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**Study Under Section 42 of the Police Act in
Support of the Director of Police Services'
Determination under Section 27 (3) of the
Police Act**

**Vancouver Police
2021 Operational Budget**

January 17th, 2022

Carried out in conjunction with Peter Lepine Professional Services

Executive Summary

Overall, we concluded that the Vancouver Police Department and the Vancouver Police Board have a strong financial management framework in place.

We observed a culture of strong governance oversight, appropriate financial policy and procedures, robust budget building and financial reporting processes and an internal and external audit function in place.

Expenditures relating to specific programs and service delivery and the health and wellness of officers are regularly reported and monitored.

The board's own budget is not sufficient to meet its role and responsibilities, however, the additional expenditures to achieve this are being incurred and the budget overrun is being managed as part of the overall Vancouver Police Board budget.

Additional information to assist the Director of Police Services make a determination under section 27 (3) of the Police Act is detailed on pages 11 and 12 of this report.

Introduction

Following a request to the Director of Police Services from the Vancouver Police Board (VP Board) to make a determination under section 27 (3) of the Police Act resulting from Vancouver City Council's decision not to approve the 2021 Vancouver Police Operating Budget submitted by the VP Board; he initiated a review of the Vancouver Police Department (VPD) and the Vancouver Police Board (VP Board).

The Ministry of Public Safety and Solicitor General (the Ministry) contracted Peter Lockie of Inverleith Consulting Inc. and Peter Lepine of Peter Lepine Professional Services to undertake a study of VPD and the VP Board which will include a review of the financial framework and budget cycle and the impacts of the alleged budget shortfall on service delivery and adequate and effective policing.

This report focuses on the **first of three areas** identified in the terms of reference as follows:

Assessment of the Financial Management Framework – an examination, evaluation and conclusions on the strength of the financial management framework of the Vancouver Police Department including:

- a. The budget cycle including the preparation, approval, forecasting, reporting, monitoring, expenditures and board oversight.
- b. Relevant policies and procedures.
- c. Assessment of the process for the police board and municipality to communicate and engage on budget development and priorities.
- d. Expenditures as they relate to the specific programs and service delivery.
- e. Expenditures as they relate to health and wellness of officers.
- f. Assessment of adequacy of the board's budget to allow it to carry out its role independently from political influence and at arm's length from the department.

Review Methodology

The review included an analysis of key documents and interviews with VPD executive and management, VP Board members including the Vice Chair and the Chair and former Chair of the Finance Committee, the President of the Vancouver Police Union and the City Manager and Chief Financial Officer of the City of Vancouver (the City).

Financial Management Framework

Governance Model – the VP Board is responsible for financial oversight of VPD and is assisted in fulfilling its oversight responsibilities by a Finance Standing Committee of the Board which has core terms of reference including oversight of the following:

1. Budget development processes and financial planning;
2. The financial information that will be provided to the VP Board, City Council and other stakeholders;
3. The systems of internal controls established by VPD management and the VP Board; and
4. Any audit processes outside of the City audit.

Primary responsibility for budget development, financial reporting, information systems, risk management and internal controls is vested in VPD management with governance oversight being provided by the VP Board.

We found that the VP Board governance model provided strong financial oversight of the VPD.

Financial Policies and Procedures - VPD follows the substance and intent of the City's financial policies and procedures although in some cases they are adapted to include more limitation. It has a small number of its own financial policies and procedures that are specific to VPD operations such as employee expenses, travel, training and overtime.

VPD operates with a financial and purchase authority framework which is aligned with the City's framework.

The VPD Board has a small number of financial policies and procedures relating to its board operations.

We found that financial policies and procedures were appropriate and have no concerns with them.

Process for the Police Board and Municipality to communicate and engage on budget development and priorities – the operating and capital budget processes are summarized at a high level in the City's policies and in the Police Act.

The City's operating budget process, which the VPD and VP Board forms a part of, includes the following phases:

- ⇒ Budget Preparation – March to May
- ⇒ Budget Setting – June to August
- ⇒ Budget Building – September to October
- ⇒ Budget Finalizing – November to December

Under the Police Act:

1. S 27 (1) On or before November 30, a municipal police board must prepare and submit to the council for its approval a provisional budget for the following year to provide policing and law enforcement in the municipality.

