

Report to / Rapport au:

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

29 April 2019 / 29 avril 2019

Submitted by / Soumis par:

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SUBJECT: FINANCIAL STATUS REPORT – 2018 ANNUAL REPORT

OBJET: RAPPORT FINANCIER ANNUEL DE 2018

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 Financial Status Report – 2018 Annual Report presents the year-end financial position of the Ottawa Police Service (OPS) and outlines the operational issues that affected the Service's finances in 2018. The results are subject to external audit.

DISCUSSION

OPS ended its fiscal year with a net operating budget deficit of \$6.2 million in 2018. The above figures include the \$0.6 million impact of the 10 additional officers hired to combat gun violence, as approved by the Police Services Board (the Board) and City Council.

The budget pressures related to police operations total \$8.7 million with \$3.7 million being driven primarily by revenue issues: slower than expected progress in implementing a user pay fee structure for background checks, along with the shortfall in revenue from Collision Reporting Centers and Alarm Revenue. The remaining pressures are expense related and are

caused by overtime spending which includes \$326,000 as a result of the Tornado costs, higher fuel costs, compensation costs related to Workplace Safety and Insurance Board (WSIB), facility operating and maintenance costs, costs arising from project work to improve Background Check walk-in client service and vehicle maintenance costs. Staff identified solutions of \$3.1 million to partially offset some of the budget pressures, including a discretionary spending freeze implemented in the latter half of the year and savings from compensation and claims settlements.

As mentioned above, the PSB and City Council approved the hiring of 10 additional officers to combat gun violence. The 10 additional officers hired in October resulted in an additional expense pressure of \$0.6 million since Federal funding did not flow until 2019. This brought the total operating budget deficit for police operations for 2018 to \$6.2 million.

The non-departmental taxation accounts, which are beyond the control of the Board, were in a surplus position of \$0.2 million. As a result of the above, the police tax rate was in a total deficit position of \$6.0 million for 2018.

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

Table 1 - Ottawa Police Service	
2018 Year End – Significant Variances	
Pressures	(\$000)
Background Check Revenue	(2,700)
Overtime (Includes Tornado costs)	(2,100)
WSIB	(1,800)
CRC Revenue & Alarms Revenue	(1,000)
Vehicle Maintenance	(400)
Fuel	(300)
Facilities	(200)
Background Check Walk-in Client Service	(200)
Total Pressures	(8,700)
Solutions	
Spending Freeze	1,100
Compensation	700
Claims Settlements & Legal Fees	700
Cannabis Planning Team	400
Diversity Audit	100
Civilianization	100
Total Solutions	3,100
Surplus (Deficit)	(5,600)
Add: Pressure for 10 additional officer for Gun Violence	(600)

Net Deficit	(6,200)
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Identified Pressures & Solutions

Pressures

a) Background Check Revenue

As part of the 2017 and 2018 budgets, a revenue increase of \$2.4 million was phased-in to reflect a full cost recovery or user pay approach for background checks.

Analysis shows that the cost of the background check service is roughly \$4.8 million while the current fee structure recovers approximately \$2.4 million. The goal of moving to a user pay approach is consistent with the City's policy environment. The additional estimated revenue of \$2.4 million was phased-into the budget assuming a late 2017 commencement and was a significant contributor to the efficiency targets and the 2% police tax rate increase for the 2017 and 2018 budget years.

Over the last 24 months, OPS has made significant improvements to its background check services. In July 2016, the back-office functions related to this service were completely automated and the backlog of 6,500 records was eliminated. In May 2017, staff introduced the new On-line Background Check service to the public. Now half of all customers start and complete their check on-line and receive their results in 24 to 48 hours. Customers who apply in person wait approximately an hour for the service and have their results immediately.

The timing for the Board to consider changing the background fee structure is more appropriate now that background check operations have stabilized and service levels have improved. The average total cost to produce a background check is \$63 while the average fee currently being charged is closer to \$15, and volunteers receive a free background check.

A user pay fee proposal was presented to the Finance and Audit Committee on May 7, 2018 and was tabled with the Board at the May 2018 meeting. Public consultations occurred in June 2018 and the Board provided its recommendation at the October Board Meeting to increase the fees for employment reports to \$90 and to leave the volunteer reports free of charge. The implementation date was set at January 1, 2019.

The proposal will fully recover all costs through an estimated annual revenue increase of \$2.4 million. However, a January 1, 2019 implementation date means that no additional revenue will be recognized in 2018 resulting in a \$2.4 million in-year shortfall in revenue.

