




HAMILTON POLICE SERVICE

INFORMATION REPORT

TO:	Chair and Members Hamilton Police Services Board
BOARD MEETING DATE:	June 22, 2023
SUBJECT:	2022 Year-End Financial Report - <i>Preliminary</i>
REPORT NUMBER:	23-056
SUBMITTED BY:	Frank Bergen, Chief of Police
SIGNATURE:	

EXECUTIVE SUMMARY

- The Hamilton Police Service (HPS) has completed its 2022 year-end process
- The City of Hamilton's (City) external auditors, KPMG, have not yet concluded their year-end audit activities, however, no issues/misstatements have been identified with respect to the HPS
- For the year ending December 31, 2022, HPS has a favourable year-end variance (surplus) of \$1,020,546 or 0.56% below the 2022 approved net budget
- The main drivers of the surplus are the renewal of Community Safety & Policing (CSP) grant, other unbudgeted revenues, cost recovery for COVID-19 and the Freedom Convoy protest and successful cost controls within non-compensation operating expenditures

INFORMATION

The purpose of this report is to provide the Hamilton Police Service Board (Board) with analysis of the 2022 year-end financial results and report on variances between actual results and the approved budget. Appendix A provides the 2022 year-end budget variance report for HPS.

Based on the unaudited financials as at December 31, 2022 and subject to the final financial audit, HPS ended the fiscal year with a positive variance of approximately \$1.02M, 0.56% of the total combined net budget. The positive variance of \$1.02M was transferred to the HPS Tax Stabilization Reserve in accordance with the Operating Budget Surplus/Deficit Policy. The 2022 Reserve Continuity Schedule for the HPS reserves is shown in Appendix B.

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The sections below provide detailed explanations of the key drivers of the budgeted surplus.

Revenues

For the year ended December 31, 2022, actual revenues were above the approved budget by \$1.72M, representing a positive 14.17% variance to the full year revenue budget.

Revenues	Budget	Actual	(Over)/Under	% Spent
Grants and subsidies	\$ 8,517,817	\$ 10,947,746	\$ (2,429,929)	128.53%
Fees and general	2,495,247	2,660,986	(165,739)	106.64%
Reserves/capital recoveries	1,119,157	242,290	876,867	21.65%
Total Revenues	\$ 2,132,221	\$ 13,851,022	\$ (1,718,801)	114.17%

Grants and Subsidies

Grants and subsidies exceeded budgeted amounts by \$2.43M. This is mainly due to provincial grant receipts being \$0.76M above budget as a result of CSP renewal for years 2022 through to 2025. In addition, HPS was awarded unbudgeted grants throughout the year, such as the Provincial Human Trafficking Intelligence-Led Joint Forces Strategy, Mobile Crisis Rapid Response Team Enhancement and Victim Support Grant (VSG). The Provincial Guns & Gangs Joint Task Force and the Weapons Enforcement Joint Task Force contributed to the increase in grants and subsidies as well. This additional secondment revenue funds the salaries and benefits of the two Detective Constable positions. The unbudgeted grants/secondments account for an increase of \$0.61M.

Furthermore, HPS recovered costs associated with the Freedom Convoy protest, COVID-19 and Digital Evidence Management (DEM) Program. A total of \$0.16M represents a subsidy reimbursement for DEMs licensing. HPS received \$0.15M of COVID-19 Relief funding through the joint federal-provincial Safe Restart program through the City. This funding offsets the outlay of expenses as a direct result of the COVID-19 pandemic during the 2022 fiscal year. In 2022, HPS recovered \$0.74M in costs associated with the response to the Freedom Convoy protest that took place during the month of February.

Fees and General

Fees and general revenues were over budget by \$0.17M mainly due to higher volume of Paid Duty events, higher false alarm calls and miscellaneous revenue due to cost recovery from outside agencies for program expenses incurred.

