



STAFF REPORT ACTION REQUIRED

Toronto Police Service – 2015 Operating Budget Adjustments and Operating Budget Variance Report Ending March 2015

Date:	June 26, 2015
To:	Budget Committee, City of Toronto
From:	Andy Pringle, Acting Chair, Toronto Police Services Board

SUMMARY

The purpose of this report is to provide the Budget Committee with the Toronto Police Service 2015 operating budget adjustments and operating budget variance report for the period ending March 31, 2015.

RECOMMENDATION

It is recommended that the Budget Committee:

- (1) approve a budget transfer of \$17,750,900 to the Toronto Police Service's 2015 Council approved operating budget from the City's non-program operating budget, to fund the cost of the 2015 portion of the 2015-2018 negotiated collective agreement for Toronto Police Association members; and
- (2) approve an increase to the 2015 budgeted expense and draw for the Toronto Police Service Legal Liabilities Reserve (Legal Reserve) of up to \$5.0 Million (M) (net zero impact).

FINANCIAL IMPACT

At its February 13, 2015 meeting, the Toronto Police Services Board (Board) approved the Toronto Police Service's (Service) revised budget request of \$952.7 Million (M) (Min. No. P24/15 refers). Toronto City Council, at its March 11, 2015 meeting, approved the Service's 2015 operating budget at the same amount. At the time the Service's budget was approved, the impact from the collective agreement negotiations between Toronto Police Association (TPA) and the Board was not known, and was therefore not included in the budget request.

Impact of Ratified Collective Agreement between the Board and the TPA:

At its meeting on April 16, 2015, the Board approved the ratification of a four year collective agreement (2015-2018) with the TPA. As a result of this agreement, the Service's 2015 approved operating budget requires an increase of \$17.8M.

City Finance staff have confirmed that funding has been set aside in the City's non-program budget to cover the cost of the negotiated contract settlement for TPA members. The \$17.8M estimated cost impact in 2015 for the collective agreement is offset by a budget transfer from the City's non-program budget. As a result, there is no net impact on the Service's 2015 overall variance. The City's overall net operating budget is also not impacted.

It should be noted that the Senior Officers Organization (SOO) collective agreement with the Board also expired on December 31, 2014. Any additional funds required in 2015 as a result of a new collective agreement, will be requested once an agreement is ratified.

Increased Draws from Legal Reserve for Higher Legal Indemnification Costs:

The Service is also experiencing higher than expected costs for the legal indemnification of officers. These expenses are funded from the Legal Reserve, and in order to allow for the payment of legal indemnification costs approved by the Board, an estimated \$5M adjustment to the Service's 2015 budget expense and draw from the Legal Reserve is required. This adjustment has a net zero impact on the overall 2015 budget, but allows for increased expenditures as well as an increased draw from the Reserve. While the Service is requesting a \$5M adjustment, we will only draw what is needed in this regard.

There is no impact on the net 2015 operating budget as a result of this adjustment. However, the increased draws from the Legal Reserve will deplete the balance in a Reserve, and could therefore result in an increased budget pressure in 2016 and onwards, if higher contributions to the Reserve are required. The Service will analyse the Reserve and expected draws as part of the 2016 operating budget process, and any additional contributions required will be included in the 2016 operating budget request.

City Insurance Allocation:

The Service has recently been notified by City Finance staff of a further \$1.4M allocation from the Insurance Reserve Fund to the Service's 2015 operating budget. As a result of the reallocation, the Service budget has been restated upwards by \$1.4M. However, this change does not result in additional available funds to the Service, as there will be a corresponding charge from the City related to the Service's contribution to the insurance reserve.

Overall Budget Impact from the Foregoing Adjustments:

As a result of the foregoing adjustments, the Service's gross and net operating budgets are increased to \$1,109.6M and \$971.8M, respectively.

ISSUE BACKGROUND

At its meeting on May 14, 2015, the Board was in receipt of a report dated April 29, 2015 from Chief of Police Mark Saunders with regard to the Service's 2015 operating budget adjustments and operating budget variance report for the period ending March 31, 2015.

COMMENTS

The Board approved the Chief's report.

CONCLUSION

A copy of the Chief's report is contained in Board Minute No P126/15. A copy of Board Minute No. P126/15, in the form attached as Appendix "A" to this report, is provided for information.

