

Report to / Rapport au:

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

25 July 2016 / 25 juillet 2016

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 STATUS REPORT – SECOND QUARTER 2016

OBJET: RAPPORT D'ÉTAPE FINANCIER : DEUXIÈME TRIMESTRE 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 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.

Starting in 2013, the annual report required under Board Policy CR-4: Asset Management, is to be included with the second quarter financial report in the following year. It is submitted as part of this report and features a more in-depth view of the Information Technology (IT) category of assets.

DISCUSSION

Based on current information staff is forecasting a balanced financial position at year-end for 2016.

The information to date includes projected surpluses from compensation costs, retirement and benefits costs, radio system user fees, paid duty revenue, fuel costs and court overtime. which are being offset by pressures in overtime, revenue from the Collision Reporting Centers (CRC) and vehicle maintenance. 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, as well as the impact of the horizon issues that are discussed below.

Identified Pressures & Solutions

a) Compensation Costs

The OPS compensation area is projected to generate a one-time surplus of \$1,500,000 dollars as a result of the arbitrated 2015 contract settlement for the sworn and civilian members of the Ottawa Police Association (OPA). This is a one-time savings arising from the phased-in salary increase for 2015 awarded by Arbitrator Marcotte in June (1.25% on January 1st, 2015 and 1.78% on August 1st, 2015). The full impact of the award is 3.1%, which is very close to the budget provision that has been carried into 2016 for the OPA 2015 settlement. As a result there is no budget pressure – or savings - going forward into 2017.

Table 1 - Ottawa Police Service 2016 Projected Year End – Significant Variances	
Solutions	(\$000)
Compensation Costs	1,500
Radio System User Fees	600
Benefits & Retirement Costs	400
Paid Duty	250
Court Overtime	150
Fuel	100
Total Solutions	(3,000)
Pressures	
Overtime	(2,000)
Revenue-CRCS	(800)
Vehicle Maintenance	(200)
Total Pressures	3,000
Projected Surplus (Deficit)	0

b) Radio System User Fees

The 2016 budget included a provision for user fees under the new radio system. The implementation date for the new system has been delayed, creating a potential \$600,000 savings for the year.

c) Benefits & Retirement Costs

The benefit area of the budget is expected to produce a surplus \$400,000 as a result of a favourable claims trend for retired as well as active employees and due to savings in the retirement accounts.

d) Paid Duty

Paid Duty revenue has provided surpluses in past years and the budget for 2016 was adjusted upwards by \$820,000 accordingly. Even with this adjustment taken into consideration, a surplus of \$250,000 is still being projected. A significant amount of the paid duty surplus is due to City requests related to construction and work on the light rail project.

e) Court Overtime

For the past several years court overtime has been contributing to year end surpluses and this trend is continuing in 2016. We are projecting Court overtime to be in a surplus of \$150,000.

f) Fuel Costs

Staff is anticipating a surplus in the fuel account of \$100,000 for 2016 based mainly on a favourable price variance. We will be watching the trend in gasoline prices very closely over the balance of the year, including during the high demand summer driving season.

g) Overtime

Based on the current trend, overtime is expected to be in a \$2,000,000 deficit position at year-end. An unusual level of activity in several areas of the organization is giving rise to this trend.

Homicides are a factor driving overtime costs. In the first five months of the year there have been 8 homicide investigations, some logging high overtime costs. This is an extraordinary level in such a short time frame for the City, which usually experiences 10 to 12 homicides over 12 months.

Ottawa is also experiencing an unusual number of shootings which is causing pressure on the overtime budget. To date there have been 33 shootings creating a significant workload for the investigative units.

Staffing pressures are also a factor in the projected deficit. Sections within the Patrol and the District Directorate are having to rely on overtime in order to provide expected levels of service.

Public events across the City are also factoring into the overtime deficit. For example the Emergency Services Unit is experiencing a noticeable increase in overtime usage as the warmer months generally lead to an increase in demonstrations.

h) 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 starting work with the insurance companies to explore the reason for the low sales figure.

Staff are estimating that there will be an \$800,000 revenue shortfall in this area of the budget. Though this is an unfavourable amount, it is a \$100,000 improvement over 2015's result.

i) Vehicle Maintenance

Vehicle maintenance activities have provided surpluses in past years but this result will not occur in 2016. After the 2016 was closed, the City implemented a 5.9% increase in the hourly rate for vehicle maintenance. It was increased from \$85 to \$90, creating a projected shortfall of \$200,000 for OPS.

\$2.0 Million Efficiency Target

A new feature in this quarterly report is an update on the 2016 efficiency target. Financial benefits from the transformation projects that are underway, along with new revenue, are the primary contributors to the target. Based on the financial results to date OPS is on track to achieve the \$2 million efficiency target.

