




HAMILTON POLICE SERVICE

INFORMATION REPORT

TO:	Chair and Members Hamilton Police Service Board
BOARD MEETING DATE:	June 27, 2024
SUBJECT:	2023 Year-End Financial Report - <i>Preliminary</i>
REPORT NUMBER:	24-054
SUBMITTED BY:	Frank Bergen, Chief of Police
SIGNATURE:	

EXECUTIVE SUMMARY

- The Hamilton Police Service (HPS) has completed its 2023 year-end process
- The City of Hamilton's (City) external auditors, KPMG, have not yet concluded their year-end audit activities
- For the year ending December 31, 2023, the HPS has a favourable year-end variance (surplus) of \$2,840,220 or 1.47% below the 2023 approved net budget
- The main contributors of the surplus are unbudgeted revenues, an overall savings to compensation expenditures due to a lag in recruitment, and savings experienced in budgeted fuel rate and vehicle maintenance

INFORMATION

The purpose of this report is to provide the Hamilton Police Service Board (Board) with analysis of the 2023 year-end financial results and report on variances between actual results and the approved budget. Appendix A provides the 2023 year-end budget variance report for the HPS.

Based on the *unaudited financials* as at December 31, 2023, and subject to the final financial audit, the HPS ended the fiscal year with a positive variance of \$2.84M or 1.47% of the total combined net budget. The positive variance of \$2.84M was transferred to the HPS Tax Stabilization Reserve, consistent with the Operating Budget Surplus/Deficit Policy. The 2023 Reserve Continuity Schedule for the HPS reserves is shown in Appendix B.

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

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Revenues

For the year ended December 31, 2023, actual revenues were above the approved budget by \$0.97M, representing a positive 7.67% variance to the full year revenue budget.

Revenues	Budget	Actual	(Over)/Under	% Spent
Grants and subsidies	\$ 8,681,120	\$ 9,888,510	\$ (1,207,390)	113.91%
Fees and general	2,527,247	3,362,453	(835,206)	133.05%
Reserves/capital recoveries	1,376,867	300,000	1,076,867	21.79%
Total Revenues	\$12,585,234	\$ 13,550,963	\$ (965,729)	107.67%

Grants and Subsidies

Grants and subsidies exceeded budgeted amounts by \$1.21M, mainly due to awarded unbudgeted provincial grants throughout the year. This includes the Provincial Human Trafficking Intelligence-Led Joint Forces Strategy, Strategy to End Human Trafficking, Proceeds of Crime and Victim Support Grant (VSG). Secondment agreements with the Golden Horseshoe Combined Forces Special Enforcement Unit and the Weapons Enforcement Joint Task Force contributed to the increase in grants and subsidies as well. This revenue funds salaries and benefits of the Sworn Officers seconded to these initiatives.

Furthermore, the HPS recovered costs for several special investigative service projects, which also contributed to the favourable revenue variance. These cost recoveries offset the outlay of operating expenditures associated with the special investigative projects.

Fees and General

Fees and general revenues were over budget by \$0.84M mainly due to higher volume of Paid Duty events, the Grey Cup event, higher than budgeted fees collected for false alarm calls and miscellaneous revenue due to cost recoveries from HPS deployment to Ottawa and other outside agencies for program expenses incurred by HPS.

Reserves/Capital Recoveries

Due to the overall net surplus, the interfund contributions from HPS reserves were not required to fund budgetary pressures for 2023 and, as a result, remained in the respective HPS reserve accounts. This resulted in the interfund contributions being less than budgeted by \$1.08M.

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Expenditures

Compensation Expenditures

Expenses	Budget	Actual	(Over)/Under	% Spent
Employee related costs	\$ 181,372,612	\$ 179,074,470	\$ 2,298,142	98.73%

For the year ended December 31, 2023, employee related costs were below the approved budget by \$2.30M, which represents a favourable 1.27% variance to the overall approved employee related costs budget. The following items are the key drivers of the surplus relating to employee related costs section:

- Favourable variances were realized in salaries, OMERS and statutory benefits (ie. EHT, CPP and EI). Salaries, OMERS and statutory benefits cost were \$7.95M below budget due to uniform and civilian staffing vacancies, Ontario Police College seat limitations, and the lengthy lag time required to fill permanent positions due to fundamental market supply and demand challenges. This favourable variance is directly related to a number of new hires, retirements, resignations, various leaves (ie. maternity/paternity) and vacancies each year. These vary and can be challenging to forecast from year to year. The timing of new hires and separations can also significantly impact overall expenditures.

