

Edmonton Police Commission

# Funding Formula Options Analysis Summary

August 3, 2023



**pwc**

## Introduction

The Edmonton Police Service (EPS) serves an essential function in meeting public safety goals of the City of Edmonton. For this reason base police budgets are funded from property taxes. The funding for regular operating budgets of policing services is guided by policy which states the funding formula will provide a predictable funding for each year within a four-year cycle in order to provide planning certainty. A funding formula in place is intended to provide funding to manage financial impacts of population growth, inflation and operating impacts of capital investment. The formula is for an operational budget and is not intended to fund major capital, salary settlements, significant changes in legislation, urban growth due to annexation, or operating impacts of police-initiated capital projects.

Establishing an acceptable police budget is a complex and challenging task. The funding formula in use by the City is largely the result of salaries and non-personnel costs that are adjusted for inflation and population growth. Concerns by City Council include that the policing budgeting process may be overly influenced by incrementalism and disconnected to outcomes. An earlier funding formula in place was suspended by City Council in July 2020 and subjected to review. City Administration officials worked with the EPS and the Edmonton Police Commission (EPC) to develop a replacement funding formula for Council's consideration:

- the formula calculates funding based on EPS net expenditures for that applicable fiscal year, and ensures that funding growth for EPS does not outpace that of other civic departments;
- the funding formula will be used to adjust the budget based on a forecast, but the formula will also undergo a true-up adjustment every two years to reflect more up-to-date population growth and inflation forecasts, or actuals when available; and
- the design of the formula is to adjust the EPS budget for inflation and population growth - it is not intended to be an expansionary budget formula.

The budget is capped by a ratio of 30% of civic expenditures - if the EPS formula budget exceeds this threshold, budget increases are to be reduced. The revised formula was approved for one year only.

In the fall of 2022 City Council requested the EPC to identify options for adjusting the formula based on objective and reasonable criteria that can be consistently applied. The EPC has identified options within various categories to be examined, including alternatives to using population growth rates that are based on demand for calls, crime severity and other public safety outcomes; affordability limits; cost efficiency factors; and service packages and grants. An objective with all of these options is that public safety goals are to be maintained.

## Scope of PwC's Engagement

To support the budget formula review, EPC engaged PricewaterhouseCoopers LLP (PwC) to conduct an independent review of the police funding formula options produced by a Working Group comprised of representatives of the City Administration, EPC and EPS. PwC has been tasked to perform the following services:

- Conduct an assessment/impact of draft options produced by the Working Group with respect to the requirements set out by Council in its 2022 motion to review the current policing budget formula.
- Provide independent advice to Commissioners on how each option, or combination of options, if applicable, could impact the police budget at one, three, and five year intervals.
- Provide objective assessment on the complexity of the proposals and the possible impacts on the EPC with respect to commonly understood municipal budgeting and accounting principles. (i.e. how easy are they to understand and implement?)
- Provide thoughts on potentially unintended outcomes impacting the EPC, the EPS and their budget.
- Develop assumptions with respect to factors such as population growth, salary settlements, crime rates, City spending overall, City spending in areas detailed in the existing policy, or any other factor or metric that may be developed by the Working Group. Assumptions will need to be developed in a manner that is objective, reasonable, and defensible.

## Qualitative Assessment Framework

The options analysis has been conducted on a qualitative and quantitative basis. The qualitative assessment is based on a framework that is consistent with the City’s budgeting principles and addresses adaptability, impartiality, predictability/stability, and appropriate governance. These core pillars are described below.

