the Tangible Asset Reporting system, particularly in the area of security and tactical equipment.

The second requirement in this area is to report on one category of assets on a rotational basis. For 2016 the category is Police Equipment. Document F provides a summary of the value of the Police Equipment assigned to OPS including: the net book value, average expected useful life for accounting purposes, annual maintenance costs and disposal options.

The net book value of these assets is \$6.95 million at December 31, 2016. The annual operating budget includes a provision of \$0.2 million to maintain these assets.

Since this category of assets is extremely diverse, annual maintenance activities can vary greatly amongst the specific types. For instance, miscellaneous station equipment is comprised mainly of fitness equipment; OPS has an agreement with a third party who performs regularly scheduled maintenance on the items. Other assets, such as Tactical Team items, are inspected and cleaned regularly by staff. Other assets still, due to their nature, require little or no maintenance.

Risks around this asset category include the following:

- a) Keeping abreast of emerging technological trends
- b) Exposure to foreign exchange rate volatility
- c) Growth of security requirements as new threats in this vector unfold
- d) Maintaining adequate business continuity measures
- e) Unexpected maintenance cost increases
- f) 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 A: 3rd Quarter Financial Report – Summary by Directorate

Document B: Purchase Orders Issued Under Delegated Authority

Document C: Capital Budget Works in Progress

Document D: Efficiencies

Document E: Summary of Assets Assigned to Ottawa Police Service

Document F: Summary of Police Equipment

## **CONCLUSION**

The OPS is forecasting budget pressures of \$7.7 million. A plan has been put into action to deliver \$6.1 million of in-year solutions to partially offset these pressures resulting in a projected year-end deficit of \$1.6 million.

In March 2018, staff will present to the Board the final quarterly report on the Service's financial position as of 31 December 2017.