An additional pressure of \$0.3 million is due to the lost revenue of express surcharges that used to be paid on the majority of background reports purchased prior to the launch of the on-line service. This brings the total pressure to \$2.7 million.

b) Overtime

Overtime costs created a pressure of \$2.1 million in 2018. The main drivers are: staffing shortages in the Communications Center and Front Desk sections, operational requirements for the Tornado response, and Canada Day.

Front Desk Services caused the largest overtime pressure and the civilianization of this function in October has helped to reduce this pressure. The Communications Center is also experiencing significant overtime pressures due to staffing shortages. A hiring plan has been implemented and is expected to address the overtime use. Canada Day cost more than planned due to an enhanced security posture.

c) Compensation – WSIB

The compensation – WSIB area of the budget created a pressure of \$1.8 million in 2018. This pressure is comprised of costs related to members off work for extended periods due to Workplace Safety and Insurance Board (WSIB) injuries that need to be replaced. This cost totalled \$1.1 million in 2018. Additional pressures in relation to the administration and medical costs of WSIB positions totalled \$0.7 million. 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. Also retroactive adjustments are being processed as individuals are moved from long term disability insurance (LTDI) to WSIB. A provision has been included in the 2019 budget to address the compensation portion as it relates to the positions on WSIB.

d) Revenue – Collision Reporting Centers (CRC) and False Alarms

Revenue from the sale of collision reports was \$0.8 million lower than budget in 2018. Revenue from attending false alarms contributed another \$0.2 million to the deficit. For collision reports there are two drivers of the budget shortfall: 1) the decline in the number of vehicles involved in collisions has dropped by approximately 10% since 2015. 2) decline in the sales rate for collision reports. The CRC model was developed assuming that reports from 55% of collisions would be sold. For 2016, the actual figure was closer to 15% and in 2017, this number dropped to 8%. This change reflects the trend in the insurance industry to cut costs, a strategy which includes not purchasing collision reports.

A downward adjustment of \$0.2 million was approved in the 2018 budget, to gradually bring the CRC revenue budget in line with actual experience. In the 2019 budget this revenue item is being reduced by a further \$0.8 million to eliminate the financial risk.

e) Vehicle Maintenance

In 2017, staff initiated a one-time deferral of the planned replacement of approximately 60 fleet vehicles. This action enabled the Service to transfer \$2.4 million from the Fleet Replacement Reserve to support the Operating Budget. In 2018 a transfer of \$0.6 million was approved to help finance the Phase 1 purchase of conducted energy weapons (CEW's), resulting in a deferral of roughly of 15 vehicles. The deferral plan was managed by extending the service life of these assets through the rotation of low and high mileage vehicles. The deferral of replacement has caused vehicle maintenance costs to rise by \$0.4 million in 2018. In the 2019 budget, one of the strategies to reduce future deficits was to increase the contributions for fleet sustainment, which will help to reduce vehicle maintenance costs in the future.

f) Fuel Costs

The Ottawa Police Service's 2018 fuel budget was developed using a retail pump price of \$1.07/litre. This pump price was reduced to an effective price of \$0.93/litre, after accounting for tax exemptions and discounts through the fuel card program. The total fuel budget of \$2.2 million was based upon a consumption level of 2.4 million litres for 2018.

The fuel account ended the year in a deficit position of \$0.3 million, based largely on an unfavourable price variance. The 2018 year-end average retail price for regular unleaded gasoline at Ottawa-area self-service filling stations was \$1.23.

h) Facility Costs

Facility operating and maintenance costs are resulting in a pressure of \$0.2 million due to a number of factors: 1) the increase in the Ontario minimum wage has had a major impact on janitorial and other service contracts administered by the City, 2) work deferred from 2017 due to the 2017 spending freeze has been addressed in the first 6 months of 2018, and 3) utility costs are higher than planned.

i) Background Check Walk-In Client Service

Work is being undertaken to improve service for the background check walk-in client. These clients are served at the Queensview Records Facility which has 3 service wickets and a lobby which is limited by fire regulations to under 50 clients. Commissionaires have been placed on site to manage the flow of clients into the lobby. Term employees have been hired to offset staff shortages and ensure the wickets are staffed for a complete shift each day. An assessment report has been completed to provide staff with guidance to improve other aspects of client service. These actions have created a budget pressure of \$0.2 million.

