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NIAGARA REGIONAL POLICE SERVICE Police Services Board Report

PUBLIC AGENDA

Subject: Niagara Regional Service and Board Financial Variance Overview
for the Year Ending December 31, 2020

Report To: Chair and Members, Niagara Police Services Board Finance
Committee

Report Date: 2021-02-05

Recommendation(s)

That subject to the approval by Regional Municipality of Niagara (Region) Council of the Consolidated Regional Year End Transfer Report, the Niagara Police Services Board approves the:

1. Transfer of \$69,084 from the Accumulated Sick Leave Reserve to offset the additional pay-out of Sick Credits and;
2. Transfer of \$2,250 from the OPVTA Reserve to offset a slight deficit from current year operations.

Key Facts

- The purpose of the report is to provide an analysis of the 2020 year-end financial results of the Service and Board as per the Financial Reporting, Control and Procurement of Goods and Services By-Law 384-2019.
- The Niagara Region requires that all Operating Departments and Agencies, Boards and Commissions (ABCs) report on variances between actual operating results and approved budgets as part of the Year End Results and Transfer Report to Council.
- For the year ending December 31, 2020, the Service and Board have a combined net expenditure before indirect allocations deficit of \$283,492 or 0.2% above the 2020 approved budget resulting from normal operations and the net impact of COVID-19 expenses.

Financial Considerations

Approval of the recommendations would provide for the transfer of reserve funds from the Services reserves to offset budget shortfalls.

Analysis

The year-end variance summary (Appendix 1) provides a synopsis of the combined financial operations for the Police Service and the Board for the year ended December 31, 2020, including net COVID unbudgeted costs. The combined Service and Board net expenditure deficit before indirect allocations is \$283,492. A summary of the financial impact of COVID-19 pandemic on the Service operations follows.

In March 2020, in response to the growing COVID-19 pandemic, the Service initiated the Pandemic Business Continuity plan to support the emergency orders mandated by government and health agencies. Activities included the purchase of additional and alternative infection control supplies and personal protective equipment (PPE), introduction of social distancing protocols, and the introduction of administrative leave for identified members out of the workplace due to COVID-19 related restrictions.

For the year ending December 31, 2020, gross costs related to COVID-19 totalled \$5,049,868. Included in this total is \$1,551,136 related to permanent members on administrative leave or rotating shifts. These costs represent a loss of productive time, however, the expense is supported by the base budget. As such, the net incremental unbudgeted costs related to COVID-19 as of December 31, 2020 are \$3,498,732. A financial impact summary, which includes supported salary costs, incremental direct costs, as well as savings as a result of mitigation strategies implemented by the Service, is provided as Appendix 2.

The Services' COVID-19 costs have been included in the Regions applications for Phase 1 and Phase 2 of the Safe Restart Agreement program. The Region received \$12.1M in Phase 1 funding to help with costs incurred in 2020, as well as \$9.184M in Phase 2. Any excess funds after accounting for the 2020 net COVID expenses will be transferred to the Taxpayer Relief Reserve to offset pandemic-related costs experienced in 2021. As a result, the Region has not allocated any of the Safe Restart funding received directly to the ABCs; therefore there is no funding reported in the Services financial results. Since the Service received no direct funding from the Safe Restart Program then any deficit as a result of COVID-19 will be funded by the Region's Taxpayer Relief Reserve.

Through the course of the year, the Service was able to achieve a \$2,966,751 surplus from normal operations. These savings were achieved mainly from uniform hiring lags, benefit claims experience, 2020 NRPA wage settlement and fuel rate savings. This surplus from normal operations offset a significant portion of the \$3,498,732 costs attributed to COVID-19 resulting in a net year-end deficit of \$531,981 for the Service.

For the year ending December 31, 2020, the Police Service Board (PSB) Office ended their fiscal year with a \$248,489 surplus. This was mainly the result of savings to the legal expense budget as a number of outstanding legal matters were deferred to 2021. At the presentation of the PSB 2021 Budget, the Board approved in principle the transfer of any year-end surplus funds from the 2020 Operating Budget to the Boards Contingency

Reserve fund to mitigate future expenses related to legal matters. Any unbudgeted transfers to Reserves must be approved by Regional Council as recommended by the Region's Treasurer. Under Region Reserve Policy C-F-013, *"ABC's must first consult with Niagara Region's Treasurer to gain agreement on the recommendations for reserve transactions outside of the approved budget."* Under the recommendation of the Region Treasurer, the PSB surplus of \$248,489 is to be used to partially offset the Services' deficit rather than be transferred to the PSB Reserve Fund to mitigate future legal expenses.

