

**Report to / Rapport au:**

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

**28 May 2018 / 28 mai 2018**

**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 – FIRST QUARTER 2018**

**OBJET: RAPPORT D'ÉTAPE FINANCIER DU PREMIER 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. 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 pressure in 2018 of \$2.8 million. The expense pressure totals \$0.6 million and is caused by higher fuel costs and some necessary adjustments to the compensation budget. Staff have identified solutions to

offset the expense pressure. The remainder of the budget pressure - \$2.2 million – is revenue related. It is driven by slower than expected progress in implementing a user pay fee structure for background checks along with shortfalls in revenue from Collision Reporting Centers. Senior Leadership Team (SLT) is working on options to help reduce the impact of the \$2.2 million revenue pressure, including a spending freeze.

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) 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-in to 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.

<b>Pressures</b>	<b>(\$000)</b>
Background Check Revenue	(1,400)
CRC Revenue	(800)
Fuel	(400)
Recognition of Prev Prof Experience	(200)
<b>Total Pressures</b>	<b>(2,800)</b>
<b>Solutions</b>	
Closing Prev. Year Capital Projects	500
Procurement Savings & Reductions	100
<b>Total Solutions</b>	<b>600</b>
<b>Projected Surplus (Deficit)</b>	<b>(2,200)</b>

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. These results 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 is being tabled with the Board at the May 2018 meeting. Public consultations will occur in June 2018 followed by a recommendation to the Board in July 2018. Implementation is proposed for August 1, 2018.

The proposal will fully recover all costs through an estimated annual revenue increase of \$2.4 million. However an August 1 implementation date means that only a partial year of revenue will be generated in 2018 resulting in a \$1.4 million in-year shortfall in revenue this year.

#### 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. This revenue item will need to be reduced in future budgets as well so that it aligns with the sales market.

#### c) Fuel Costs

The Ottawa Police Service's 2018 fuel budget was developed using a retail pump price of \$1.08/litre. After volume discounts and tax exemptions, the effective price is \$0.93/litre.

Fuel prices have jumped considerably over the last months. The average retail pump price for regular unleaded gasoline at Ottawa-area self-service filling stations over the first 3 months was \$1.23/litre creating budget pressure for OPS.

Staff is forecasting a deficit in the fuel account of \$0.4 million for 2018 caused by fuel price increases. The forecast reflects an average pump price of \$1.28/litre for the remainder of 2018. Gasoline prices will continue to be monitored very closely over the balance of the year to further refine the projected budget pressure.

#### d) Recognition of Previous Professional Experience

In late 2017, the Board and the Ottawa Police Association (OPA) agreed to consider 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 on the order of \$0.2 million. The change was approved late in 2017 following the close of the 2018 budget.

#### e) Closing Previous Year Capital Projects

A review of our Project Works in Progress (Document C) has allowed us to close several older capital projects from previous years and return the funds to the General Capital Reserve Fund. This action will enable the Service to transfer \$0.5 million from the General Capital Reserve Fund to the operating budget to offset some of the one-time expense pressures.

#### f) Procurement Savings & Reductions

A small amount of savings (\$0.1 million) has come from expenditure reductions and lower than expected prices for contract awards.

#### Horizon Issues

Pending cannabis legislative changes have the potential to affect the operating budget in a negative way. A working group has been formed within OPS to support the implementation of the new legislation. Finance staff will work with this group to monitor the expenditure impact.

#### 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 1st 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 January to March 2018. In

total, \$3.6 million in purchase orders were issued under delegated authority in the First Quarter of which the majority relate to the Modernization Roadmap. The breakdown of these purchase orders, by category, is shown in Table 3. Expenditure definitions are included in Document B for reference.

<b>Table 3 Summary by Type Contracts Awarded Under Delegated Authority</b>		
<b>Type</b>	<b>Amount (\$)</b>	<b>Percentage (%)</b>
Professional Services	2,427,924	68%
Facilities & Construction	425,610	12%
Information & Technology	417,799	12%
Consulting Services	200,616	6%
Fleet & Equipment	59,782	2%
Goods & Supplies	50,097	1%
<b>Total</b>	<b>3,581,828</b>	<b>100%</b>

- 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.
- Document D on Board Policy CR-8 – “The Acceptance of Donations, Gifts, Loans and Sponsorships”: Section 6 and 7 of the policy requires that the Chief report to the Board all donations, gifts, loans and sponsorships valued at over \$500 as part of the quarterly process and that all that are valued over \$50 be properly documented. This annex lists those items for the 2017 year. In 2017, a total of \$95,230 was donated to the OPS, all in support of the OPS Gala.

## **FINANCIAL IMPLICATIONS**

As outlined in the report.

## **SUPPORTING DOCUMENTATION**

Document A: 1st Quarter Financial Report – Summary by Directorate

Document B: Purchase Orders Issued Under Delegated Authority

Document C: Capital Budget Works in Progress

Document D: Acceptance of Donations, Gifts, Loans and Sponsorships for 2017

**CONCLUSION**

Staff has identified solutions to offset the expected \$0.6 million in expense pressure facing the OPS. However operating budget pressure of \$2.2 million remains due to revenue shortfalls. Senior Leadership Team is working on options to help reduce the impact of the \$2.2 million revenue pressure, including a spending freeze.

In July, staff will present the Service's Second Quarter financial position as at 30 June 2018. Any new pressures or solutions that have emerged will also be identified. The year-end forecast will be adjusted accordingly. That report will also include the annual Asset Management Report, as required by Policy CR-4 of the Ottawa Police Services Board Policy Manual.