2. S 27 (2) Any changes to the provisional budget under subsection (1) must be submitted to council before March 1 of the year to which the provisional budget relates.

The capital budget process follows a similar planning framework and timeline to the operating budget process with several City departments (for example, technology and fleet services) including VPD capital needs in their budget submissions.

Both VPD and the VP Board are engaged with the City throughout the annual process. VPD's Chief Constable is a member of the City's Corporate Leadership Team and participates throughout the budget development process while providing updates for discussion with the VP Board Finance Committee and Board.

The VP Board Finance Committee and other board members attend meetings with Vancouver Council to obtain budget perspectives from them and provide answers to them related to the VP Board budget and initiatives. Substantive amounts of background information and financial context are provided by the VP Board to Council members and there is dialogue about key budget issues.

The VP Board Finance Committee reviews, discusses, and recommends to the VP Board a final operational and capital budget submission to the City before the November 30 deadline. Council then reviews and approves the related budgets in December.

We found that there is a robust process in place which allows both parties to fully engage on key budget matters. In the 2021 budget process, the engagement was deeper than in past years when much of the presentation had been led by the Police Chief, 2021 included a higher level of engagement with Council from the VP Board Finance Committee and other VP Board members.

Financial System and Reporting - VPD uses the City's financial system (SAP) to record its transactions and generate financial reports. It is an acceptable but not ideal financial system for VPD who use Microsoft Excel and other tools to present financial data in a form that is more suitable for its activities and users.

VPD finance staff calendarize the annual budget to align with the anticipated timing of operations which is monitored monthly with a more detailed review and updated forecast prepared and presented to the VP Board Finance Committee and Board on a quarterly basis.

With actual results to date being generated by the financial system, forecast results are prepared using actual results to date plus a projection based upon the remaining budget and anticipated activity informed by prior year timing trends and known events. VPD holds back some of its strategic but discretionary expenditure until later in the year when its overall financial performance can be forecast with an increased level of confidence. Remaining expenditure items are then approved based on their priority.

Senior finance staff from both VPD and the City meet quarterly to review the financial results. Both parties agree that this working relationship is positive and outside of regular scheduled meetings there is ongoing communication of any significant financial issues that arise.

There are many moving parts within the VPD budget with the largest components by order of magnitude being salaries and benefits (90%) offset by recoveries (-10%) and non-salary items (20%).

In the most recent 2021 quarterly variance report for the nine-month period ended 30 September 2021, actual results to date show a \$4 million deficit and project a \$7.2 million deficit for the 2021 year, of which \$4.1 million arises from operations and \$3.1 million is related to unfunded employee benefit cost increases.

Significant variance analysis of the 2021 forecast compared with budget is as follows:

Recoveries are projected to be \$5.5 million more than budgeted:

- \$2.7M Secondments (offsets salaries and benefits, currently 87 sworn officers and 7 civilians)
- \$1.3M Provincial and municipal cost share programs
- \$1.1M Grants and donations (Vancouver Police Foundation and Civil Forfeiture Office)
- \$0.7M Third party events (sporting, filming, community, and construction road closures)

Salaries and benefits are projected to be \$10.4 million more than budgeted:

- \$4.2M Sworn and court overtime (protests and demonstrations, construction and COVID testing sites)
- \$2.5M Sworn salaries (largely budgetary reduction cost pressure)
- \$3.1M Benefits (2021 rates now known, budget built on 2020 rates)

Non-salary items are projected to be \$2.3 million more than budgeted:

- \$2.0M Professional fees (legal fees are twice the budgeted amount, jail nursing services had a contract increase)
- \$1.6M Equipment and Fleet (underfunded fleet maintenance, uniform acquisition timing)
- (\$1.1M) Travel and training (savings from COVID impact)

Material expenditure variances relating to specific programs and service delivery are identified within the quarterly report. One of the key performance measures that is reported monthly in detail to all VPD managers is overtime usage and cost.

Employee wellness forecasts show sick leave and workers' compensation total hours to be very similar to the experience in 2020 with sick leave hours lower and workers' compensation hours higher.

