

Report to / Rapport au:

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

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Submitted by / Soumis par:

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SUBJECT: FINANCIAL STATUS REPORT – 2017 ANNUAL REPORT

OBJET: RAPPORT FINANCIER ANNUEL DE 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 2017 Fourth Quarter Financial Report presents the year-end financial position of the Ottawa Police Service (OPS) and outlines the operational issues that affected the Service's finances in 2017. The results are subject to external audit.

DISCUSSION

The OPS experienced a challenging financial year in 2017, starting in Q1. Staff have been identifying the challenges in each quarter, along with strategies to help mitigate the extent of the projected deficit. The Service was trending to experience a deficit on police operations of \$1.6 million, as reported on in the third quarter financial position report. Several significant expenses arose in the 4th quarter, including a large indemnification settlement and legal costs of \$1.1

million that were unexpected. With several other changes netting an additional pressure of \$0.7 million, OPS ended Q4 with a net deficit of \$3.4 million in the Police Operating Budget accounts. The non-departmental taxation accounts, which are beyond the control of the Board, recorded a deficit of \$3.5 million. As a result the Police Tax Rate was in a total deficit position of \$6.9 million for 2017.

Significant budget variances are summarized in Table 1 and discussed in more detail below.

Identified Pressures & Solutions

a) WSIB & LTDI

In Q1, staff identified a significant increase in the Workplace Safety and Insurance Board (WSIB) costs. This amount continued to grow and has resulted in a deficit pressure of \$1.3 million. 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.

With respect to LTDI, the OPS was given notice in April that Great West Life would be increasing Long Term Disability Insurance (LTDI) premium rates by 12%, effective May 1st, 2017, as a result of the rising number of LTDI claims. This change has created an additional pressure of \$0.4 million.

b) Overtime

Overtime ended the year with a deficit of \$1.1 million. This is a significant reduction from the forecasted deficit of \$2.0 million reported in the 3rd quarter report. This change reflects the managerial attention focused on overtime as well as the availability of very current information on trends and usage. In Q3, under the e-Projects umbrella, overtime submission, approval and tracking was automated providing a tool to support overtime management strategies.

There were 15 homicides and 71 shootings in 2017 that caused some of the overtime pressures on investigative units, but the primary factor was staff shortages and high

Table 1 - Ottawa Police Service 2017 Year End – Significant Variances	
Police Operations	(\$000)
Pressures	
WSIB & LTDI	(1,700)
Overtime	(1,100)
Revenue-CRCs & Other	(1,400)
Efficiencies Delayed	(1,400)
Recognition of Prev Prof Experience	(400)
OIPRD Complaint	(350)
Multi Year Action Plan	(200)
Naloxone	(200)
Solutions	
Fleet Deferral	2,400
Discretionary Spending Freeze	1,700
Compensation & Leave Liability	800
Project Deferrals	400
Police Facility Costs	100
Police Operations Surplus/(Deficit)	(1,350)
Police Fiscal Accounts	
Pressures	
Claims, Settlements & Legal Fees	(1,500)
Retirement Costs	(500)
Fiscal Accounts Surplus/(Deficit)	(2,000)
Operating Budget Surplus/(Deficit)	(3,350)
Tax Accounts Surplus/(Deficit)	(3,500)
Police Tax Rate Surplus/(Deficit)	(6,850)

workload throughout the organization. A budget increase of \$2 million was approved as part of the 2018 budget proposal to reduce the budget risk of overtime in 2018.

c) Revenue – Collision Reporting Centers (CRC) & Other

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% resulting in a shortfall of \$1.0 million in 2017. Staff are working with the insurance companies to explore the reason for the low sales figure. The 2017 Budget was adjusted downwards by \$0.2 million. A further adjustment of \$0.2 million was approved in the 2018 budget to start to bring the budget in line with actual experience.

A shortfall in several other revenue accounts also occurred. With the move to on line background checks, there has been a reduction in express fees for same day service (it is now standard under the new service model), resulting in a \$0.3 million shortfall. In addition, OPS experienced a small shortfall of just under \$0.1 million in alarm revenue as a result of the volume of false alarm calls compared to the estimate used in the budget.

d) Efficiencies

A \$2M efficiency target was adopted as part of the 2017 budget. The primary contributor was expected to be new on-going annualized revenue of over \$2.0 million from the Background Check fee schedule proposal. Tabling and approval, which is now scheduled for Q2, was delayed while staff focussed on stabilization of the new On-line Background Check service. Due to the delayed implementation there was a \$1.4 million in-year shortfall in the efficiency target.

The remainder (\$0.6 million) of efficiencies has been achieved:

- The time and attendance project, under the e Project umbrella (a back office transformation initiative) delivered savings of \$0.4 million from reduced compensation payments (primarily overpayment of salary and benefit continuance for members moving to long term disability).
- The planned \$0.2 million of reduced court overtime costs and other savings have occurred.