For the year ending December 31, 2020, the Service and Board have a combined Net Expenditure before Indirect Allocations deficit of \$283,492. This deficit includes the recommended transfers from Reserves as detailed in the body of this report. The table below illustrates the combined net deficit resulting from normal operations and the cost impact of COVID-19.

	Surplus /(Deficit)
Niagara Regional Police Service -Normal Operations	\$ 2,966,751
Net Incremental Costs related to COVID-19	(3,498,732)
Service Net Expenditure before Indirect Allocations	(531,981)
Police Service Board	248,489
Service and Board Net Expenditure before Indirect Allocations	\$ (283,492)

A detailed discussion of the actual performance to budget by major expense category including the COVID-19 impact and results of normal operations follows.

Compensation:

For the year ending December 31, 2020, Compensation costs were below the approved budget by \$2,762,136, which represents 1.8% of the total Compensation budget. This favorable variance is the net result of savings realized within uniform salaries due to hiring lags, employee benefits and the 2020 NRPA wage settlement, partially offset by increased spending of civilian salaries to backfill operationally essential civilian positions, WSIB claims experience, and sick leave payouts from greater than budgeted retirements.

The incremental unbudgeted cost impact on compensation attributable to COVID-19 is \$310,392. These costs were incurred at the onset of the pandemic when staff were assigned to assist in the implementation of the emergency orders or to replace members off on administrative leave based on Public Health recommendations throughout the year. In addition, some savings in uniform salaries were realized as a result of COVID-19 restrictions including savings in court time as a result of courts operating at reduced and modified capacity, as well as savings in special duty expense due to cancelled events however these savings are fully offset by a reduction in revenue.

Administrative:

For the year ending December 31, 2020, Administrative costs were below the approved budget by \$679,307, which represents 16.1% of the total administrative budget. This favorable variance is the result of savings in legal expenses for the Police Services Board, as well as COVID-19 related savings in staff development due to reduced travel and cancelled events, conferences and training as well as savings in administrative mileage and travel expenses. These savings were offset partially by PPE purchases including gloves, masks and disinfectant purchased at the onset of the pandemic for frontline staff.

Operational & Supply:

For the year ending December 31, 2020, Operational & Supply costs were above the approved budget by \$345,535, which represents 15.2% of the total operational & supply budget. This unfavorable variance is the result of two major special investigations, as well as increased uniform expenses required to outfit the significant number of constables hired during the year as a result of retirements and the 40 Officer Program Change. Also included in Operational & Supply is COVID-19 supply costs for PPE, IT hardware to equip members to work from home, building renovations such as Plexiglas barriers and signage, and deep cleaning decontamination costs.

Occupancy & Infrastructure:

For the year ending December 31, 2020, Occupancy & Infrastructure costs were below the approved budget by \$94,032, which represents 26.1% of the total occupancy and infrastructure budget. This favorable variance is the result of savings in leases for the IT disaster recovery site which is being charged through indirect allocations, as well as minor building renovations based requests and projects completed during the year.

Equipment, Vehicles & Technology:

For the year ending December 31, 2020, Equipment, Vehicles & Technology costs were below the approved budget by \$345,535, which represents 5.0% of the total equipment, vehicles & technology budget. This favorable variance is mainly the result of savings in fuel costs due to lower than budgeted fuel rates throughout the year.

Revenues & Recoveries:

For the year ending December 31, 2020, Revenues & Recoveries were below the approved budget by \$3,917,632, which represents 20.0% of the total revenues and recoveries budget. This unfavorable variance is the result of a shortfall of third party revenue received from the City of Niagara Falls due to the Casino closures as well as reductions in fees for service, special duty and secondment revenues as a result of closures and/or event cancellations imposed by the COVID-19 emergency orders.

Transfers to/from Reserves:

For the year ending December 31, 2020, staff are recommending two unbudgeted transfers from reserve funds as illustrated in the table below. These transfers have been reviewed and approved by the Region's Treasurer. Further, these reserve transfers have been included in the financial results reported above.

	Amount
OPVTA Reserve	2,250
Accumulated Sick Leave	69,084
Total	\$ 71,334

OPVTA Reserve Fund:

Staff recommend a transfer of \$2,250 from the reserve fund to offset a slight expenditure deficit from OPVTA operations. The deficit is the result of lost revenue from lower than budgeted membership levels during the year.