The overall favourable variance in employee related costs includes unfavourable variances in certain categories, such as overtime, part-time wages, vacation payout and employer benefits. These variances can be summarized as follows:

- Overtime and part-time wages are over budget by \$2.11M and \$2.56M, respectively. The majority of the overtime increases are in patrol divisions. Members that leave the Service (ie. resigned or retired) or are off on various leaves of absences (ie. maternity/parental leave, Workplace Safety and Insurance Board (WSIB) or Long-Term Disability (LTD)) are replaced with part-time members for civilian positions and overtime is incurred to fill sworn vacancies. Part of the overtime costs are driven by overtime required to support unbudgeted deployments to support other police services or respond to major events in the City, such as a deployment to Ottawa in early 2023 and involvement in the Grey Cup event. The overtime costs associated with the Ottawa deployment and Grey Cup event were recovered. The offsetting revenue is in the fees and general revenue section mentioned previously.
- Vacation payouts are over budget by \$0.60M. This is primarily due to higher eligible retired/resigned members' lump sum payments. Vacation benefit is 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' earned/taken vacation entitlements as negotiated in their respective CAs.

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- Member benefits are over budget by \$0.42M primarily due to actual discretionary medical and dental benefits costs being higher than budgeted levels. Higher pay in lieu of benefits to part-time members also contributed to this variance and is correlated to the higher than budgeted part-time wages.

Non-Compensation Expenditures

Expenses	Budget	Actual	(Over)/Under	% Spent
Materials and supplies	\$ 6,337,899	\$ 6,192,165	\$ 145,734	97.70%
Vehicle expenses	2,699,000	2,097,529	601,471	77.72%
Buildings and grounds	3,164,645	3,265,233	(100,588)	103.18%
Consulting expenses	81,100	51,355	29,745	63.32%
Contractual expenses	1,595,696	1,781,645	(185,949)	111.65%
Agencies and support payments	42,300	36,300	6,000	85.82%
Reserve/recoveries	5,675,103	5,656,421	18,682	99.67%
Cost allocation	1,174,982	1,177,847	(2,864)	100.243%
Capital financing	3,336,306	3,336,306	-	100.00%
Financial/legal charges	701,598	1,637,480	(935,882)	233.39%
Total Expenses	\$ 24,808,629	\$ 25,232,281	\$ (423,651)	101.71%
Less: Community initiative expenditures		(729,215)		
Total HPS Expenses	\$ 24,808,629	\$ 24,503,066	\$ 305,563	98.77%

Total non-compensation expenditures exceeded the approved budget by \$0.42M, representing an unfavourable variance of 1.71% to the overall approved non-compensation expenditures budget. Actual non-compensation expenditures capture costs associated with certain community initiative grants (Community Safety & Policing and VSG Grants) that allowed HPS to collaborate with outside community partners. Costs associated with these grants are captured under contractual expenses and amounted to approximately \$0.73M for the year. After considering actual expenditures for community partner initiative, total HPS non-compensation expenditures were \$24.50M, resulting in a \$0.31M 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 is mainly due to unspent budget funds in Part VI monitoring (investigative operational expenses) and computer software support.

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Vehicle Expenses

The favourable variance of \$0.60M is primarily due to fuel rate savings experienced between the budgeted fuel rate of \$1.60/liter and the average actual fuel price for January to December 2023 of \$1.33/liter.

Consulting Expenses

Savings were realized due to less than anticipated third party consulting services costs.

Agencies and Support Payments

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

Reserves/Recoveries

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

Cost Allocation

The cost allocation section was slightly over the budget. 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:

Building and Grounds

Higher than anticipated charges were realized for building repairs and telephone charges, which were offset by less than anticipated charges in utilities (ie. hydro) resulting in an overall net unfavourable variance of \$0.10M. The higher costs in telephone charges relate to the deployment of in car cameras and automated license plate readers in 2023. The implementation of this technology increased mobile data usage beyond expected and budgeted levels.

Financial/Legal Charges

Financial and legal charges arise from costs relating to disciplinary 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 \$0.94M in this category.

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Capital Financing

The annual debt repayment for the Investigative Service Division (ISD) facility is budgeted in the capital financing section. The annual principal and interest repayments are forecasted at approximately \$1.14M a year, net of development charges revenue, over a 15-year term. The HPS began budgeting for the repayment requirements in its 2020 fiscal year.

To date, no issuance of debt for the ISD facility has occurred. Each year, the HPS requested the City's Corporate Finance Department transfer the 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 for any of the fiscal years. Instead, the HPS capital financing surplus was retained by the City, resulting in a zero budget variance for HPS.

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 negative budget impact on future net levy requirements. This financial issue may repeat itself in fiscal 2024 if the ISD debt is not issued.

Conclusion

The detailed variance analysis has been prepared based on operating results for the year ended December 31, 2023. The HPS experienced a net surplus of \$2.84M, 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 – 2023 Year-End Budget Variance Report

Appendix B – HPS Summary of Reserve Balances as at December 31, 2023

FB/S.Dzaferi

c: Ryan Diodati, Deputy Chief – Operations
Paul Hamilton, Deputy Chief – Support
Sanela Dzaferi, Director - Finance

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