

Report to / Rapport au:

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

26 July 2021 / 26 juillet 2021

Submitted by / Soumis par:

Chief of Police, Ottawa Police Service / Chef de police, Service de police d'Ottawa

Contact Person / Personne ressource:

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SUBJECT: FINANCIAL STATUS REPORT – SECOND QUARTER 2021

OBJET: RAPPORT D'ÉTAPE FINANCIER DU DEUXIEME TRIMESTRE 2021

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

This quarterly financial report summarizes the current financial position of the Ottawa Police Service (OPS) and the significant variances that are known at this time. It also outlines the operational issues affecting the OPS' finances and presents the projected year-end financial position for the organization.

The continued uncertainty of the COVID 19 pandemic remains fluid, with assumptions likely to change depending on Provincial and local public health orders. Significant impacts to the budgeted revenue are directly influenced by the ongoing pandemic, as well as the additional cost of personal protective equipment (PPE), cleaning costs, and other applicable directives related to public health orders. Staff continues to conduct thorough reviews to ensure financial mitigation measures are leveraged, where feasible, without impacting the Service's commitment to providing effective and adequate policing with a focus on Community Safety

and Well-Being (CSWB), Duty of Care and Public Trust to the City of Ottawa. The accuracy of these projections improves with each quarter, as the OPS' expense and revenue patterns become more certain.

DISCUSSION

The Covid19 pandemic continues to place financial pressures on the OPS in the second quarter of 2021, presenting a very fluid situation with the third wave of infections finally ending, the vaccine rollout, and the new measures being enacted by the provincial government, such as the inter-provincial border checks and the re-opening plan.

The OPS has a Transfer Payment Agreement with the Solicitor General for full cost recovery related to the cost associated with the inter-provincial border closures. The OPS is also operating under the assumption that incremental pandemic costs will be covered by the upper levels of government, similarly to 2020. If funding is not provided by either the provincial or federal government, it will directly impact the OPS' ability to absorb those costs in alignment with the 2021 budget. The OPS continues to be diligent with its spending in 2021 to ensure financial mitigation measures are leveraged, where feasible, and to the extent that is controllable by the Service.

These significant financial pressures from the pandemic have been met with equally significant management interventions to ensure that the OPS remains fiscally responsible during the pandemic.

Management interventions include the following:

- A no travel order;
- Spending freeze;
- Enhanced overtime reporting and controls to limit usage; and
- Annual leave utilization strategy.

Based on current information, staff is forecasting total operating budget pressures for 2021 in the amount of \$12.6 million, which will be entirely offset by developed solutions of \$12.6 million, leaving the OPS in a balanced position in 2021.

Each of the significant variances are summarized in Table 1 and discussed in more detail below. The year-end position for OPS operations is still in flux due to the changing pandemic environment and will continue to evolve as additional data becomes available throughout the year.

Identified Pressures & Solutions

a) Total Revenue Pressures

The main driver of the OPS' operational pressures is the result of a variety of revenue shortfalls. These revenue shortfalls are expected to total \$5.5 million in 2021.

The revenue deficit is comprised of the following revenue categories: red light camera revenue (\$2 million), background clearance (\$1.2 million), grant revenue (\$1.1 million), airport revenue (\$0.8 million) and false alarms (\$0.4 million).

b) Non COVID19 Expenditures

There are four operational obligations,

unrelated to the pandemic, that are forecasting pressures of \$3.6 million. The first item is WSIB, the second item is fleet maintenance and fuel costs, the third item is legal claims and grievances, and the last operational item, related to OPS's priorities, is the Sexual Harassment Project, which is a key priority in establishing an overall strategy and process framework for all forms of harassment within the OPS.

c) COVID 19 Expenditure Pressures

The OPS is also experiencing significant expenditure pressures due to the ongoing pandemic, totalling \$3.5 million. This deficit includes \$1.6 million for the additional PPE and decontamination steps implemented to protect our members and the public. Another \$0.9 million is attributed to higher unused leave banks and increased overtime related specifically to the pandemic. The final \$1 million relates to costs incurred for the inter-provincial checkpoints being performed by the OPS as a result of the provincial Stay at Home Order and the vaccination clinics.

d) Management Interventions

The pandemic required considerable management interventions in order to remain fiscally responsible. Those interventions are forecasted to result in \$8.9 million in solutions. The spending freeze is expected to save \$6.5 million in services, supplies and equipment-related costs. The no-travel order is expected to save another \$1.0 million, with the delay in hiring of the growth-related positions resulting in the remaining \$1.4 million of solutions.

e) Covid19 and Other Revenue

Pressures	(\$000)
Total Revenue Pressures	(5,500)
Non COVID Expenditure Pressures	(3,600)
COVID19 Expenditure Pressures	(3,500)
Total Pressures	(12,600)
Solutions	
Management Interventions	8,900
COVID19 & Other Revenue	3,700
Total Solutions	12,600
Projected Surplus (Deficit)	-

The OPS is anticipating that the Provincial government will provide additional funding to the City of Ottawa to help municipalities cover the additional costs they incurred in relation to pandemic. The portion of the Safe Restart funding that the OPS is expecting to receive is \$2.5 million. The OPS has an agreement with the Solicitor General of Ontario that we will be reimbursed an estimated \$1 million for incremental costs related to the inter-provincial border enforcement due to the Stay at Home Order and the vaccination clinics.