Excluded from the 2021 forecast is the cost of 2020 collective agreement wage settlements that have not yet been ratified. Past practice has been that the City funds any wage settlements. Since this quarterly review, an arbitrated settlement has been made in respect of police officers and we have been told that those incremental costs will be funded by the City.

We found the financial reporting framework to be appropriate with monthly and year to date revenue and expenditure details including variances by account categories to enable appropriate review by management and oversight by the VP Board Finance Committee and Board.

Financial Results - VPD's summarized budgeted and actual operating results for the last five years were as follows:

Year	Total Budget	Surplus
2016	\$266 M	\$68 K
2017	\$274 M	\$45 K
2018	\$287 M	\$16 K
2019	\$301 M	\$14 K
2020	\$314 M	\$24 K
Total	\$1,442 M	\$167 K

There is a very consistent financial performance over the last five years that shows VPD's actual results have always been very close to, but just below, its annual budget. The total surplus as a per cent of total budget for the five years is one hundredth of one per cent which is exceptionally close. We were advised that VPD has delivered this positive result for each of the last sixteen years.

At the request of the VP Board Finance Committee, the City's Internal Audit Division carries out an annual review of VPD's financial statements to provide assurance that the statements have been prepared, in all material respects, consistent with the City's and Public Sector Accounting Board standards. We reviewed the last two year's reports and found that found both years successfully obtained that confirmation.

We found that the VPD and VP Board demonstrate strong financial reporting processes.

Reserve Funds – the City has a reserves policy and carries its own financial stabilization reserves as a mitigation measure for key risks to the City's financial stability. This reserve can buffer the impact of unplanned events, unforeseen emergencies and provide contingency for unanticipated cost increases or revenue reductions outside the control of the City. This funding is limited and can only be used on a temporary one-time basis and cannot be used to fund ongoing budget increases.

The City maintains a number of other reserve balances that are restricted to specific uses. These reserves cannot be used to offset operating budget shortfalls.

The VP Board does not have its own financial stabilization reserve and any operating deficit would have to be dealt by the City drawing from its financial stabilization reserve.

The VP Board does have some specific reserves that are available to meet their defined purpose, but they cannot be used for operating deficits. Access to these would be obtained through agreement between the Chief of Police and the City Manager or Chief Financial Officer.

With the VP Board's most recent forecast operating deficit for 2021 of \$7.2 million (operational deficit \$4.1 million, unfunded benefits \$3.1 million), the City has confirmed that this will need to be funded by the City's general revenue financial stabilization reserve.

Having no financial stability reserve of its own, the VP Board is dependent on the City's ability to offset any operating deficits that occur. Our observation is that the VP Board

would be in a stronger position if it had its own financial stability reserve. To achieve this would require planning ahead to fund the reserve and a supporting policy around its purpose and access.

Audit Oversight – VPD’s annual results and assets and liabilities are included within the City’s consolidated financial statements and audited annually by an external audit firm, currently KPMG. Their audit includes sampling and verification of VPD financial results. We were advised that there have been no audit concerns identified from this process.

The City’s Internal Audit Division (a separate independent division reporting to the City Manager) also carries out financial reviews that cover VPD, including the annual review of VPD’s financial statements noted above. These reports are shared with the VP Board Finance Committee.

Lastly, VPD has its own small audit department that primarily carries out operational compliance reviews and special projects. It reports to the Director of Planning and Audit. Their reports are normally shared with the VPD Executive and sometimes, when deemed appropriate, the VP Board Finance Committee.

We found that the VPD and VPD Board have a robust audit function overseeing and reviewing operational performance and financial results.

2017 Operational Review – this extensive operational review, completed by an independent group of academics that were experts in the policing field, identified the following six major themes prior to making staffing recommendations that were accepted and endorsed by the VP Board and Vancouver Council:

1. Ensuring frontline service level
2. Responding to higher legal and policy requirements
3. Promoting employee health and wellness
4. Interdicting upstream drivers of crime
5. Leveraging technology and information, and
6. Managing ongoing and emerging challenges

Additional staffing requirements were identified on a four-tier spectrum of service delivery with the most pressing needs being tier 1. A decision to adopt tier 2 was made as well as a plan to implement the change over a 5-year period which would ultimately result in the addition of 120 sworn officers and 52 civilians.