A complete list of the 2017 efficiency initiatives is outlined in Document D, which also summarizes the last 5 years of savings. Since 2012 the OPS has achieved in excess of \$11 million of annual savings, as a result of budget reductions and new revenue opportunities.

e) Recognition of Previous Professional Experience

Early in 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. The effective date for this change is 1 January 2016. The impact of the 2016 / 2017 awards is \$0.4 million in this financial year.

f) On-Line Background Checks - OIPRD Complaint

The new On-Line Background Check system went live in May 2017 and now 70% of all background checks are initiated on-line. As well sworn members are no longer involved in the processing of checks: it is a 100% civilian responsibility offered at the Queensview Records Facility. As a result of a complaint received through the Office of the Independent Police Review Director (OIPRD), staff undertook additional work to resolve issues related to wait times and the lobby capacity at Queensview. A subject matter expert was retained to identify operational changes; additional term employees were brought on to assist with processing and the Commissionaires were hired to support lobby capacity management.

g) Multi-Year Action Plan for Bias Neutral Policing

Costs for the Multi-Year Action Plan for Bias-Neutral Policing were approximately \$200,000 in 2017. They included; staffing the project, undertaking the 2017 OPS Workforce Census and background work for the Diversity Audit. Funds have been provided in the 2018 budget to continue this project.

h) Naloxone

Naloxone has 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 \$0.2 million.

i) Fleet Replacement

A key solution to the 2017 budget pressure was the one-time deferral of the planned replacement of approximately 60 fleet vehicles. This action – on a one time basis - enabled the Service to transfer \$2.4 million from the Fleet Replacement Reserve to the Operating Budget. The deferral plan was managed by extending the service life and the rotation of low and high mileage vehicles. The implications of this solution will potentially increase future maintenance costs and lower future auction sale values.

In accordance with this strategy, unused funds in the Fleet capital projects (2015 to 2017) were returned to source. As per the recommendation in the second quarter report, this amount (\$2.4 million) was contributed to the 2017 operating budget.

j) Discretionary Spending Freeze

A discretionary spending freeze order was issued in May 2017 to OPS managers. It required that spending be focussed on goods and services that support the health and safety of members and critical operations and infrastructure. This action resulted in a savings of \$1.7 million.

k) Compensation - Leave Liability and Civilian Hiring Delay

The e Project work also generated a savings of \$0.5 million in the annual contribution to the OPS leave liability. As a result of the implementation of consistent leave management practices across OPS, employees carried fewer hours of leave into 2018.

An eight week delay in civilian hiring has generated savings of roughly \$0.3 million in 2017.

l) Project Funds

There are two significant project based budgets in the OPS: the Service Initiative (SI) and the Project Fund. These budgets were reduced by \$0.4 million. Planned work has been cancelled or deferred for re-consideration in 2018.

m) Facility Operating Costs

In past years, facility operating costs have provided surpluses and the same trend occurred in 2017 with a savings of \$0.1 million. These charges flow to OPS from the City as a recovery for facility maintenance services.

n) Claims, Settlements & Legal Fees

The OPS is self insured for claims up to \$3 million. Currently, there are over 90 claims outstanding. As settlements occur, they are approved as required, reported to the Board and paid. Although we do have a budget for legal costs and claims, the magnitude and timing of these claims vary significantly from year to year. This year, several claims and settlements occurred late in the year, including a large ruling on indemnification costs, which resulted in a deficit of \$1.5 million.

The 2017 experience is a continuation of the trend that has developed over the past 5 years where-by claims have exceeded the budget. The 2018 budget has been adjusted to begin to reduce these types of shortfalls.

o) Retirement Costs

Retirement costs exceeded budget by \$0.5 million in 2017, primarily as a result of several unexpected retirements.

Non - Departmental Tax Related Accounts

Police costs and revenues have been separated into a singular city-wide police tax rate for many years. The tax rate reflects the costs which are under the Board's control as well as those that are not, but which are required for tax-related purposes. In 2017, a deficit of \$3.5 million was recorded in these tax-related accounts due to the police share of remissions and supplementary assessments. These tax-related accounts are budgeted and managed by City staff. The OPS and the Board have no control over this aspect of the police tax rate.

Net Position

The Police Service ended the year with a total deficit of \$6.9 million. This number results from combining the deficit from police operations of \$3.4 million with the deficit of \$3.5 million in the taxation accounts. The total deficit will be funded from surpluses in the City Wide accounts.

The Disposition report to the City's Finance and Economic Development Committee (FEDCo) on March 6th, 2018 outlined this action.

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 4th 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 October to December 2017. In total, \$1.1 million in purchase orders were issued under delegated authority in the Fourth 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	365,359	35%
Consulting Services	299,865	28%
Information & Technology	183,066	17%

Professional Services	127,266	12%
Goods & Supplies	83,899	8%
Facilities & Construction	0	0%
Total	1,059,455	100%

- 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.

FINANCIAL IMPLICATIONS

As outlined in the report.

SUPPORTING DOCUMENTATION

Document A: 4th Quarter Financial Report – Summary by Directorate

Document B: Purchase Orders Issued Under Delegated Authority

Document C: Capital Budget Works in Progress

Document D: Efficiencies Achieved

CONCLUSION

The OPS experienced a deficit in the Police Operating Budget of \$3.4 million for 2017. It was primarily due to the pressures from legal fees, claims, settlements and WSIB and overtime expenses as well as CRC revenue shortfalls, which were partially offset by a deferral of fleet replacement and the implementation of spending reductions.

When the deficit of \$3.5 million in the taxation accounts is taken into account, there is a combined operating and taxation deficit of \$6.9 million for the police tax rate. The funding of the deficit in the Police Services business area will be from surpluses in the City Wide accounts.