Finally, the OPS received some additional one-time revenue from the Province from the excise taxes collected on the sale of cannabis and that totalled \$0.2 million for a total revenue solution amount of \$3.7 million.

Horizon Issues

The Covid19 pandemic remains a very fluid situation that will continue to be monitored from an operational and financial perspective. The OPS continues to monitor the post-COVID related impacts that are expected as the restrictions are lifted and as the Provincial and local public health orders are implemented. There will be impacts as a result of the recovery that include:

- Increase in calls for service to pre-pandemic levels;
- Resumption of operational training requirements that have been delayed due to the Pandemic; and
- Increase in demands for service to pre pandemic levels.

On top of demands from the ongoing pandemic, there are several additional horizon issues that are being closely monitored for potential impacts to the financial situation of the OPS in 2021:

- Contract negotiations are underway for the OPA and SOA collective agreements. These collective agreements could create a pressure once settled and will be monitored while ongoing.
- Job evaluation process for civilian members. Once that process recommences the OPS could be facing financial pressure from the groups currently in the queue for evaluation.
- Impact from insurance liability claims and settlements due to the uncertainty of the amount and timing of when claims will be processed.

Quarterly Reporting Requirements

Section 2(e) of the Ottawa Police Service's Board's (Board) Policy BC-2 on Monitoring Requirements requires that the Chief provides to the Board 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 2021. In total, \$3.2 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 2. Expenditure definitions are included in Document 2 for reference.

Table 2		
Summary by Type		
Contracts Awarded Under Delegated Authority		
Type	Amount (\$)	Percentage (%)
Fleet & Equipment	1,295,490	40%
Information & Technology	888,625	28%
Professional Services	637,529	20%
Consulting Services	315,172	10%
Goods & Supplies	32,230	1%
Facilities & Construction	25,926	1%
Total	3,194,972	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 Chief Financial Officer 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 Board's 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 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 2016 to 2020. The assets are divided into five categories and have a total net book value of \$66.9 million as of December 31, 2020. The largest category of asset is Buildings and Improvements, which accounts for almost \$48.5 million of the total.

The net book value of assets assigned to the OPS has been declining over the five-year period, from a high of \$73.2 million in 2016 to \$66.9 million in 2020. The current environment of fiscal constraints has led to the prioritization of asset purchases, leaving previously purchased items to fully depreciate without immediate replacement.

The second requirement in this area is to report on one category of assets on a rotational basis. This year the category is Police Equipment. Document 5 provides a summary of the value of the Police 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 \$5.7 million as of December 31, 2020. The annual operating budget includes a provision of approximately \$0.2 million to maintain these assets.

Since this category of assets is extremely diverse, annual maintenance activities can vary greatly amongst the specific types. For instance, miscellaneous station equipment is comprised mainly of fitness equipment; the OPS has an agreement with a third party who performs regularly scheduled maintenance on these items. Other assets, such as Tactical items, are inspected and cleaned regularly by staff. Other assets still, due to their nature, require little or no maintenance.

Risks around this asset category include the following:

- a) Keeping abreast of emerging technological trends
- b) Exposure to foreign exchange rate volatility
- c) Growth of security requirements as new threats in this vector unfold
- d) Maintaining adequate business continuity measures
- e) Unexpected maintenance cost increases

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: Summary of Assets Assigned to Ottawa Police Service

Document 5: Police Equipment and Maintenance

CONCLUSION

The continued impacts of the COVID 19 pandemic, and challenges outlined in this report, were projected to cause significant financial pressure of \$12.6 million for the OPS in 2021. Management interventions that have carried over from 2020 have assisted in mitigating these forecasted financial pressures.

Based on current information, the OPS is forecasting a balanced position at year-end with the assumption of grant funding from the Province covering off the incremental pandemic-related costs the OPS has, and will incur, in 2021. There continues to be significant risk in achieving a balanced budget given the impacts outlined in this report and mainly due to non-controllable costs related to the pandemic, horizon issues related to Collective bargaining, legal indemnification costs, and other outstanding labour relation grievances.

The risks and assumptions in our forecast are continuously being revisited for accuracy and validity. The loosening or tightening of management interventions will continue to evolve with the pandemic to ensure a balanced budget.

In November, staff will present the Service's Third Quarter financial position as of 30 September 2021.