There are two key elements in the efficiency plan this year: 1) revenue from the Paid Duty Program which has been increased by \$800,000 in 2016, in accordance with previous years actuals and the forecast of activity for 2016; and 2) \$700,000 of reduced compensation payments (primarily overpayment of salary and benefit continuance for members moving to long term disability) arising from the back-office transformation project through which the OPS payroll function has been transferred to the City. A complete list of the efficiency initiatives to date for 2016 is outlined in Document F.

The 2016 \$2.0 million efficiency target is the continuation of several years of significant bottom line savings. Over the past 4 years OPS has achieved in excess of \$9.1 million

of annual savings as a result of budget reductions and new revenue opportunities. A summary of the efficiencies for this period is provided in Document F.

Horizon Issues

On June 29th, 2016 the North American Leadership Summit (NALS) was held in Ottawa. It was deemed a Prime Minister-led international event. Accordingly staff has been involved in discussions with the Federal Government regarding cost recovery for OPS activities to support the NALS meeting. We expect to recover 100% of the direct cost of the event.

Several collective agreement issues are outstanding for 2016. Negotiations with the Senior Officers' Association (SOA) for 2015 and 2016 are underway, though negotiations with the Ottawa Police Association (OPA) have yet to commence for 2016.

Staff will be monitoring these issues and will provide an update in the next quarterly report.

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 2nd Quarter Financial Report – Summary by Directorate
- ☐ Document B, provides a list of all contracts awarded under delegated authority by the Chief that exceed \$25,000 in the period of April to June 2016. In total, \$2.53 million in purchase orders were issued under delegated authority in the Second Quarter. The breakdown of these purchase orders by category is shown in Table 3. The largest category (68% of the total) related to Fleet & Equipment purchases. The remaining 5 categories consumed the remaining 32% of contracts. Expenditure definitions are included in Document B for reference.

Table 3 Summary by Type Contracts Awarded Under Delegated Authority		
Type	Amount (\$)	Percentage (%)
Fleet & Equipment	1,728,829	68
Information & Technology	293,445	12
Goods & Supplies	150,849	6
Professional Services	134,392	5
Consulting Services	123,964	5
Facilities & Construction	103,449	4
Total	2,534,927	100%

- 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.

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 D, 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 2011 to 2015. The assets are divided into five categories and have a total net book value of \$73.5 million at December 31, 2015. The largest category of asset is “Buildings and Improvements” which accounts for almost two-thirds of the total, or \$52.5 million.

The total value of assets assigned to the OPS was at a level of \$60 million from 2011 to 2013 but has been increasing since 2014 and now registers over \$73 million. This increase is mainly due to a new generator and other additional work at the Elgin facility and the finalization of the Huntmar construction project. The Police Equipment category has also increased significantly – to more than \$6 million - as more assets have been recorded within the Tangible Asset Reporting system, particularly in the area of security and tactical equipment.

The second requirement under the policy is to report on one category of assets on a rotational basis. This year the category is Information Technology (IT) Equipment. Document E provides a summary of the value of the IT 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 \$2.6 million at December 31, 2015. The annual OPS operating budget includes a provision of approximately \$0.6 million to maintain these assets. This amount covers the costs of the telephone system maintenance contracts (which includes an onsite vendor supplied telephone maintenance technician), enterprise storage hardware maintenance, wireless infrastructure maintenance and firewall and switch maintenance.

Risks around this asset category include the following:

- a) Unexpected costs for new services needed to implement Service Initiative (SI) business changes
- b) Non-integration with other OPS service-wide initiatives which could lead to operational ineffectiveness or unnecessary spending
- c) Unexpected maintenance cost increases
- d) Growth of cyber security requirements as new threats in this vector unfold
- e) Exponential growth of storage requirements with the proliferation of video files and imaging
- f) Expansion of network bandwidths to cope with the emerging cyber threats and storage capacity demands
- g) Maintaining adequate business continuity measures.

The IM/IT Roadmap project currently underway will bring new tools to OPS in this category and aid in mitigating the risks identified above. This project, estimated to be in the range of \$45 million, will change the future composition of these assets and increase their dollar value.

FINANCIAL IMPLICATIONS

As outlined in the report.

SUPPORTING DOCUMENTATION

Document A: 2nd Quarter Financial Report – Summary by Directorate

Document B: Purchase Orders Issued Under Delegated Authority

Document C: Capital Budget Works in Progress

Document D: Summary of Assets Assigned to the Ottawa Police Service

Document E: Summary of IT and Telecommunications Equipment Assigned to the Ottawa Police Service

Document F: Efficiencies

CONCLUSION

The OPS is forecasting that it will achieve a break-even financial position in 2016 based on operating results to the end of the second quarter.

In October, staff will present the Service's third quarter financial position as at 30 September 2016. It will provide an update on the above-noted issues and identify new pressures or solutions that have emerged. The year-end forecast will be adjusted accordingly.