

Report to / Rapport au:

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

25 September 2017 / 25 septembre 2017

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 – SECOND QUARTER 2017

OBJET: RAPPORT D'ÉTAPE FINANCIER DU DEUXIÈME TRIMESTRE 2017

REPORT RECOMMENDATIONS

That the Ottawa Police Services Board:

- 1. receive this report for information.**
- 2. approve the one-time transfer of \$2.4 million from the Fleet Police Reserve Fund to the 2017 Operating Budget Fund.**

RECOMMANDATIONS DU RAPPORT

Que la Commission de services policiers d'Ottawa :

- 1. prenne connaissance du présent rapport à titre d'information.**
- 2. approuve le transfert ponctuel d'une somme de 2,4 millions de dollars provenant du fonds de réserve du parc de véhicules du Service de police au budget de fonctionnement de 2017.**

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.

The Asset Management report required under Board Policy CR-4 Asset Management will be included with the third quarter financial report.

DISCUSSION

Based on current information, staff has identified projected operating budget pressures of \$7.4 million to year-end. A plan has been put into action to deliver \$5.9 million of in-year solutions to partially offset these pressures, resulting in a year-end deficit of \$1.5 million.

The \$7.4 million of budget pressure flow primarily from the five sources identified in the 1st quarter report which in some cases have increased in magnitude: overtime costs, the shortfall of Collision Reporting Centers (CRC) revenue, Workplace Safety and Insurance Board (WSIB) costs, long term disability insurance (LTDI) costs, funding for the Multi-Year Action Plan (MYAP) for Bias Neutral Policing and the unplanned issuance of Naloxone. Additional pressures have also emerged from insurance claims and settlements. Budget adjustments are being recommended in 2018 to bring provisions in-line with actual and prevent future deficit risk.

The \$5.9 million of management interventions underway to partially offset these pressures include: a deferral of planned fleet replacement, a discretionary spending freeze implemented in May 2017, a reduction to 2017 project funds, a reduction to 2017 business continuity activities and a delay in civilian hiring. A number of favourable variances have emerged that are also part of the plan: freed-up radio usage fees, and paid duty revenue.

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) Overtime

The Service is experiencing significant overtime pressure. A \$3,100,000 deficit is forecast based on current trends, with staffing pressures and workload identified as the primary underlying factors. OPS senior managers are working on an overtime

mitigation strategy. A significant budget increase is part of the 2018 budget proposal to reduce the budget risk of overtime.

b) WSIB

In Q1, staff identified a significant increase in the Workplace Safety and Insurance Board (WSIB) costs. In Q2, this amount has continued to grow and is now expected to create deficit pressure in the range of \$1,100,000. The increase in WSIB claims is mainly a result of new presumptive legislation allowing Operational Stress Injury (OSI) claims, along with an increase in the volume of claims and lost time.

c) Collision Reporting Centers (CRC) Revenue

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. The 2017 Budget was adjusted downwards by \$200,000. A further adjustment is recommended in the 2018 budget. Staff are estimating that there will be a \$1,000,000 revenue shortfall in this area by year-end.

d) Efficiencies - Timing

Work is under way to achieve the full \$2M efficiency target identified in the 2017 budget. The primary contributor is the \$1.4 million Background Check fee schedule proposal to be presented to the Board in October. If adopted, the proposal will ensure the \$2M budget target is achieved, however due to the timing of implementation there

| Table 1 - Ottawa Police Service 2017 Projected Year End – Significant Variances | |
|--|------------------|
| Pressures | (\$000) |
| Overtime | (3,100) |
| WSIB | (1,100) |
| CRC Revenue | (1,000) |
| Efficiencies - Timing | (900) |
| Multi-Year Action Plan for Bias Neutral Policing | (500) |
| LTDI | (400) |
| Naloxone | (200) |
| Insurance Claims & Settlements | (200) |
| Total Pressures | (7,400) |
| Solutions | |
| Fleet Replacement | 2,400 |
| Discretionary Spending Freeze | 1,200 |
| Project Funds | 700 |
| Business Continuity | 400 |
| Radio Fees | 300 |
| Compensation | 300 |
| Paid Duty Revenue | 300 |
| Facilities Operating Costs | 300 |
| Total Solutions | 5,900 |
| Projected Operating Surplus(Deficit) | (1,500) |
| Projected Ottawa 2017 Costs | (\$1,500) |
| To be Recovered Ottawa 2017 Costs | \$1,500 |

will be a \$900,000 in-year shortfall in the efficiency target.

The elements of the efficiency plan are as follows:

- 1) The Background Check fee proposal will deliver \$1,400,000 of revenue increase. Due to the timing of fee schedule implementation, a \$500,000 revenue is expected to be achieved in 2017 with the full amount being realized in 2018.
- 2) The time and attendance project (e-Time), a back-office transformation project, will save \$400,000 from reduced compensation payments (primarily overpayment of salary and benefit continuance for members moving to long term disability).
- 3) The planned \$200,000 of reduced court overtime costs and other savings have occurred.

A complete list of the efficiency initiatives to date for 2017 is outlined in Document D.