For the first three years following the operational review, additional staffing approved in the operating budget followed the accepted plan. In year 4, which was 2021, the VP Board deferred asking for the planned additional staffing resources in recognition of the financial challenges facing the City. We understand that this deferral has occurred again in the requested and approved budget for 2022

The City has confirmed that the year four and five staffing additions are included in its five-year financial plan but were deferred in 2021 and 2022 due to financial constraints.

Expenditures as they relate to Health and Wellness of Officers – the most current data at the time of the report (from 23 of 26 pay periods in 2021) shows that sick leave hours and cost are running about 8% below 2020 levels while workers' compensation hours and costs are running about 12% above 2020 levels – taken together total hours are very similar to 2020 levels.

Sick leave hours appear to have stabilized over the preceding five years following a period of growth while workers' compensation has almost doubled in that period.

Adequacy of the Board's budget to allow it to carry out its role independently from political influence and at arm's length from the department – starting with 2019, the financial results show that board expenditure has exceeded the allocated budget amount. This is primarily the result of a need for additional legal and consulting services and computer supplies for board members all in response to greater expectations from the Province, the Office of the Police Complaint Commissioner and media and public requests for information. Support staffing has remained constant with one full time Executive Director and one part time Executive Assistant.

Undoubtedly the workload of the Board has increased over the last few years which has placed additional strain on the existing resources. The VP Board made a submission to the Special Committee on Reforming the Police Act which included some suggestions to strengthen police governance by ensuring adequate resourcing of Boards through new mechanisms for financial independence from the departments that they oversee, including the possibility of Provincial funding

The VP Board budget is a component of the VPD budget and recent years' experience shows that it is not sufficient to meet its requirements. Increased board resourcing, including staffing, has been identified as a need but delayed in recognition of the overall financial challenges.

The VP Board works to carry out its role independently from political influence by using its governance structure to allow VPD to focus on operations while it oversees and communicates the policing and related funding needs to the City.

The VP Board works to maintain an arm's length relationship with the VPD through its overall governance model which identifies operations as the primary responsibility of the VPD and oversight as the primary responsibility of the VP Board – this is achieved through a variety of methods including well prepared and trained board membership, ongoing review and requests for supporting information at board and committee meetings, in camera meetings and several board governance plans and procedures that clearly identify the board's role. Improved governance continues to be a work in progress with further additional steps to clarify roles under consideration.

We found that the VP Board has a governance framework that allows it to carry out its role independently from political influence and at arm's length from the department - its web site clearly communicates details of its mandate, board membership, policy and procedure manual, board meeting agenda and minutes, service and policy complaint role and strategic plan. Adequate resourcing of the Board may well require to be increased to align with the increasing role and responsibilities of the Board.

Risk management - the VPD applies a decentralized approach to risk management e.g., finance, insurance, information technology and operations although the introduction of a broader more formal enterprise risk management program is a future vision that they would like to move to.

We found the current approach to risk management to be acceptable.

Determination under section 27 (3) of the Police Act – the VP Board's request is for the Director of Police Services to make a determination if the amount of \$5,689,974 requested in the 2021 operating budget but not approved by Vancouver City Council should be included in the budget.

With the VP Board's most recent forecast operating deficit for 2021 of \$7.2 million (operational deficit \$4.1 million, unfunded benefits \$3.1 million), the City has confirmed that the actual deficit will need to be funded by the City's general revenue financial stabilization reserve.

The VP Board has stated that the \$5.7 million is not simply a one-time budgetary shortfall and, if not added back, will put the budget at risk of deficit in every year going forward. They have also stated that the VP Board and the City intentionally removed the 2021 shortfall amount from the 2022 operating budget submission with the understanding that it was being addressed separately through the section 27 (3) determination process.

Although the VP Board is encouraged that the City will be able to fund the 2021 projected deficit through its general revenue financial stabilization reserve it believes that the budget approval decision is a separate matter from the funding treatment of the projected deficit and that the budget reduction has created a structural deficit which will recur unless remedied. We concur with this assessment.