

**Report to / Rapport au:**

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

**24 September 2018 / 24 septembre 2018**

**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 2018**

**OBJET: RAPPORT D'ÉTAPE FINANCIER DU DEUXIÈME 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 total operating budget deficit of \$2.5 million. This estimate is in line with the First Quarter Financial Status report tabled in May, which showed a projected year-end deficit of \$2.2 million. When the impact of the 10 additional officers hired to combat gun violence are included, as approved by the PSB and City Council, the total deficit on police operations increases to \$3.2 million.

Taking a closer look, the budget pressures related to police operations total \$4.2 million with \$2.8 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. The remaining pressures are expense related and are caused by higher fuel costs, overtime spending, facility operating and maintenance costs, costs arising from project work to improve Background Check walk-in client service and vehicle maintenance costs. Staff have identified solutions of \$1.7 million to partially offset some of the budget pressures including an already implemented discretionary spending freeze.

In addition to the above, the PSB and City Council approved the hiring of 10 additional officers to combat gun violence. The 10 additional officers are expected to be in place in October which will result in an additional expense pressure of \$0.7 million. This brings the total forecasted operating budget deficit for 2018 to \$3.2 million.

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.

<b>Table 1 - Ottawa Police Service</b>		
<b>2018 Projected Year End – Significant</b>		
<b>Variances</b>		
	<b>Q1</b>	<b>Q2</b>
<b>Pressures</b>	<b>(\$000)</b>	<b>(\$000)</b>
Background Check Revenue	(1,400)	(2,000)
CRC Revenue	(800)	(800)
Fuel	(400)	(500)
Overtime	-	(400)
Facilities	-	(200)
Background Check Walk-in Client Service	-	(200)
Vehicle Maintenance	-	(100)
<b>Total Pressures</b>	<b>(2,800)</b>	<b>(4,200)</b>
<b>Solutions</b>		
Spending Freeze	100	700

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

## Identified Pressures & Solutions

### 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. There is still work to be done to improve client service for walk-in customers, but the results to date are a stark contrast to the 6 week waiting period that characterized the previous manual approach.

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 cost to produce a background check is just over \$60 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 a recommendation to the Board is planned for October 2018. The current forecast assumes implementation occurs November 1, 2018

The proposal will fully recover all costs through an estimated annual revenue increase of \$2.4 million. However, a November 1 implementation date means that only \$400k of additional revenue will be generated in 2018 resulting in a \$2 million in-year shortfall in revenue.

#### b) Revenue – Collision Reporting Centers (CRC)

Revenue from the sale of collision reports continues to be lower than expected as a result of two factors, creating an expected shortfall of \$0.8 million in 2018. 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 decrease 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.

#### c) Fuel Costs

The Ottawa Police Service's 2018 fuel budget was developed using a retail pump price of \$1.07/litre. This pump price is 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.

Staff is anticipating a deficit in the fuel account of \$0.5 million for 2018 based largely on an unfavourable price variance. The average retail price for regular unleaded gasoline at Ottawa-area self-service filling stations for the first half of the year was \$1.28. Based on market expectations and experts in this field, this price level is expected for the remainder

of the year. Higher than expected gas prices are due mainly to higher world demand for oil and the lower Canadian dollar.

#### d) Overtime

Overtime costs are creating a pressure of \$0.4 million in 2018. Staffing shortages in two sections of the organization and the costs of Canada Day are negative relative to the budget, while court overtime costs are positive.

Front Desk Services is causing the largest overtime pressure and the civilianization of this function in September is expected to reduce overtime spending to minimal levels. 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 the enhanced security posture and accompanying planning costs. Court overtime is expected to be in a surplus position of \$0.2 million.

Senior management is actively monitoring and managing overtime to ensure the overtime deficit does not grow.

#### e) 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 major impact on janitorial and other service contracts administered by City and 2) work deferred from 2017 due to the 2017 spending freeze has been addressed in the first 6 months of 2018, 3) utility costs are higher than planned, and 4) the annual increase in the Alliance Agreement with Algonquin College is higher than budgeted.

#### f) 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.

#### g) 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 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.

#### h) Discretionary Spending Freeze

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 is expected to provide a savings of \$0.7 million.