Core Pillars		Description of Pillar
1	Adaptable	Ability of the option to evolve with legislative changes (including policies and criminal law changes), and is flexible enough to adjust annually while being an informed input that results in an expected outcome
2	Impartial	Ability of the option to be objective and recognize factors that are transparent and those beyond the control of the City that influence EPS cost drivers.
3	Predictable & Stable	The extent to which the option utilizes inputs that are research based, appropriately projected and data driven. It should also maintain the integrity of the data being utilized.
4	Sustainable	Ability of the option to identify a sustainable outcome for both the City and EPS that is cost effective, manages financial risk and aligns to agreed upon goals of the formula
5	Governance	Ability of the option to provide for accountability in line with the responsibilities of the Police Act and the Municipal Government Act

## Quantitative Assessment Framework

The financial analysis is based on a financial forecast model whereby each option is compared to the existing formula (baseline scenario) that is dependent on population growth rates. The funding values that were used in the model and serve as the foundation of the model and the analysis are shown in the snapshot. The model is flexible and dynamic and allows for each option to be modelled based on a set of forecast assumptions, including some with trend analysis. The base case reflects recent retroactive pay settlements, no EPS revenue growth and constant growth rates for inflation and civic expenditures. With each option, forecasted budgets at the one, three and five year intervals are developed, as well as the ratio of EPS expenditures to total forecasted civic expenditures, which under the current formula is capped at 30%.

### Study Oversight

PwC worked with the EPC throughout the study and presented draft findings of the financial modelling to a Working Group comprised of representatives of the City Administration, EPC and EPS. Final findings were presented to the EPC Commissioners. The assessment has been conducted without any conflict of interest with any of these parties and City Council.

## Funding At A Glance FY2022



**\$487.7 M**

Base Budget for EPS 2022



**\$1.6BN**

Civic Department Net Operating Requirement



**\$417.7 M**

Total Tax Supported Funding incl. of Retroactive Salary Settlements



**29.38%**

EPS Budget % of Total City Budgeted Expenditures (2022)

## Summary of Findings

A summary of the options assessment is provided below:

### Alternatives to Population Growth (Factor G)

The Alternatives to Factor G as a direct substitute for population growth rates that are based on demand for calls and public safety outcomes are in general problematic on their own. These alternatives are, on the one hand, not necessarily indicators of required policing effort and, on the other hand, not best suited for civic budgeting due to their volatility and forecasting challenges. The application of these alternatives without any guardrails could result in budgets that exceed the rate of growth of civic expenditures at one extreme, or act to reduce police budgets to below their 2023 values. Of the Alternatives to Factor G considered, crime severity index is the highest rated option, but it still lags behind the qualitative rating of the current formula.

### Efficiency Factors

The introduction of efficiency factors are more predictable than the Alternatives to Factor G from a budgeting perspective. The risk with across-the-board cuts is that the strategy can be arbitrary and diminish the effectiveness of all services, regardless of their value.

### Ratio Thresholds

Ratio limits on their own are not viewed as effective as a standalone budgeting tool, however they may work in combination with population growth forecasts to set limits to budget increases and stay within affordability limits.

### Service Packages

The service package approach can be used to tie budgets to specific program goals. While it may serve to reduce or control costs as well as other approaches, it lacks appropriate governance.

### Grants

The grant approach can be reasonably transparent but only with extensive negotiation. There can be bias introduced with co-mingling of services. The grant approach is not viewed as a permanent budgeting solution approach but may work on an interim basis. Grants need to be examined closely as most provincial and federal grants are designed to supplement funding in areas of interest and not as a replacement to municipal funding. Grants may work in combination with other factors and/or as enhancements to the base formula.

### Salary Settlements

This approach is compatible with settlements of collective agreements which is a major driver of incremental cost. Under this approach there is a risk that policing budgets would outpace those of civic budgets. There is also the issue of which party bears the risk associated with the unpredictability of forecasted settlements.

### Combination of Factors

Some combinations, for example adjusting population growth with more refined forecasts of the Crime Severity Index, may be effective in a budget formula. Combinations of factors introduce more complexity to the civic budgeting process. The initial high-level modelling of this option has been based on forecasts that are based on a trend line; other approaches are possible and worthy of further exploration in combination with population growth.