

Report to / Rapport au:

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

27 March 2017 / 27 mars 2017

Submitted by / Soumis par:

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

Contact Person / Personne ressource:

Debra Frazer, Director General / directrice générale

Frazerd@ottawapolice.ca

SUBJECT: FINANCIAL ANNUAL REPORT: 2016

OBJET: RAPPORT FINANCIER ANNUEL DE 2016

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 2016 Fourth Quarter Financial 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 2016. The results are subject to external audit.

DISCUSSION

The Service was trending to achieve a breakeven position on police operations as reported in its first three financial positions reports. The upswing in overtime caused managers to initiate a discretionary spending freeze in Q4 which produced savings and caused police operations to drop to a \$0.3 million deficit.

Unexpected and large claims were settled in Q4, and when combined with several costly and unexpected member retirements, caused the police fiscal accounts to be in a deficit of \$2.4

million. The value of leave liabilities was also extraordinarily high this year reflecting the impact of a high level of unplanned summer events including NALS and the Hells Angels Canada Run. The non-departmental taxation accounts, which are beyond the control of the Board, were in a deficit of \$3.7 million. As a result of the above, the police tax rate was in a total deficit position of \$6.4 million for 2016.

Significant budget variances are summarized in Table 1 and discussed in more detail below.

Identified Pressures & Solutions

a) Overtime

Overtime ended the year with a deficit of \$3.3 million. There were 24 homicides and 68 shootings in 2016 that caused overtime pressures on our investigative units. The Hell's Angels Canada Run also created a large pressure on overtime, but the overriding pressure was due to staff shortages throughout the organization.

b) Revenue – Collision Reporting Centers (CRC)

Sales of collision reports continue to be lower than expected. 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. In 2016, we had a revenue shortfall of \$1.0 million.

c) Compensation Costs - Job Evaluation and Workplace Safety and Insurance Board (WSIB)

The OPS compensation area had deficits resulting from Job Evaluations (\$0.6 million) and an increase in WSIB claims mainly as a result of new guidelines allowing Post Traumatic Stress Disorder (PTSD) claims (\$0.4 million).

d) Vehicle Maintenance

Vehicle maintenance activities have provided surpluses in past years but this result did not occur in 2016. After the 2016 budget was closed, the City implemented a 5.9% increase in the hourly rate for vehicle maintenance. It was increased from \$85 per hour to \$90, creating a shortfall of \$0.1 million for OPS.

Table 1 - Ottawa Police Service 2016 Year End – Significant Variances	
Police Operations	(\$000)
Pressures	
Overtime	(3,300)
Revenue-CRCs	(1,000)
Job Evaluation & WSIB	(1,000)
Vehicle Maintenance	(100)
Solutions	
Contract Arbitration & Benefits	2,500
Efficiencies & Reduced Expenditures	1,700
Paid Duty & Other Revenue	500
Fuel	300
Court Overtime	100
Police Operations Surplus/(Deficit)	(300)
Police Fiscal Accounts	
Pressures	
Insurance Claims & Settlements	(1,300)
Retirement Costs	(600)
Leave Liabilities	(500)
Fiscal Accounts Surplus/(Deficit)	(2,400)
Surplus / (Deficit)	(2,700)

e) Compensation Costs

The OPS compensation area generated a savings of \$2.5 million. The arbitrated 2015 contract settlement for the Ottawa Police Association (OPA) resulted in \$2.2 million in one-time savings due to the way in which the rate increase was phased in over the year. There was another \$0.3 million in savings in benefit costs.

f) Efficiencies & Reduced Expenditures

The 2016 budget included a provision for an increase in user fees under the new radio system. The implementation date for the new system has been delayed, creating a \$0.6 million savings. Facility costs ended the year with a surplus of \$0.6 million and there was also a management initiated spending freeze which produced savings of \$0.5 million in various other services and equipment accounts for a savings total of \$1.7 million.