#### i) Compensation

The compensation area of the budget is expected to produce savings of \$0.4 million. Part of the savings results from the awarding of a split raise in 2018 along with some projected savings in benefit costs which together totals \$0.8 million.

Offsetting these savings are costs related to a new provision to recognize the previous professional experience of civilian members when awarding annual leave as part of their employment offer with OPS. This practice occurs with sworn direct entry members but had not been applied to civilians. It is expected that these changes will have an impact on the year-end leave liability in the order of \$0.2 million. The change was approved late in 2017, following the close of the 2018 budget. Other compensation pressures, from retirement costs in particular, amounted to an additional \$0.2 million.

The overall net impact of these savings and pressures create a \$0.4 million solution.

#### j) Cannabis Planning Team

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

#### k) Diversity Audit

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

#### l) Civilianization of Front Desk Services

Starting in October, Front Desk Services will be 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 legalization of Cannabis are being tracked and will be reported. It is unknown at this time if funding will be provided by senior levels of government.

#### 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 2nd 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 April to June 2018. In total, \$3.3 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. Expenditure definitions are included in Document 2 for reference.

<b>Table 3</b>		
<b>Summary by Type</b>		
<b>Contracts Awarded Under Delegated Authority</b>		
<b>Type</b>	<b>Amount (\$)</b>	<b>Percentage (%)</b>
Consulting Services	1,096,197	33%
Information & Technology	702,001	21%

Professional Services	625,535	19%
Fleet & Equipment	624,479	19%
Goods & Supplies	138,322	4%
Facilities & Construction	123,110	4%
<b>Total</b>	<b>3,309,644</b>	<b>100%</b>

- 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. A total of three projects with zero balances are being closed immediately, followed shortly by another five with zero balances that can be closed once the commitments clear.

#### 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 2013 to 2017. The assets are divided into five categories and have a total net book value of \$72.2 million at December 31, 2017. The largest category of asset is “Buildings and Improvements” which accounts for almost \$50.5 million of the total.



The total value of assets assigned to the OPS was at a level of \$60 million at the beginning of the five year period and has been increasing since, reaching a value of \$72.2 million last year. This increase is mainly due to work at the Elgin Station and the finalization of the Huntmar construction project. The Police Equipment category has also increased significantly as more assets have been recorded within the Tangible Capital Asset Reporting system, particularly in the area of security and tactical equipment.

The second requirement in this area is to report on one category of assets on a rotational basis. For the reporting year of 2017, the category is Vehicle Assets. Document 5 provides a summary of the vehicles that are assigned to OPS, including the net book value, average expected useful life for accounting purposes, the annual maintenance cost and disposal options.

OPS has a fleet of 687 vehicles. The net book value of these assets is \$6.76 million at December 31, 2017. The police vehicle fleet is comprised of patrol cars, marked and unmarked sedans, vans, SUVs and trucks. The annual operating budget includes a provision of \$2.1 million to maintain these assets.

Replacement of these vehicles is planned using an “ever-greening” program which provides for the portion of the fleet which is at end-of-life-cycle to be disposed of and replaced. OPS contributes approximately \$3.1 million each from the operating budget to the Fleet Capital Reserve Fund for this purpose. This amount is adjusted upward so as to match the increase in the fleet prompted by growth in the sworn complement.

During 2017, \$2.4 million was removed from the annual Fleet Replacement Program to fund the operating deficit. In 2018, \$0.6 million was removed from the Program to fund the Board-approved purchase of Conducted Energy Weapons. Fleet staff have met the challenge of these reductions by extending vehicle useful life. The impact of this strategy is causing pressure on the operating budget of \$0.1 million in 2018.

Risks around this asset category include the following:

- a) Exposure to foreign exchange rate volatility,
- b) US/Canadian trade and tariff climate, and
- c) Unexpected maintenance cost increases.

## **FINANCIAL IMPLICATIONS**

As outlined in the report.

## **SUPPORTING DOCUMENTATION**

Document 1: 2nd 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 the Ottawa Police Service

Document 5: Summary of Police Vehicles

## **CONCLUSION**

Based on current information, staff is forecasting a total operating budget deficit of \$2.5 million, a change of \$0.3 million from the Q1 forecast. 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 \$3.2 million.

In November, staff will present the Service's third quarter financial position as at 30 September 2018. 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.