CONTACT

Andy Pringle, Acting Chair
Toronto Police Services Board
Telephone No. 416-808-8080
Fax No. 416-808-8082

SIGNATURE

Andy Pringle
Acting Chair

ATTACHMENT

Appendix A – Board Minute No. P126/15

- cc. Mr. Rob Rossini, Deputy City Manager and Chief Financial Officer
- a: 2015 operating budget adjustments and operating budget variance report for the period ending march 31

APPENDIX "A"

THIS IS AN EXTRACT FROM THE MINUTES OF THE PUBLIC MEETING OF THE TORONTO POLICE SERVICES BOARD HELD ON MAY 14, 2015

#P126. TORONTO POLICE SERVICE – 2015 OPERATING BUDGET ADJUSTMENTS AND OPERATING BUDGET VARIANCE REPORT – FOR THE PERIOD ENDING MARCH 2015

The Board was in receipt of the following report April 29, 2015 from Mark Saunders, Acting Chief of Police:

Subject: 2015 OPERATING BUDGET ADJUSTMENTS AND OPERATING BUDGET
VARIANCE REPORT FOR THE TORONTO POLICE SERVICE – PERIOD
ENDING MARCH 31, 2015

Recommendations:

It is recommended that:

- (1) the Board request the City's Budget Committee to approve a budget transfer of \$17,750,900 to the Service's 2015 Council approved operating budget from the City's non-program operating budget, to fund the cost of the 2015 portion of the 2015-2018 negotiated collective agreement for Toronto Police Association members;
- (2) the Board request that the City's Budget Committee approve an increase to the 2015 budgeted expense and draw for the Toronto Police Service Legal Liabilities Reserve (Legal Reserve) of up to \$5.0 Million (M) (net zero impact);
- (3) the Board approve a revised 2015 Toronto Police Service net operating budget of \$971.8M (\$1,109.6 gross); and
- (4) the Board forward a copy of this report to the City of Toronto's (City) Deputy City Manager and Chief Financial Officer for information and for inclusion in the variance reporting to the City's Budget Committee.

Financial Implications:

At its February 13, 2015 meeting, the Toronto Police Services Board (Board) approved the Toronto Police Service's (Service) revised budget request of \$952.7 Million (M) (Min. No. P24/15 refers). Toronto City Council, at its March 11, 2015 meeting, approved the Service's 2015 operating budget at the same amount. At the time the Service's budget was approved, the impact from the collective agreement negotiations between Toronto Police Association (TPA) and the Board was not known, and was therefore not included in the budget request.

Impact of Ratified Collective Agreement between the Board and the TPA:

At its meeting on April 16, 2015, the Board approved the ratification of a four year collective agreement (2015-2018) with the TPA. As a result of this agreement, the Service's 2015 approved operating budget requires an increase of \$17.8M.

City Finance staff have confirmed that funding has been set aside in the City's non-program budget to cover the cost of the negotiated contract settlement for TPA members. The \$17.8M estimated cost impact in 2015 for the collective agreement is offset by a budget transfer from the City's non-program budget. As a result, there is no net impact on the Service's 2015 overall variance. The City's overall net operating budget is also not impacted.

It should be noted that the Senior Officers Organization (SOO) collective agreement with the Board also expired on December 31, 2014. Any additional funds required in 2015 as a result of a new collective agreement, will be requested once an agreement is ratified.

Increased Draws from Legal Reserve for Higher Legal Indemnification Costs:

The Service is also experiencing higher than expected costs for the legal indemnification of officers. These expenses are funded from the Legal Reserve, and in order to allow for the payment of legal indemnification costs approved by the Board, an estimated \$5M adjustment to the Service's 2015 budget expense and draw from the Legal Reserve is required. This adjustment has a net zero impact on the overall 2015 budget, but allows for increased expenditures as well as an increased draw from the Reserve. While the Service is requesting a \$5M adjustment, we will only draw what is needed in this regard.

There is no impact on the net 2015 operating budget as a result of this adjustment. However, the increased draws from the Legal Reserve will deplete the balance in a Reserve, and could therefore result in an increased budget pressure in 2016 and onwards, if higher contributions to the Reserve are required. The Service will analyse the Reserve and expected draws as part of the 2016 operating budget process, and any additional contributions required will be included in the 2016 operating budget request.

