

**Report to / Rapport au:**

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

**29 May 2017 / 29 mai 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 – FIRST QUARTER 2017**

**OBJET: RAPPORT D'ÉTAPE FINANCIER DU PREMIER TRIMESTRE 2017**

**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 has identified operating budget pressure of \$4.4 million. A plan has been put into action to mitigate these pressures so that a balanced position can be achieved by year-end.

Budget pressure has emerged from 5 sources: overtime, Collision Reporting Centers (CRC) revenue, Workplace Safety and Insurance Board (WSIB) costs, long term disability Insurance (LTDI) costs, the Multi-Year Action Plan for Bias Neutral Policing and Naloxone.

Significant management interventions are planned to offset these pressures and they include: a discretionary spending freeze, a reduction to 2017 project funds, a reduction in 2017 fleet replacement, a reduction to 2017 business continuity activities and a delaying in civilian hiring. A number of favourable variances have emerged that are also part of the plan: radio fees, paid duty revenue and court overtime.

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) Discretionary Spending Freeze

A discretionary spending freeze order has been issued 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 \$1,000,000 will be saved in 2017 as a result of the order.

##### b) Project Funds

There are two significant project based budgets in OPS: SI and the Project Fund. Each of these budgets will be reduced by \$500,000. Planned work will be cancelled or deferred for re-consideration in 2018. This action will save \$1,000,000 in 2017.

##### c) Fleet Replacement

Replacement of a number of fleet vehicles (about 20) will be deferred to 2018. This action will result in a savings of \$500,000 in 2017. Replacement plans for 2018 and beyond will be reviewed to assess the impact of this deferral.

##### d) Radio User Fees

The delay in on-boarding OPS to the new radio system will generate a savings of \$500,000 in unspent radio user fees.

<b>Table 1 - Ottawa Police Service 2017 Projected Year End – Significant Variances</b>	
<b>Solutions</b>	<b>(\$000)</b>
Discretionary Spending Freeze	1,000
Project Funds	1,000
Fleet Replacement	500
Radio Fees	500
Business Continuity	400
Compensation	300
Paid Duty Revenue	300
Facilities Operating Costs	300
Court Overtime	100
<b>Total Solutions</b>	<b>4,400</b>
<b>Pressures</b>	
Overtime	(2,000)
CRC Revenue	(1,000)
LTDI & WSIB	(700)
Multi-Year Action Plan for Bias Neutral Policing	(500)
Naloxone	(200)
<b>Total Pressures</b>	<b>(4,400)</b>
<b>Projected Surplus (Deficit)</b>	<b>0</b>

e) Business Continuity Program

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

f) Civilian Hiring

An eight week delay in civilian hiring will generate savings of roughly \$300,000 in 2017.

g) 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.

h) 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.

i) Court Overtime

For the past several years, court overtime has been contributing to year end surpluses and in 2017 the budget was adjusted downward as part of the efficiency target, to reflect this savings. Even after this adjustment, there still seems to be a small surplus of \$100,000, based on the first few months of experience.

j) Overtime

The Service is experiencing significant overtime pressure. A \$2,000,000 pressure is forecast based on current trends, with staffing pressures identified as the primary underlying factor. OPS senior managers are working on a mitigation strategy to bring Q3 and Q4 overtime usage in line with the budget.

k) 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. Staff are estimating that there will be a \$1,000,000 revenue shortfall in this area of the budget.

l) LTDI & WSIB

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

In Q1 there has also been a significant increase in the Workplace Safety and Insurance Board (WSIB) costs. The increase in WSIB claims is mainly a result of new guidelines allowing Post Traumatic Stress Disorder (PTSD) claims, creating a pressure of \$300,000.

#### m) 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.

#### n) 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 incidence of opioid overdoses. This decision has added a budget pressure of \$200,000.

#### Efficiencies

Based on the financial results to date, OPS is on track to achieve the \$2,000,000 efficiency target.

The primary contributor is the On-Line Background Check Project. Staff have prepared a new fee structure for background checks which provides for full cost recovery of the service. It will be presented to the Finance and Audit Committee early in June for review in June. If adopted the proposal will provide for an additional \$1,400,000 of revenue in 2017.

The other elements of the efficiency plan are producing the expected results:

- 1) The time and attendance project (e-Time) will save \$400,000 from 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 was transferred to the City;
- 2) \$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 provided in Document D.

#### Horizon Issues

The City has many large events 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 that we could expect to recover 100% of the incremental costs of the events. If this fails, we will be reporting pressures for these events.

Bargaining for the 2016 and 2017 sworn and civilian collective agreements has been ongoing for several months and we are very close to ratifying a final agreement. It is expected that the new agreement will come in on budget. Staff will be monitoring this process and will provide an update in the next quarterly report.

At the end of the first quarter, fuel prices were averaging around the \$1/litre mark in the Ottawa area, which would have led to a breakeven position in the account for the year, should the normal price trend continue, as it has for the last several years. However, in the month of April, the price of fuel rose precipitously, at a time much earlier in the year than the usual trend. If the price of fuel remains this high or goes higher 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 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 2017. In total, \$2.37 million in purchase orders were issued under delegated authority in the First Quarter. 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</b> <b>Summary by Type</b> <b>Contracts Awarded Under Delegated Authority</b>		
<b>Type</b>	<b>Amount (\$)</b>	<b>Percentage (%)</b>
Fleet & Equipment	963,322	41%
Information & Technology	673,422	28%
Professional Services	354,557	15%
Consulting Services	172,992	7%
Goods & Supplies	167,827	7%
Facilities & Construction	34,890	2%
<b>Total</b>	<b>2,367,011</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 - Efficiencies
- Document E 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 2016 year. In 2016, a total of \$97,803 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: Efficiencies

Document E: Acceptance of Donations, Gifts, Loans and Sponsorships for 2016

**CONCLUSION**

The OPS is forecasting that it will have a balanced budget by year-end for 2017, based on operating results to the end of the first quarter. A significant mitigation plan has been put into place to help ensure this result.

In July, staff will present the Service's Second Quarter financial position as at 30 June 2017. It will provide an update on the mitigation strategy and identify new pressures or solutions that have emerged. 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.