Accumulated Sick Leave Reserve Fund:

Staff recommend a transfer of \$69,084 from the reserve fund to offset the greater than budgeted payouts experienced in the 2020 fiscal year. The Accumulated Sick Leave reserve fund is used to partially fund the liability set aside to pay-out the unused sick leave for members in the accumulated sick leave program which was grandfathered starting in 1990.

Police Service Board Contingency Reserve Fund:

Service staff recommended to transfer \$100,000 of the \$284,489 year-end surplus to the PSB Contingency Reserve Fund to mitigate known outstanding legal matters; however, this recommendation was not supported by the Region's Treasurer.

In accordance with the Region's Reserve Policy C-F-013, "*ABC's must first consult with Niagara Region's Treasurer to gain agreement on the recommendations for reserve transactions outside of the approved budget.*" Further, the Region Treasurer explained using the PSB surplus to offset the Services deficit, as opposed to a transfer to the PSB Contingency Reserve, would reduce the burden of the Service deficit \$531,981, due from COVID-19, on the underfunded Taxpayer Relief Reserve fund. The Safe Restart funding will be used to fund any net COVID expenses and any excess funding will be transferred to the Taxpayer Relief Reserve. This Reserve is currently underfunded at only 3.5% of gross operating expenditures when compared to the target levels of a minimum of 10% to a maximum of 15% of gross operating expenditures as set by the Reserve Policy. In comparison, the PSB Contingency fund balance is currently at 21.6% of the gross annual

operating expenses which exceeds the Reserve Policy target. The Region Treasurer further explained the transfer of the Board surplus to the PSB Contingency Reserve would increase the combined deficit of the Service and Board, which would require additional funding from the Region's Taxpayer Relief Reserve to offset the impact of COVID-19; this recommendation was made despite the risk to the Board to cover all future legal costs resulting from arbitrations and legal indemnification matters.

As a result of these factors, the Service has not included an additional recommended reserve transfer of \$100,000 to the PSB Contingency Reserve.

Appendix 3 summarizes the Service's year-end reserve funds as at December 31, 2020.

Conclusion:

The detailed variance analysis has been prepared based on results of operations at December 31, 2020. The Services year-end deficit of \$283,492 represents 0.2% of the total budget. This deficit includes incremental COVID-19 related costs of \$3.5M which were predominantly offset through savings from mitigation strategies and normal operations.

Alternatives Reviewed

The alternative is to not approve the transfers from reserves, which will increase the deficit of the Service or to further request a transfer to the PSB Contingency reserve against the recommendation of the Region's Treasurer.

Relationship to Police Service/Board Strategic Priorities

To ensure compliance to the Financial Reporting, Control and Procurement of Goods and Services in the Niagara Regional Police Service By-Law 384-2019.

Relevant Policy Considerations

- Section 289 of the Municipal Act requires municipalities to prepare a balanced budget that includes all of the expenditures and revenues for the taxation year.
- Niagara Region Policy- C-F-013 Reserve and Reserve Funds Policy.

Other Pertinent Reports

- Minute No. 91/2020 - NRPS Financial Variance Overview – Year Ending March 31, 2020

- Minute No. 151/2020 - NRPS Financial Variance Overview – Year Ending June 30, 2020
- 2020/11/26 Public 7.6 - NRPS Financial Variance Overview – Year Ending September 30, 2020

This report was prepared by Courtney Woods, Financial Analyst, in consultation with Laura Rullo, Manager, Finance, reviewed by Richard Frayne, Superintendent Corporate Services and recommended by Bill Fordy, Deputy Chief of Police, Support Services.