g) Paid Duty & Other Revenue

Paid Duty revenue is providing a surplus of \$0.3 million. City requests related to construction and the light rail project account for the high level of requests. Also an increase in background checks and other revenue created a surplus of \$0.2 million.

h) Fuel Costs

The fuel account ended the year with a surplus of approximately \$0.3 million. This surplus consisted mainly of a favourable price variance. The average price for the year, through the fuel contract supplier, was roughly \$0.06 per litre lower than budgeted.

i) Court Overtime

For the past several years, court overtime has been contributing to year end surpluses and this trend is continuing in 2016. Court overtime contributed a surplus position of \$0.1 million.

j) Insurance Claims & Settlements

The OPS is self insured for claims up to \$3 million. Currently, there are over 100 claims outstanding. As settlements occur, they are approved as required, reported to the Board and paid. Although we do have a budget for legal costs and claims, the magnitude and timing of these claims vary significantly from year to year. This year, the insurance claims occurred late in the year and created a deficit of \$1.3 million.

k) Retirement Costs & Leave Liabilities

There were several senior officers who retired in 2016 that resulted in significant retirement pay outs contributing to a pressure of \$0.6 million. The OPS also experienced higher than normal increases in its leave liability accounts in the amount of \$0.5 million

due to a high level of back-to-back summer activities which interrupted leave, including NALS and the Hells Angels Canada Run.

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 2016, a deficit of \$3.7 million was recorded in these tax-related accounts. 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 \$6.4 million. This number results from combining the deficit from police operations and fiscal accounts of \$2.7 million with the deficit of \$3.7 million in the taxation accounts. The total deficit will be funded from the City Wide Reserve Fund.

The Disposition report to the City's Finance and Economic Development Committee (FEDCo) on March 7th, 2017 outlined this action.

Efficiencies

A new feature in the quarterly report this year is an update on the 2016 efficiency target.

The original budget amount for 2016 efficiencies was \$2 million, however in early 2016 the Board approved a reallocation of the auction proceeds revenue budget from Police Operations to the Board cost center. This change resulted in a budget pressure of \$0.1 million. For 2016, this amount was added to the efficiency target bringing the total adjusted efficiency target to \$2.1 million.

The \$2.1 million 2016 efficiency target was achieved overall. Financial benefits from the transformation projects that are underway, along with new revenue, are the primary contributors to the target. Revenue from the Paid Duty Program came in higher than target offsetting the slightly below target performance on Office Supplies. Office Supplies are expected to achieve full savings in 2017. All other initiatives were on target for 2016.

A complete list of all the efficiency initiatives for 2016 is outlined in Document 4.

The 2016 \$2.1 million efficiency target is the continuation of several years of significant bottom line savings. Over the past 4 years, OPS has achieved \$9 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 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, which 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 2016. In total, \$1.4 million in purchase orders were issued under delegated authority in the Fourth 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 (%)
Facilities & Construction	420,029	31%
Professional Services	370,171	27%
Information & Technology	331,600	24%
Fleet & Equipment	204,998	15%
Consulting Services	41,340	3%
Goods & Supplies	0	0%
Total	1,368,137	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.

CONSULTATION

Not applicable.

FINANCIAL IMPLICATIONS

As outlined in the report.

SUPPORTING DOCUMENTATION

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

Document 2: Purchase Orders Issued Under Delegated Authority

Document 3: Capital Budget Works in Progress

Document 4: Efficiencies Achieved

CONCLUSION

The OPS generated a deficit in police operations of \$2.7 million for 2016. It was primarily due to the pressures from police fiscal accounts such as insurance and legal settlements and retirement costs. Police operating accounts saw pressure from overtime costs and CRC revenue shortfalls, which were largely offset by a favorable contract arbitration award and the implementation of spending reductions.

When the deficit of \$3.7 million in the taxation accounts is taken into account, there is a combined operating and taxation deficit of \$6.4 million for the police tax rate. As per the City's past practice, the funding of the deficit in the Police Services business area will be from the City Wide Reserve Fund.