Reserves/Capital Recoveries

Due to the overall net surplus, the interfund contributions from HPS reserves were not required to fund overall budgetary pressures for 2022 and, as a result, remained in the respective HPS reserve accounts. This resulted in the interfund contributions being less than budgeted by \$0.88M.

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Expenditures

Compensation Expenditures

Expenses	Budget	Actual	(Over)/Under	% Spent
Employee related costs	\$ 172,944,044	\$ 173,028,942	\$ (84,897)	100.05%

For the year ended December 31, 2022, employee related cost exceeded the approved budget by \$0.08M which represents an unfavourable 0.05% variance to the overall approved employee related costs budget. The following items are the major drivers of the employee related costs section:

- Overtime and part-time wages are over budget by \$2.77M and \$1.94M, respectively. The majority of the overtime increases are in patrol divisions. Members that have resigned/retired, are on maternity/parental leave, Workplace Safety and Insurance Board (WSIB) or Long-Term Disability (LTD) are replaced by part-time members for civilian, and overtime is incurred for sworn. Part of the overtime increase was driven by overtime required to support other police service agencies during the Freedom Convoy protest. The overtime costs associated with the Freedom Convoy have been recovered. The offsetting revenue is in the grants and subsidies revenue section mentioned previously.
- Vacation and accumulated sick leave payouts are over budget by \$1.13M. This is primarily due to higher eligible retired/resigned members' lump sum payments. Vacation and sick leave payout benefits are an entitlement under the Collective Agreement (CA). These payouts fluctuate each year which are not only based on the number of retirements/resignations, but also on the members' accumulated sick bank balances and earned/taken vacation entitlements as negotiated in their respective CAs.
- Member benefits are over budget by \$0.50M primarily due to actual discretionary medical and dental benefits costs being higher than budgeted rates. Higher pay in lieu of benefits for part-time members had also a factor.
- Unfavourable variances were offset by savings in salaries and OMERS costs. Salaries and OMERS cost were \$6.06M below budget due to regular salary savings resulting from uniform and civilian staffing vacancies during the year. This favourable variance is directly related to the number of new hires, retirements, resignations and vacancies each year, which vary and can be challenging to forecast from year to year. The timing of hires and separations can also significantly impact overall expenditures.
- HPS also realized a \$0.12M favourable variance in training due to lower expenditures on meeting and training conference expenses.

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Non-Compensation Expenditures

Expenses	Budget	Actual	(Over)/Under	% Spent
Materials and supplies	\$ 6,038,422	\$ 5,227,921	\$ 810,501	86.58%
Vehicle expenses	2,187,000	2,322,210	(135,210)	106.18%
Buildings and grounds	3,182,309	2,993,437	188,872	94.06%
Consulting expenses	122,600	49,896	72,704	40.70%
Contractual expenses	1,083,975	1,873,377	(789,402)	172.82%
Agencies and support payments	42,300	15,000	27,300	35.46%
Reserve/recoveries	5,764,976	5,756,330	8,646	99.85%
Cost allocation	1,162,901	1,160,377	2,524	99.78%
Capital financing	2,616,433	2,616,433	-	100.00%
Financial/legal charges	529,800	1,329,094	(799,294)	250.87%
Total Expenses	\$ 22,730,716	\$ 23,344,074	\$ (613,358)	102.70%
Less: Community initiative expenditures		(823,109)		
Total HPS Expenses	\$ 22,730,716	\$ 22,520,965	\$ 209,751	99.08%

Total non-compensation expenditures exceeded the approved budget by \$0.61M, representing an unfavourable variance of 2.70% to the overall approved non-compensation expenditures budget. However, the primary driver of this variance is directly related to expenditures arising from the receipt of unbudgeted grant revenue (CSP and VSG). These grants allowed HPS to collaborate with outside community partners. Costs associated with these grants are captured under contractual expenses and amounted to approximately \$0.82M for the year. After considering community initiative expenditures, total HPS related non-compensation expenditures were \$22.52M, resulting in a \$0.21M favourable variance compared to the approved budget.