City Insurance Allocation:

The Service has recently been notified by City Finance staff of a further \$1.4M allocation from the Insurance Reserve Fund to the Service's 2015 operating budget. As a result of the reallocation, the Service budget has been restated upwards by \$1.4M. However, this change does not result in additional available funds to the Service, as there will be a corresponding charge from the City related to the Service's contribution to the insurance reserve.

Overall Budget Impact from the Foregoing Adjustments:

As a result of the foregoing adjustments, the Service's gross and net operating budgets are increased to \$1,109.6M and \$971.8M, respectively.

Background/Purpose:

The purpose of this report is to request an increase to the Service's 2015 operating budget to reflect the impact of a new collective agreement between the Board and the TPA, as well as adjustments required for legal indemnifications and insurance allocation, neither of which has a net impact on the Service budget.

The report also provides the Board with the Service's projected year end variance as at March 31, 2015.

Discussion:

As at March 31, 2015, a \$2.2M unfavourable variance is anticipated. Given the significant size of Service's operating budget, many components require several months of lead time and planning before expenditures can be made responsibly. Although the Service budget was approved recently, the Service is still evaluating the plans originally approved as part of the 2015 operating budget to ensure that spending can be made in the most effective and economical way possible.

The following chart summarizes the variance by expenditure and revenue category. Details of each major expenditure category and revenue are discussed in the sections that follow.

Category	2015 Budget (\$Ms)	Actual to Mar 31/15 (\$Ms)	Projected Year- End Actual (\$Ms)	Fav / (Unfav) (\$Ms)
Salaries	\$741.0	\$160.0	\$742.6	(\$1.6)
Premium Pay	\$41.0	\$7.9	\$42.0	(\$1.0)
Benefits	\$198.8	\$47.9	\$198.8	\$0.0
Materials and Equipment	\$23.5	\$12.2	\$23.5	\$0.0
Services	\$105.3	\$22.4	\$105.3	\$0.0
Total Gross	<u>\$1,109.6</u>	<u>\$250.4</u>	<u>\$1,112.2</u>	<u>(\$2.6)</u>
Revenue	(\$137.8)	(\$15.4)	(\$138.2)	\$0.4
Total Net	<u>\$971.8</u>	<u>\$235.0</u>	<u>\$974.0</u>	<u>(\$2.2)</u>

It is important to note that expenditures do not all follow a linear pattern and therefore year-to-date expenditures cannot be simply extrapolated to year-end. Rather, the projection of expenditures to year-end is done through an analysis of all accounts, taking into consideration factors such as expenditures to date, future commitments expected and spending patterns. In addition, the Service receives significant amounts of in year grant funding and the revenue and expense budgets are adjusted when receipt of funds is confirmed.

Salaries:

An unfavourable variance of \$1.6M is projected in the salary category.

Expenditure Category	2015 Budget (\$Ms)	Actual to Mar 31/15 (\$Ms)	Projected Year- End Actual (\$Ms)	Fav / (Unfav) (\$Ms)
Uniform Salaries	\$563.1	\$123.0	\$565.7	(\$2.6)
Civilian Salaries	\$177.9	\$37.0	\$176.9	\$1.0
Total Salaries	\$741.0	\$160.0	\$742.6	(\$1.6)

As a result of lower than anticipated separations at the end of 2014, uniform staffing levels at year-end 2014 were higher than what had been assumed at the time of Board 2015 budget approval which resulted in continuing annualized salary costs. In addition, actual separations to the end of March 2015 are less than had been estimated. At this time, the Service is projecting 150 separations for the year, compared to the 180 included in the 2015 budget. The Service reduced the size of the April 2015 class to compensate for the higher year-end staffing levels and is currently re-evaluating future recruit class sizes to take into account the projected reduced separations during 2015. Actual separations are monitored monthly and will continue to be reported in future variance reports.

Civilian salaries are projecting favourably as the Service attempts to fill newly created positions resulting from previously approved civilianization initiatives. Due to the critical nature of these positions, the Service has been utilizing premium pay to backfill many of these vacancies.