The 2017 \$2.0 million efficiency target is the continuation of several years of significant bottom line savings. Over the past 5 years, OPS has achieved in excess of \$11.2 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 D.

e) Multi-Year Action Plan for Bias Neutral Policing

Current cost projections for the development of the Multi-Year Action Plan for Bias-Neutral Policing are approximately \$500,000 this year. This estimate includes the cost of staffing the project, undertaking the 2017 OPS Workforce Census and launching the 2017 Diversity Audit. This project was not included in the 2017 budget.

f) LTDI

On April 13th, 2017, the OPS was given notice that Great West Life will be increasing Long Term Disability Insurance (LTDI) premium rates by 12%, effective May 1st, 2017, as a result of a rising number of LTDI claims. This change will create a pressure of \$400,000.

g) Naloxone

Naloxone has recently been approved for use by OPS officers in order to provide them with a tool to deal with the increase in the incidences of opioid overdose. This decision has added a budget pressure of \$200,000.

h) Insurance Claims & Settlements

Staff is expecting a pressure of \$200,000 in this area. The City is self-insured for claims up to \$3.0 million. Currently, there are over 90 outstanding claims. As settlements occur, they are approved by the Board and paid. The 2017 experience is a continuation of the trend that has developed over the past 5 years where-by claims are exceeding the budget. Staff will be looking to adjust this budget line item during the 2018 budget process.

i) Fleet Replacement

A key solution to the budget pressure facing the OPS is the deferral of the planned replacement of approximately 60 fleet vehicles. This action will – on a one time basis - enable the Service to transfer \$2.4 million from the Fleet Replacement Reserve to the Operating Budget. The deferral plan will be managed by extending service life and rotation of low and high mileage vehicles. The implications of this solution are as follows: potential increased future maintenance costs, potential lower future auction sale values

Unused funds in Fleet capital projects (2015 to 2017) will be returned to source. As per the recommendation in this report, this amount (\$2.4 million) will be contributed to the 2017 operating budget.

j) Discretionary Spending Freeze

A discretionary spending freeze order was issued in May 2017 to OPS managers. It requires that spending be focussed on goods and services that support the health and safety of members and critical operations and infrastructure. It is estimated that \$1,200,000 will be saved in 2017 as a result of the order.

k) Project Funds

There are two significant project based budgets in OPS: Service Initiative (SI) and the Project Fund. Each of these budgets will be reduced. Planned work will be cancelled or deferred for re-consideration in 2018. This action will save \$700,000 in 2017.

l) Business Continuity Program

The planned program activities will be deferred to 2018, creating a \$400,000 savings in 2017.

m) Radio User Fees

The delay in on-boarding OPS to the new radio system will generate a savings of \$300,000 in unspent radio user fees. Some funds from this project were used to replace aging radios that could no longer be serviced.

n) Compensation - Civilian Hiring

An eight week delay in civilian hiring will generate savings of roughly \$300,000 in 2017. The timeframe for staffing a civilian position is now 82 working days, or roughly 4 months.

o) Paid Duty

Paid Duty revenue has provided surpluses in past years and the budget for the past few years has been adjusted upwards accordingly. Even with this adjustment taken into consideration, a small surplus of \$300,000 is still being projected. City requests related to construction and the light rail project account for the high level of requests.

p) Facility Operating Costs

In past years, facility operating costs have provided surpluses and the same trend is projected for 2017. These charges flow to OPS from the City as a recovery for facility maintenance services. The savings are expected to be \$300,000.

q) Ottawa 2017

The City has held several large events, with more being planned for Ottawa 2017, which have financial implications to the OPS. In discussions with the City regarding cost recovery for OPS activities to support Ottawa 2017 events, we have been told to expect to recover 100% of the incremental costs of the events. If this fails, we will be reporting pressures for these events. The budgeted incremental cost for Ottawa 2017 events is \$1.5 million. As of the end of June (not including Canada Day events), the OPS has incurred \$180,000 in costs, which have all been recovered.

Horizon Issues

At the end of the second quarter, fuel prices were averaging around the \$1/litre mark in the Ottawa area, which would lead to a breakeven position in the account for the year. However, if the recent spike in fuel prices stays for an extended period of time, then we will have to re-evaluate the current forecast of a breakeven position. Staff will be monitoring this account very closely and will report on any changes in future quarterly reports.

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 2nd Quarter Financial Report – Summary by Directorate.
- Document 2, which provides a list of all contracts awarded under delegated authority by the Chief that exceed \$25,000 in the period of April to June 2017. In total, \$1.81 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 B for reference.

| Table 3 Summary by Type Contracts Awarded Under Delegated Authority | | |
|--|--------------------|-----------------------|
| Type | Amount (\$) | Percentage (%) |
| Fleet & Equipment | 843,159 | 46% |
| Information & Technology | 302,019 | 17% |
| Professional Services | 263,520 | 15% |
| Goods & Supplies | 219,850 | 12% |
| Consulting Services | 130,787 | 7% |
| Facilities & Construction | 49,913 | 3% |
| Total | 1,809,249 | 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. With this Board report approval, staff will transfer \$2.4 million from the Fleet Capital projects to the OPS Fleet Reserve Fund. This amount will then be contributed to the OPS Operating Budget.
- Document 4 provides a summary of the status of the 2017 efficiencies, as well as historical data from 2012 – 2016.

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: Efficiencies

CONCLUSION

The OPS is forecasting budget pressures of \$7.4 million. A plan has been put into action to deliver \$5.9 million of in-year solutions to partially offset these pressures resulting in a projected year-end deficit of \$1.5 million. The critical piece of this mitigation plan is the Board's approval of the recommendation to transfer \$2.4 million from the Police Fleet Reserve Fund to the operating budget.

In November, staff will present the Service's third quarter financial position as at 30 September 2017. 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.