

Edmonton Police Service Funding Formula Policy

Recommendation

1. That Edmonton Police Service Funding Formula Policy C604, as set out in Attachment 1 of the June 26, 2018, Financial and Corporate Services report CR_5986, be approved.
2. That Edmonton Police Service Reserve Policy C605, as set out in Attachment 3 of the June 26, 2018, Financial and Corporate Services report CR_5986, be approved.

Executive Summary

This report outlines the development, approval and adjustment of the Edmonton Police Service (EPS) Funding Formula policy and budget in order to address the growing demand on police resources, changes in legislation, and Council priorities. The report also includes a recommendation to establish an Edmonton Police Service Reserve fund to allow for the management of EPS operational surpluses and deficits over the long term.

The intent of this policy is to formally document and declare all of the principles, rules, assumptions, and mechanisms that shape the EPS Funding Formula. By doing so, all stakeholders – current and future City Council members, Administration, EPS, and taxpayers – will have a shared understanding of how the Funding Formula is determined and applied.

Report

Background

Over the last several years, the method used to provide operating budget funding to the Edmonton Police Service (EPS) has varied. Prior to the 2016-2018 budget cycle, EPS operational funding grew in two ways: first, by allocation of assessment growth revenue based on the percentage of EPS's net requirement to cover inflationary pressures; and second, through individual City Council approved service packages for new resources, submitted as part of a proposed budget. In addition to these sources of funding, City Administration retained a sum to cover the impact of any salary settlement before allocating this money to EPS as a further increase to budget after contracts were finalized.

During deliberation of the 2016-2018 operating budget, Council approved a funding formula to determine how much EPS will receive in additional funding over the 2016 - 2018 budget cycle. This approach is intended to provide some funding certainty and to allow for long-term budgeting and workforce planning based on predictable indicators.

Introducing a formula-based approach to providing EPS with operating funds has achieved some expected benefits: it has proven to be a stable source of funding and has allowed for better planning. However, using the formula over the last three years has also provided opportunities for feedback on aspects of the formula that could be improved, such as creating a policy that clearly outlines how the formula works as well as what the formula does and does not cover.

Further, this policy will satisfy a recommendation made by the Office of the City Auditor in its Edmonton Police Service Staffing Audit report CR_4645 provided to Audit Committee at the April 12, 2017 meeting, that "...the Chief of Police work with the Edmonton Police Commission to open a dialog with City Council on the issues and uncertainty of the future application of the City's Funding Formula".

Current Formula

Introduced in the 2016-2018 budget process, the current formula includes both a growth factor and an inflation factor. The growth factor is based on the forecasted population growth for the City, and the inflation factor is represented by the Municipal Price Index (MPI). These factors were applied to the net operating requirement for each year in the budget cycle. The net operating requirement is the difference between the revenue and expenditures in the 2015 budget, including an adjustment for the transfer from reserves. This methodology, combined with an efficiency factor of \$1.6 million each year, resulted in EPS receiving \$12.1 million in 2016, \$12.3 million in 2017, and \$14.8 million for 2018.

After the 2016-2018 operating budget was approved, subsequent amounts were transferred to EPS in order to address annualization from the previous budget cycle as well as additional service packages to address accommodation, annexation and the impacts of cannabis legalization. These changes meant that EPS actually received \$17.3 million in 2016, \$14.1 million in 2017, and \$17.5 million in 2018.

Proposed Policy and Formula

The EPS Funding Formula Policy development was guided by the following principles:

- Provide sustainable budget allocation based on predictable indicators that best reflect police cost inflation and changes in demand;
- Provide funding certainty to better allow for long-term budgeting and workforce planning;

- Ensure that the Formula is simple, transparent and consistent with the approach used by civic departments; and
- Provide for review, assessment, and refinement to the Formula for improvements prior to the start of each new operating budget cycle (e.g., every four years).

The proposed formula continues to suggest that two different factors be applied to the net operating requirement in order to determine how much of the City's budget should be allocated to EPS over the next four years. The first factor relates to the forecasted growth in population and will ensure that, as population levels change in Edmonton, financial support to provide police services will also change. The population growth factor will be based on the most current municipal census estimates and forecasts for the Edmonton, as is the case with the current formula.

The second factor is inflation. The inflation factor ensures that changes to EPS's operating budget are in line with price changes for the goods and services purchased by EPS on an annual basis.

Administration proposes that the City use an inflation factor called the Police Price Index (PPI). PPI is similar to the Municipal Price Index (MPI) in that it reflects a typical basket of goods that EPS is required to purchase on an annual basis. The most significant difference between PPI and MPI is that PPI weighs personnel costs more heavily, to reflect that the EPS budget is approximately 90 percent personnel costs. By comparison, approximately 60 percent of the overall City operating budget is related to personnel costs.

Historic estimates and forecasts for the PPI will be sourced and managed by the City of Edmonton's Chief Economist. Following protocol for the City of Edmonton's MPI, PPI methodology will be reviewed and revised every five years to capture spending pattern changes in the EPS operating budget.

Once these factors have been applied, Administration proposes that an efficiency factor of some kind be applied to the funding formula. The current formula includes an efficiency factor of \$1.6 million each year. This was intended to replicate what civic departments were asked to achieve through an efficiency exercise commonly referred to as the '2 percent initiative', wherein City departments were asked to identify and implement initiatives to reduce their overall operating budgets by 2 percent through innovation and improved efficiency. The proposed new formula includes the annual application of an efficiency factor on the base budget of 0.25 percent, similar to the efficiency factor used for utilities. Including an efficiency factor in the new formula will demonstrate that EPS intends to operate efficiently from one year to the next.