Submitted by:

Bryan MacCulloch, M.O.M. #5835
Chief of Police

Appendices

- Appendix 1 Niagara Regional Police Service and Board Year End Variance Summary
- Appendix 2 Financial Impact of COVID-19 ending December 31, 2020
- Appendix 3 Niagara Regional Police Service and Board 2020 Year End Reserves Schedule

Niagara Regional Police Service and Board
Appendix 1: 2020 Operating Statement of Revenue and Expenses

	2019 Actual	2020 Actual	2020 Budget	Variance Surplus/(Deficit)	Variance %
Gross Expenditures					
Compensation	150,262,861	154,297,907	157,060,043	2,762,136	1.8%
Administrative	3,825,672	3,540,769	4,220,076	679,307	16.1%
Operational & Supply	2,476,288	2,622,415	2,276,880	(345,535)	-15.2%
Occupancy & Infrastructure	311,149	266,688	360,720	94,032	26.1%
Equipment, Vehicles & Technology	6,199,488	6,658,565	7,010,762	352,196	5.0%
Financial Expenditures	6,118	5,697	1,000	(4,697)	-469.7%
Intercompany Charges	145,905	152,166	177,533	25,367	14.3%
Transfers To/From Reserve Funds	3,491,918	2,828,666	2,900,000	71,334	2.5%
Total - Gross Expenditures	166,719,399	170,372,874	174,007,013	3,634,140	2.1%
Revenues					
Provincial Grants	(9,651,756)	(9,641,503)	(9,736,790)	(95,286)	1.0%
Fees for Service	(6,456,194)	(2,176,514)	(6,068,250)	(3,891,736)	64.1%
Other Revenues	(2,328,766)	(2,241,415)	(2,185,763)	55,652	-2.6%
Recoveries	(1,568,469)	(1,571,729)	(1,557,991)	13,738	-0.9%
Total - Revenues & Recoveries	(20,005,186)	(15,631,161)	(19,548,794)	(3,917,632)	20.0%
Net Expenditures Before Indirect Allocations	\$ 146,714,213	\$ 154,741,713	\$ 154,458,220	\$ (283,492)	-0.2%

Appendix 2: COVID-19 Pandemic Financial Impact for Period Ending December 31, 2020

	Expenses as of Date	Actual
Direct Costs Supported by Approved Operating Budget		
1. Permanent Members on Administrative Leave	Dec 26	1,165,282
2. Members on Rotating Shifts	Dec 26	127,331
Associated Benefit Costs	Dec 26	258,523
Direct Costs Supported by Approved Operating Budget		1,551,136
Incremental Direct Costs related to COVID-19		
3. Personnel Costs Specific to COVID-19 Activities	Dec 26	310,392
4. Other Supply Costs	Dec 31	357,628
5. Lost Revenue	Dec 31	3,972,225
Total - Incremental Direct Costs related to COVID-19		4,640,246
6. Savings Related to COVID-19	Dec 31	(1,141,514)
Total Gross Costs related to COVID-19		5,049,868
Less Direct Costs Supported by Approved Operating Budget		(1,551,136)
Net Incremental Costs related to COVID-19		3,498,732

1. Permanent member on administrative leave due to COVID-19 restrictions where possible these members are working from home and are only replaced when operationally essential.
2. Positions identified where working from home is not possible and rotating shifts were implemented to support COVID-19 restrictions.
3. Temporary member salaries incurred due to self isolation from travel/contact during initial onset of pandemic. Overtime costs incurred to implement initial phase of pandemic and overtime to cover staff off due to isolation or symptomatic.
4. Includes the purchase of additional and alternative infection control supplies, personal protective equipment and other costs resulting from implementation of COVID-19 measures
5. Anticipated loss of third party revenues; including \$3.2M from City of Niagara Falls OLG Transfer Payments, special duty and fees for services in Records Unit.
6. Savings realized from cancelation of conference/workshop including travel related costs, special duty labor costs and overtime from court attendance

Niagara Regional Police Service and Board
Appendix 3 - Reserve Fund Balance - As at December 31, 2020

Description	Fund 20050 - 20550	Balance at 31-Dec-2019	Trf. From Operation	Trf. To Operation	Trf. To Capital RE2	Report & YE	Balance at 31/12/2020
Accumulated Sick Leave	562	1,679,575	-	(250,000)	-	(69,084)	1,360,491
Vehicles and Equipment Replacement	506	24,044	1,500,000	-	(1,500,000)		24,044
Future Benefit Liabilities	563	4,152,398	-	-	-	-	4,152,398
WSIB	564	3,269,590	200,000	-	-	-	3,469,590
Contingency Reserve	534	454,332	250,000	-	-	-	704,332
Capital Levy	507	561,163	1,200,000	-	(1,504,500)	27,497	284,160
PSB Contingency	535	242,119	-	-	-		242,119
OPTVA Reserve	505	109,297	-	-	-	(2,250)	107,047
TOTAL		10,492,518	3,150,000	(250,000)	(3,004,500)	(43,837)	10,344,181