

Report to / Rapport au:

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

26 November 2018 / 26 novembre 2018

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 2018

OBJET: RAPPORT D'ÉTAPE FINANCIER DU TROISIÈME TRIMESTRE 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 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.

DISCUSSION

Based on current information, staff is forecasting a deficit of \$3.9 million on regular police operations. When the \$0.7 million impact of the 10 additional officers hired to combat gun violence is included, as approved by the Ottawa Police Services Board (PSB) and City Council, the total deficit on police operations increases to \$4.6 million.

This estimate is higher by \$1.4 million than the Second Quarter Financial Status report tabled in September, which showed a projected year-end deficit of \$3.2 million. Three factors are driving this change: 1) the forecast for overtime costs has increased by \$1.1 million (including costs related to the tornados), 2) the estimate for Background Check revenues has dropped by \$0.6 million, given the early 2019 implementation of the new rate changes, and 3) claims and legal costs are expected to be underspent by \$0.6 million.

All the significant pressures and solutions underlying the year-end forecast are summarized in Table 1 and discussed in more detail below.

Table 1 – Ottawa Police Service			
2018 Projected Year End – Significant Variances			
	Q1	Q2	Q3
Pressures	(\$000)	(\$000)	(\$000)
Background Check Revenue	(1,400)	(2,000)	(2,600)
Overtime	-	(400)	(1,500)
CRC Revenue	(800)	(800)	(800)
Fuel	(400)	(500)	(400)
Alarm Revenue	-	-	(200)
WSIB	-	-	(200)
Facilities	-	(200)	(200)
Background Check Walk-in Client Study	-	(200)	(200)
Vehicle Maintenance	-	(100)	(100)
Total Pressures	(2,800)	(4,200)	(6,200)
Solutions			
Spending Freeze	100	700	1,000
Claims Settlements & Legal Fees	-	-	600

Cannabis Planning Team	-	400	400
Compensation	-	400	100
Diversity Audit	-	100	100
Civilianization	-	100	100
Closing Prev Year Capital Projects	500	-	-
Total Solutions	600	1,700	2,300
Projected Surplus (Deficit)	(2,200)	(2,500)	(3,900)
Add: Pressure for 10 additional officer for Gun Violence	-	(700)	(700)
Net Projected Deficit	(2,200)	(3,200)	(4,600)

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. Considerable work has been done during that timeframe to introduce an on-line option for background checks and to eliminate the six week backlog that many customers experienced. Now half of all customers start and complete their check on-line and receive their results in 24 to 48 hours.

User pay fee options were presented to the Finance and Audit Committee on May 7, 2018 and were tabled with the Board later that month. Public consultations occurred in June and July. At the October 2018 meeting the Board approved a \$90 fee for employment reports, leaving the volunteer reports free of charge. The new approach comes into effective on January 1, 2019.

The decision to implement the changes in 2019 has added \$0.4 million of pressure to the year-end forecast. An additional pressure of \$0.2 million has been identified due to the loss of express surcharge revenue as more customers move to the on-line option. This brings the total background check revenue pressure to \$2.6 million.

b) Overtime

This quarter the forecast for overtime costs has increased by \$1.1 million, creating an expected year-end pressure of \$1.5 million for 2018. Staff are looking into potential

recovery of the tornado overtime costs, which have added a pressure of \$0.3 million and are included in this figure.

Front Desk Services is causing the largest overtime pressure. The Communications Center is also experiencing significant overtime pressures due to staffing shortages. Canada Day cost more than planned due to the enhanced security posture and the accompanying planning costs of that enhanced security posture.

c) Revenue – Collision Reporting Centers (CRC)

The forecasted revenue from the sale of collision reports is unchanged from the previous quarter. It continues to be lower than expected as a result of two factors, creating a year end shortfall of \$0.8 million. The first factor is the decline in the number of vehicles involved in collisions, which has dropped by approximately 10% since 2015. The second factor is the abrupt 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 will need to be reduced by a further \$0.8 million so as to eliminate this financial risk.

d) Fuel Costs

Based on a drop in fuel prices the forecast for fuel costs has improved by \$0.1 million this quarter, moving to a deficit of \$0.4 million. Prices have trended downward since June when the new Conservative provincial government removed the cap and trade adjustment, but are still above the budgeted amount.