Council also directed Administration to re-base the EPS net operating requirement for actual population growth and inflation prior to the start of the 2019-2022 operating budget cycle. Attachment 2 shows projected 2019-2022 budget changes using the proposed formula and incorporating a method to re-base net operating requirements to reflect actual population growth and inflation experienced in 2016 and 2017.

Administration anticipates that this same methodology will be used to re-base the net operating requirement prior to the start of future budget cycles.

Using the two factors described above to calculate annual funding changes for EPS, Administration expects that this annual funding will be sufficient to support the following impacts to EPS's budget:

- Inflationary increases;
- Increases related to settlement of union contracts;
- Budget impacts related to capital; and
- Increased costs associated with growth to maintain services.

Growth and inflation factors are expected to provide sufficient funding for the majority of EPS operational needs. However, there are potential exceptional costs that are uncorrelated to these funding formula factors. When these exceptions are identified, EPS may request additional operating funding from City Council via a service package. While not exhaustive, the types of costs that may warrant a service package request include:

- Significant municipal, provincial, or federal legislative changes that result in increased policing service demands; and
- Annexation of rural, industrial, or commercial lands surrounding Edmonton.

The EPS Funding Formula Policy will be reviewed by Administration, EPS, and the Edmonton Police Commission (EPC) every operating budget cycle. The review will determine the validity and appropriateness of the policy and evaluate whether it meets the policy principles identified in this report. Any proposed policy revisions will be identified and presented to City Council for consideration in time to implement any approved changes in the next operating budget cycle.

Edmonton Police Service Reserve

The EPS Funding Formula is intended to allow the EPS to manage its budget and spending over the long term during the budget cycle. To this end, Administration recommends establishing an Edmonton Police Service Reserve fund to allow for the management of EPS operational surpluses and deficits over the long term. One hundred percent of any annual EPS operating surplus will be placed in this proposed reserve, and one hundred percent of any annual operating deficit will be drawn from the reserve. The reserve will also be used to fund operating and capital requirements in adherence with the proposed reserve policy.

Administration will assess the need for a minimum reserve balance as a part of the overall corporate 2021 Reserves Review. Typically a minimum balance is established through a reserve policy in order to mitigate financial risks inherent in business operations. For example, the City's Traffic Safety and Automated Enforcement Reserve maintains a minimum balance to offset photo enforcement revenue fluctuations. The Financial Stabilization Reserve has a minimum balance in order to address significant emergent financial issues and help mitigate the financial impacts of risks faced by the City.

Historical information is currently insufficient to assess the financial impacts of the establishment of the funding formula and the potential impacts of cannabis legalization and annexation on EPS operations. By 2021 more financial information will be available on these items and the funding formula will have been in place for two years, providing Administration a basis to recommend a minimum balance. As a result, the proposed reserve policy currently states that the reserve at minimum maintain a balanced position, and in the event the reserve falls into a deficit position, a strategy is to be developed by the EPS, to be approved by City Council, in order to achieve a balanced position over a period not to exceed three years, starting with the subsequent year operating budget.

Please see Attachment 3 for the proposed reserve policy.

Public Engagement

Public Engagement was not undertaken for these policies because they are focused on and related to internal processes to ensure that the EPS budget is sufficient to meet established policing outcomes, and predictable enough to support effective long term planning. Citizens are engaged to provide more direct input to define policing priorities through other engagement activities, including the Edmonton Police Service Biennial Citizen / Business Satisfaction Survey.

Corporate Outcomes and Performance Management

Corporate Outcome(s): The City of Edmonton has a resilient financial position.			
Outcome(s)	Measure(s)	Result(s)	Target(s)
The City of Edmonton has a resilient financial position.	<p>Tax-supported Operations results are in line with the approved budget.</p> <p>City of Edmonton Credit Rating (Standard & Poor's rating)</p>	(2017)Tax-supported Operations operating results – year-end results showing favourable variance to budget of \$31.2 million Year-end Variance (2017)	<p>Operating results are in line with approved budgets.</p> <p>Based on Tax-supported Operations annual budgeted expenses of \$2.7 billion (2017)</p>

		AA+ (2017)	AA+ (2018)
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Risk Assessment

If Approved						
Risk Element	Risk Description	Likelihood	Impact	Risk Score (with current mitigations)	Current Mitigations	Potential Future Mitigations
Financial -	Funding allocated through the new funding formula is more than can be spent effectively by EPS, and limits the funding available for other civic services	3 - possible	2 - moderate	6 - low	Provide projected financial implications of implementing new policy and formula	Council budget deliberations allow for further discussion on Police Service funding

If Not Approved						
Risk Element	Risk Description	Likelihood	Impact	Risk Score (with current mitigations)	Current Mitigations	Potential Future Mitigations
Financial -	EPS is unable to take a long-term approach to manage its budget and spending	3 - possible	2 - moderate	6 - low	Collaboration between EPS and City Administration to establish budget assumptions and facilitate long-term budget forecasting	

Attachments

1. Edmonton Police Service Funding Formula Policy
2. Projected 2019-2022 Budget Changes for Edmonton Police Service
3. Edmonton Police Service Reserve Policy

Others Reviewing this Report

- M. Sturgeon, Acting Deputy City Manager, Communications and Engagement