Solutions

j) Discretionary Spending Freeze

A discretionary spending freeze order was issued by the Chief in July 2018. It required spending be focused on goods and services that support the health and safety of members and critical operations and infrastructure. This action provided a savings of \$1.1 million.

k) Claims Settlements & Legal Fees

Staff realized a savings of \$0.7 million in this area, with \$0.6 million coming from claims settlements and \$0.1 million savings in legal fees. The City is self-insured for claims up to \$3.0 million. Currently, there are over 110 outstanding claims. As settlements occur, they are approved by the Board and paid. The 2018 experience was lower than it has been the last several years.

l) Cannabis Planning Team

The 2018 budget provided \$0.5 million to support the cost of planning for the change in cannabis legislation and its impact on OPS. OPS staff were assigned to this project, limiting the need for support through professional service contracts. This approach produced a savings of \$0.4 million.

m) Compensation

The compensation area of the budget also created a surplus of \$0.7 million in 2018. This savings is mainly as a result of the awarding of a split raise in 2018, which saved OPS \$0.7 million.

n) Diversity Audit

The contract for the Diversity Audit was awarded in Q1, resulting in a savings of \$0.1 million relative to the budget.

o) Civilianization of Front Desk Services

Starting in October, Front Desk Services was staffed by civilian members. The required staffing level of 26 members has been achieved by re-allocating 16 civilian positions from the Police Response Unit (formerly the Call Centre) and civilianizing 10 sworn positions from Front Desk Services. The full year savings from civilianizing this function was \$0.4 million. One-quarter of this amount can be recognized in 2018 which represents \$0.1 million.

Non - Departmental Tax Related Accounts

Police costs and revenues have been separated into a singular city-wide police tax rate for many years. The tax rate reflects the costs which are under the Board's control as well as those that are not, but are required for tax-related purposes. In 2018, a surplus of \$0.2 million was recorded in these tax-related accounts due to the police share of remissions and supplementary assessments. These tax-related accounts are budgeted and managed by City staff. The OPS and the Board have no control over this aspect of the police tax rate.

Net Position

The Police Service ended the year with a total deficit of \$6.0 million. This number results from combining the deficit from police operations of \$6.2 million with the surplus of \$0.2 million in the taxation accounts. The total deficit will be funded from surpluses in the City Wide accounts.

The Disposition report to the City's Finance and Economic Development Committee (FEDCo) on April 2nd, 2019 outlined this action.

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 4th 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 in the period of October to December 2018. In total, \$7.2 million in purchase orders were issued under delegated authority in the 4th Quarter. The breakdown of these purchase orders, by category, is shown in Table 2. Expenditure definitions are included in Document 2 for reference.

Table 2**Summary by Type****Contracts Awarded Under Delegated Authority**

Type	Amount (\$)	Percentage (%)
Consulting Services	5,061,443	71%
Information & Technology	1,393,390	19%
Fleet & Equipment	353,723	5%
Professional Services	320,102	4%
Goods & Supplies	48,314	1%
Facilities & Construction	0	0%
Total	7,176,972	100%

- Document 3 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. The list of projects with zero balances that are being closed immediately can be found in Document 3.
- Document 4 on Board Policy CR-8 – “The Acceptance of Donations, Gifts, Loans and Sponsorships”: Section 6 and 7 of the policy requires that the Chief report to the Board all donations, gifts, loans and sponsorships valued at over \$500 as part of the quarterly process and that all that are valued over \$50 be properly documented. This document lists those items for the 2018 year. In 2018, a total of \$93,455 was donated to the OPS, all in support of the OPS Gala.

FINANCIAL IMPLICATIONS

As outlined in the report.

SUPPORTING DOCUMENTATION

Document 1: 4th Quarter Financial Report – Summary by Directorate

Document 2: Contracts Issued Under Delegated Authority

Document 3: Capital Budget Works in Progress

Document 4: 2018 Sponsorships and Donations

CONCLUSION

The OPS generated a deficit in police operations of \$6.2 million in 2018. It was primarily due to the background check and CRC revenue shortfalls, as well as pressures from overtime and WSIB expenses, which were partially offset by the implementation of spending reductions and a surplus in the claims and settlements account.

When the surplus of \$0.2 million in the taxation accounts is taken into account, there is a combined operating and taxation deficit of \$6.0 million for the police tax rate. The funding of the deficit in the OPS business area will be from surpluses in the City Wide accounts.