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.

e) Alarm Revenue

A drop in alarm revenue is adding a pressure of \$0.2 million to the year-end deficit. The September tornados and related power outages caused wide-spread false alarms across the city. Staff have provided an exemption for all false alarms during the tornado and the recovery period, creating the \$0.2 million revenue shortfall.

f) WSIB

A \$0.2 million pressure related to Workplace Safety and Insurance Board (WSIB) costs has been identified this quarter, resulting from an increase in the number of claims and lost time. The increase in WSIB claims is mainly a result of new presumptive legislation allowing Operational Stress Injury (OSI) claims. Also retroactive adjustments are being processed as individuals are moved from long term disability insurance (LTDI) to WSIB.

g) Facility Costs

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

h) Background Check Walk-In Client Study

The deficit pressure of \$0.2 million is unchanged since the last quarter. 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.

i) Vehicle Maintenance

The deficit pressure of \$0.1million is unchanged since the last quarter. 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 has been approved to help finance the implementation of conducted energy weapons, 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 had caused vehicle maintenance costs to rise by \$0.1 million in 2018.

Solutions

j) Discretionary Spending Freeze

The savings associated with the spending freeze order have increased by \$0.3 million this quarter. A discretionary spending freeze order was issued by the Chief in July 2018. It requires that spending be focussed on goods and services that support the health and

safety of members and critical operations and infrastructure. This action now is expected to provide a savings of \$1.0 million.

k) Claims Settlements & Legal Fees

Staff is expecting a savings of \$0.6 million in this area, with \$0.5 million coming from claims settlements and \$0.1 million savings in legal fees. The 2018 experience to date is lower than it has been for several years. Currently there are roughly 110 outstanding claims. As settlements occur they are presented to the Board for approval and paid. The City is self-insured for claims up to \$3.0 million.

l) Cannabis Planning Team

The savings from this area is unchanged this quarter and remains at \$0.4 million. 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.

m) Compensation

The savings from this area of the budget dropped by \$0.3 million this quarter, bringing the year-end savings position to \$0.1 million. This change is primarily due to the cost of backfilling Sworn members who are on a long term WSIB related absence.

The award of a split pay raise in 2018 and projected savings in benefit costs are having a positive impact on the year-end forecast. A new cost arose related to the recognition of the previous professional experience of civilian members when awarding annual leave as part of their employment offer with OPS.

o) Diversity Audit

The contract for the Diversity Audit was awarded in Q1, resulting in a savings of \$0.1 million relative to the budget. This amount is unchanged from the previous quarter.

p) Civilianization of Front Desk Services

The projected savings of \$0.1 million is unchanged from the previous quarter. Starting in October, Front Desk Services has been 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 is expected to be \$0.4 million. One-quarter of this amount can be recognized in 2018 which represents \$0.1 million.

Horizon Issues

Costs of new responsibilities resulting from the legalization of Cannabis are being tracked and will be reported. It is unknown at this time the level of funding that will be provided by senior levels of government.

There may be a potential risk associated with key grants provided by the Province, such as the Court Security and Prisoner Transportation (CSPT) grant and the Policing Effectiveness Modernization (PEM) grant. The Province has suspended payments for these grants while it conducts a review. The cancellation or reduction of these grants would have a significant impact on the financial position of the OPS. The 2018 partial year exposure would be in the range of \$2.0 million for the CSPT grant and \$3.5 million for the PEM grant with a full year impact of \$4.1 million for the CSPT grant and \$4.6 million for the PEM grant.

Staff are also looking into the recovery of the incremental costs resulting from the tornados that hit Ottawa in September. The costs for the Ottawa Police total close to \$0.4 million and are comprised of overtime, the loss of alarm revenue and other non compensation costs.

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, including:

- Document 1 provides the 3rd 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 July to September 2018. In total, \$5.8 million in purchase orders were issued under delegated authority in the Third Quarter. The breakdown of these purchase orders, by category, is shown in Table 3. Expenditure definitions are included in Document 2 for reference.

Table 3 Summary by Type Contracts Awarded Under Delegated Authority		
Type	Amount (\$)	Percentage (%)

Consulting Services	2,636,006	45%
Fleet & Equipment	1,110,938	19%
Facilities & Construction	864,975	15%
Professional Services	641,777	11%
Information & Technology	373,515	6%
Goods & Supplies	201,790	3%
Total	5,829,001	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 funding any deficits. Two projects with zero balances are being closed immediately, followed shortly by another one with a zero balance that can be closed once the commitments clear.

FINANCIAL IMPLICATIONS

As outlined in the report.

SUPPORTING DOCUMENTATION

Document 1: 3rd Quarter Financial Report – Summary by Directorate

Document 2: Purchase Orders Issued Under Delegated Authority

Document 3: Capital Budget Works in Progress

CONCLUSION

Based on current information, staff is forecasting a total operating budget deficit of \$3.9 million. The June approval of 10 additional officers to combat gun violence adds an expense pressure of \$0.7 million, bringing the total forecasted operating budget deficit to \$4.6 million.

In March 2019, staff will present to the Board the final quarterly report on the Service's financial position as of 31 December 2018.