Premium Pay:

An unfavourable variance \$1.0M is projected in the premium pay category.

Expenditure Category	2015 Budget (\$Ms)	Actual to Mar 31/15 (\$Ms)	Projected Year- End Actual (\$Ms)	Fav / (Unfav) (\$Ms)
Court	\$11.4	\$2.2	\$11.4	\$0.0
Overtime	\$6.5	\$1.2	\$6.7	(\$0.2)
Callback	\$4.7	\$1.3	\$5.1	(\$0.4)
Lieutime Cash Payment	\$18.4	\$3.2	\$18.8	(\$0.4)
Total Premium Pay	\$41.0	\$7.9	\$42.0	(\$1.0)

Additional premium pay is incurred as units address critical workload issues resulting from a significant number of civilian staff vacancies across the Service. Civilian overtime and callbacks are authorized where required to ensure deadlines are met, to maintain service levels and workload that must be addressed, and to ensure risk is mitigated and additional hard dollar costs are avoided. As vacancies are filled, the Service will place less reliance on premium pay, where possible. At this time, the projected premium pay variance has been offset by a corresponding savings in civilian salaries.

The Service continues to strictly monitor and control premium pay. Uniform overtime is authorized by supervisory personnel based on activities for protection of life (i.e., where persons are at risk), protection of property, processing of arrested persons, priority calls for service (i.e.,

where it would be inappropriate to wait for the relieving shift), and case preparation (where overtime is required to ensure court documentation is completed within required time limits). It must be noted that premium pay is subject to the exigencies of policing and uncontrollable events can have an impact on expenditures.

Benefits:

A net zero variance is projected in this category.

Expenditure Category	2015 Budget (\$Ms)	Actual to Mar 31/15 (\$Ms)	Projected Year- End Actual (\$Ms)	Fav / (Unfav) (\$Ms)
Medical / Dental	\$39.5	\$7.0	\$39.5	\$0.0
OMERS / CPP / EI / EHT	\$127.7	\$33.9	\$127.7	\$0.0
Sick Pay / CSB / LTD	\$18.1	\$4.7	\$18.1	\$0.0
Other (e.g., WSIB, life ins.)	<u>\$13.5</u>	<u>\$2.3</u>	<u>\$13.5</u>	<u>\$0.0</u>
Total Benefits	<u>\$198.8</u>	<u>\$47.9</u>	<u>\$198.8</u>	<u>\$0.0</u>

Medical/Dental costs are currently shown to be on budget at year-end. However, it is important to note that medical benefit claims are significantly higher in the first three months of 2015, as compared to the same period in 2014. If this trend continues, the Service will have to deal with a significant budget pressure. Service staff are currently monitoring and analysing this account, and will update the Board in the next variance report.

Materials and Equipment:

A net zero variance is projected in this category.

Expenditure Category	2015 Budget (\$Ms)	Actual to Mar 31/15 (\$Ms)	Projected Year- End Actual (\$Ms)	Fav / (Unfav) (\$Ms)
Vehicles (gas, parts)	\$10.8	\$4.3	\$10.8	\$0.0
Uniforms	\$3.8	\$3.6	\$3.8	\$0.0
Other Materials	\$5.1	\$2.5	\$5.1	\$0.0
Other Equipment	<u>\$3.8</u>	<u>\$1.8</u>	<u>\$3.8</u>	<u>\$0.0</u>
Total Materials & Equipment*	<u>\$23.5</u>	<u>\$12.2</u>	<u>\$23.5</u>	<u>\$0.0</u>

* Approx. \$0.5M is attributed to grant-funded expenditures (revenue budget has been increased by same amount)

The Service obtains gasoline through consolidated procurement with the City. The budget for gasoline is based on estimated consumption and a cost per litre as provided by City Finance. The estimated price per litre was lowered from \$1.20 to \$0.95 as a result of the recent decline in gas prices. At this time, no variance from budget is projected. Since gas prices can fluctuate significantly, this account will continue to be monitored closely.

Services:

A net zero variance is projected in this category.