Concerted efforts to control other non-compensation expenditures resulted in several favourable budget variances including the following:

Materials and Supplies

The favourable variance, which is net of unbudgeted/unforeseen COVID-19 pandemic costs, is mainly due to unspent budget funds in ammunition, Part VI monitoring (investigative operational expenses), computer software support and lower radio repairs and maintenance required due to HPS deploying new Personal Issued Portable Radios.

Building and Grounds

The favourable variance is the result of less than anticipated charges in utilities (ie. heat, hydro, water, sewer) and horticultural services. Higher than anticipated charges for dry

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cleaning services and telephone charges offset some of the favourable variance resulting in an overall net favourable variance of \$0.19M.

Consulting Expenses

Savings were realized due to less than anticipated costs associated with:

- outside consulting fees, and
- 2023-2026 HPS Strategic Plan process

Agencies and Support Payments

The favourable variance is due to monies not being requested from HPS Ceremonial Units and Hamilton Community Foundation.

Reserves/Recoveries

There is a slight savings due to less than anticipated postage/courier charges.

Cost Allocation

A slight savings was realized in the cost allocation section. This section consists of costs associated with the City's services chargeback for payroll, accounts payable/receivable, purchasing, accounting services etc.

Despite efforts to manage non-compensation costs across the Service, unfavourable budget variances were realized in a few categories:

Vehicle Expenses

The unfavourable variance of \$0.14M is primarily due to the negative impact of rising fuel prices. The 2022 budget rate was set at \$1.10/liter as recommended by the City.

Financial/Legal Charges

Financial and legal charges arise from costs relating to discipline hearings, coroner's inquests, human rights and arbitrations, WSIB appeals, harassment investigations, legal indemnification (ie. Special Investigations Unit related matters) and arbitration services on grievances and mediations. These expenditures vary based on the number of matters adjudicated in a given year. As a result, HPS realized an unfavourable variance of \$0.80M in this category.

Capital Financing

The annual debt repayment of the Investigative Service Division (ISD) facility is budgeted in the capital financing section. The annual principal and interest repayments are forecasted

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at approximately \$1.15M a year, net of development charges revenue, over a 15-year term. HPS began budgeting for the repayment requirements in its 2020 fiscal year. To date, no issuance of debt for the ISD facility has occurred. Prior to the 2022 year-end close, HPS requested the City's Corporate Finance Department transfer the 2022 HPS capital financing surplus to an HPS reserve and restrict its use to future annual debt repayments once the debt is issued. No such transfer was completed or granted. Instead, the HPS capital financing surplus was retained by the City, resulting in a zero budget variance for HPS. The City reported an overall positive variance of \$10.7M in capital financing to Council through the City's 2022 year-end variance report, FCS22042(b). The disposition of the City's surplus was also detailed in this report. By retaining and allocating the HPS capital financing surplus for a purpose other than repayment of the ISD future debt, HPS is set to realize a negative budget impact on future net levy requirements. This financial issue may repeat itself in fiscal 2023 if the ISD debt is not issued this year either.

Conclusion

The detailed variance analysis has been prepared based on operating results for the year ended December 31, 2022. HPS experienced a net surplus of \$1.02M, as summarized in Appendix A, which was transferred to the HPS Tax Stabilization Reserve. These numbers are preliminary and are subject to change until the audit is fully completed. Once the City's external auditors, KPMG, complete the audit and issue the City's consolidated financial statements, a final report will be presented to the Board.

APPENDICES AND SCHEDULES ATTACHED

Appendix A – 2022 Year-End Budget Variance Report

Appendix B – HPS Summary of Reserve Balances as at December 31, 2022

FB/S.Dzaferi

cc: Frank Bergen, Chief of Police
Ryan Diodati, Deputy Chief of Operations
Paul Hamilton Deputy Chief of Support
Sanela Dzaferi, Director of Finance

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