

Report to / Rapport au:

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

27 May 2019 / 27 mai 2019

Submitted by / Soumis par:

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

Contact Person / Personne ressource:

Jeff Letourneau, Acting Director General / directeur général par interim

LetourneauJ@ottawapolice.ca

SUBJECT: FINANCIAL STATUS REPORT – FIRST QUARTER 2019

OBJET: RAPPORT D'ÉTAPE FINANCIER DU PREMIER TRIMESTRE 2019

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 an initial projection of the Service's year-end financial position and outlines the significant variances that are known at this time. 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 total operating budget pressures for 2019, in the amount of \$0.7 million, which is being offset by solutions bringing the OPS to a balanced budget. The expense pressure is caused by higher fuel costs and overtime costs. Staff have

identified some projected surpluses in compensation and expenditure lines that offset this pressure.

Each of the significant variances is summarized in Table 1 and discussed in more detail below. The year-end position for OPS operations is still dependent on changes in the various pressures and solutions that have been identified to date, as well as the impact of the horizon issues that are discussed below.

Identified Pressures & Solutions

a) Fuel Costs

Fuel prices have jumped considerably since the formulation of the 2019 Budget.

Economic factors, including the new carbon tax, have created a significant increase in the retail price across the province.

The average retail pump price for regular unleaded gasoline at Ottawa-area self-service filling stations, over the first 3 months of 2019, was

\$1.01/litre creating this budget pressure for OPS.

Staff is forecasting a deficit in the fuel account of \$0.4 million for 2019 caused by fuel price increases. The forecast reflects an average pump price of \$1.23/litre for the remainder of 2019 compared to a budgeted price of \$0.99/litre. Gasoline prices will continue to be monitored very closely over the balance of the year to further refine the projected budget pressure.

b) Overtime

Overtime costs are creating a pressure of \$0.3 million in 2019. The homicide investigation and accompanying 3 week search by the Emergency Services Unit at the Trail Road Dump accounted for the majority of this pressure. The other significant event that accounted for the remainder of this pressure on our overtime budget was the fatal bus collision at the Westboro station.

c) Compensation

Compensation expense is currently trending favourably mainly due to positive gapping results. Based on these trends, Staff are projecting a surplus of \$0.4 million for 2019.

d) Reduced Expenditures

Staff are projecting \$0.3 million of savings from various expenditure reductions and lower than expected prices for contract awards.

Horizon Issues

| Pressures | (\$000) |
|------------------------------------|----------------|
| Fuel | (400) |
| Overtime | (300) |
| Total Pressures | (700) |
| Solutions | |
| Compensation | 400 |
| Reduced Expenditures | 300 |
| Total Solutions | 700 |
| Projected Surplus (Deficit) | 0 |

Staff continue to monitor various issues that could develop and escalate into financial pressures at some point in 2019. The major horizon issue is the Radio System. A third party needs assessment is currently being conducted led by the City. Depending on the outcome of this assessment there could be financial pressures to resolve any identified needs and requirement gaps. Other areas that continue to be monitored by staff for potential pressures are WSIB expenses and legal claims and settlements.

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, which provides the 1st 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 January to March 2019. In total, \$2.1 million in purchase orders were issued under delegated authority in the First 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 | 1,327,337 | 63% |
| Information & Technology | 452,350 | 21% |
| Professional Services | 188,234 | 9% |
| Goods & Supplies | 88,915 | 4% |

| | | |
|---------------------------|------------------|-------------|
| Facilities & Construction | 73,715 | 3% |
| Fleet & Equipment | 0 | 0% |
| Total | 2,130,552 | 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.

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 4, 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 2014 to 2018. The assets are divided into five categories and have a total net book value of \$69.7 million at December 31, 2018. The largest category of asset is “Buildings and Improvements” which accounts for almost \$49.5 million of the total.

The total net book value of assets assigned to the OPS was generally at a level of \$70 million plus from 2014 to 2017, with asset spending peaking in 2015 at \$73.5 million. Spending has decreased \$2.5 million in the latest reporting year however.

The second requirement in this area is to report on one category of assets on a rotational basis. This year the category is the most significant one, 'Buildings and Building Improvements'. Document 5 provides a summary of the value of buildings and building improvements 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 just under \$49.5 million at December 31, 2018. The annual operating budget includes a provision of just over \$4.6 million to maintain these facilities including the costs of: City maintenance and supervisory staff, utilities, janitorial services, contracts for snow removal and lawn care and a provision for life cycle repairs.

OPS continued implementation of projects within the Facilities Strategic Plan (FSP) (2017-2033), as per update # 1 approved by the Board in June 2017. Using innovative real estate solutions in conjunctions with recommendations from the Workplace Innovation Project (WIP), overall savings of \$72.2M or 29.5% are expected over the life of the plan. Innovative solutions include the long term use of Queensview and the development of a new South Campus Master Plan which would result in the disposal of Greenbank Station.

In the last four years, activities have revolved primarily around:

- The FSP update,
- The Elgin A refit, a multi- phased construction project scheduled to be completed in 2022
- The planning/development of the new South Campus

As related to the South Campus, South Facility Phase A, the site due diligence was completed, the prime consultant team is currently working on design development, and the award of a construction contract is anticipated for March 2020. The facility is expected to be ready for move-in in Q2-2022. Additionally, a workplace strategist was engaged and the need for an alternative workplace strategy (AWS) identified. The corporate space standards modernization (CSSM) project was also launched.

Associated risks include:

- OPS operational readiness to adopt WIP recommendations as related to workspaces
- Local construction market and labor conditions

- Exposure to foreign exchange rate volatility
- US/Canadian trade and tariff issues
- Maintaining adequate business continuity measures
- Unexpected maintenance cost increases
 - 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](#): 1st Quarter Financial Report – Summary by Directorate

[Document 2](#): Purchase Orders Issued Under Delegated Authority

[Document 3](#): Capital Budget Works in Progress

[Document 4](#): Summary of Assets Assigned to Ottawa Police Service

[Document 5](#): Buildings and Building Improvements

CONCLUSION

Staff have identified solutions to offset the expected \$0.7 million in expense pressure facing OPS. Staff are forecasting a balanced position at year-end.

In July, staff will present the Service's Second Quarter financial position as at 30 June 2019. Any new pressures or solutions that have emerged will also be identified. The year-end forecast will be adjusted accordingly.