Expenditure Category	2015 Budget (\$Ms)	Actual to Mar 31/15 (\$Ms)	Projected Year- End Actual (\$Ms)	Fav / (Unfav) (\$Ms)
Legal Indemnification	\$5.1	\$1.0	\$5.1	\$0.0
Uniform Cleaning Contract	\$1.3	\$1.2	\$1.3	\$0.0
Courses / Conferences	\$1.7	\$0.2	\$1.7	\$0.0
Clothing Reimbursement	\$1.5	\$0.0	\$1.5	\$0.0
Computer / Systems Maintenance	\$15.4	\$10.8	\$15.4	\$0.0
Phones / cell phones / 911	\$5.4	\$1.1	\$5.4	\$0.0
Reserve contribution	\$38.0	\$0.0	\$38.0	\$0.0
Caretaking / maintenance utilities	\$19.6	\$0.0	\$19.6	\$0.0
Other Services	<u>\$17.3</u>	<u>\$8.1</u>	<u>\$17.3</u>	<u>\$0.0</u>
Total Services*	<u>\$105.3</u>	<u>\$22.4</u>	<u>\$105.3</u>	<u>\$0.0</u>

* Approx. \$0.2M is attributed to grant-funded expenditures (revenue budget has been increased by same amount)

The Service has limited control over the costs of legal indemnifications as these expenses are the result of defence costs for officers involved in criminal or civil proceedings, the outcomes of which cannot be predicted. In order to deal with this uncertainty, the 2015 approved budget includes a \$580,000 contribution to a Legal Reserve and a \$742,100 draw for costs of independent legal services. Fluctuations in legal spending will be dealt with by increasing or decreasing the budgeted reserve contribution in future years' operating budgets.

In any given year, costs can be significantly more than budgeted. The method for dealing with an in-year cost pressure is to draw a larger amount from the Reserve. However, the Service cannot exceed budget when drawing from reserves without Council approval. As a result, in order to ensure adequate funding, the Service is requesting that Council approve (through the Budget Committee) an increase to the legal expense and draw budget by \$5.0M, resulting in a net zero change. This increase will be utilized only to the amount required based on expenditures submitted to and approved by the Board for payment. There is sufficient funding in the reserve to accommodate this request. However, should these trends continue, the Service may be required to increase its contribution to the legal reserve in future budget submissions.

Revenue:

A favourable variance of \$0.4M is projected in this category.

Revenue Category	2015 Budget (\$Ms)	Actual to Mar 31/15 (\$Ms)	Projected Year- End Actual (\$Ms)	Fav / (Unfav) (\$Ms)
Recoveries from City	(\$18.4)	(\$0.6)	(\$18.4)	\$0.0
CPP and Safer Comm'y grants	(\$15.2)	\$0.0	(\$15.6)	\$0.4
Other Gov't grants	(\$30.8)	(\$6.5)	(\$30.8)	\$0.0
Fees (e.g., paid duty, alarms, ref.)	(\$12.2)	(\$2.3)	(\$12.2)	\$0.0
Secondments	(\$2.6)	(\$0.6)	(\$2.6)	\$0.0
Draws from Reserves	(\$24.2)	\$0.0	(\$24.2)	\$0.0
Other Revenues (e.g., pris return)	(\$9.7)	(\$1.4)	(\$9.7)	\$0.0
Paid Duty - Officer Portion	(\$24.7)	(\$4.0)	(\$24.7)	\$0.0
Total Revenues	(\$137.8)	(\$15.4)	(\$138.2)	\$0.4

The Community Policing Partnership (CPP) and Safer Community grants are tied to staffing levels. As a result of the lower than anticipated attrition described above, the Service is projecting a small favourable variance from the Safer Community Grants.

Conclusion:

As at March 31, 2015, the Service is projecting an unfavourable variance of \$2.2M. This projection is based on an analysis of expenditures incurred during the first quarter of 2015, as well as a projection of lower than anticipated uniform separations in 2015. Monitoring and management of operating funds remains a top priority for the Service, and given the budget was only recently approved, there is still an opportunity to review initial plans and take the necessary action to make up for the deficit projected at this time. This action could include reducing the August 2015 class by 30 recruits to help alleviate the budget pressure. The Board will be kept apprised through future variance reports.

Mr. Tony Veneziano, Chief Administrative Officer, Corporate Services Command will be in attendance to answer any questions from the Board.

The Board approved the foregoing report.

Moved by: S. Carroll