



City of  
**Peterborough**

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**To:** Members of the Committee of the Whole

**From:** Sandra Clancy, Director of Corporate Services

**Meeting Date:** July 25, 2016

**Subject:** Report CPFS16-023  
Peterborough Police Services  
Cost of Terminating Agreement with Selwyn

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## **Purpose**

A report to provide an update on the costs and savings incurred to date as well as other potential financial impacts associated with terminating the Policing Services Agreement with Selwyn effective December 31, 2014.

## **Recommendation**

That Council approve the recommendation outlined in Report CPFS16-023 dated July 25, 2016, of the Director of Corporate Services, as follows:

That Report CPFS16-023, providing an update on the costs and savings incurred to date and other potential financial impacts of terminating the Policing Services Agreement with Selwyn effective December 31, 2014, be received for information.

## **Budget and Financial Implications**

Terminating the Agreement on December 31, 2014, had several one-time financial implications that were charged to a capital account set up for this purpose, as follows:

- \$100,650 - Legal/Professional fees, Police Services Board
- \$70,677 - Rebranding
- \$50,953 - Township of Selwyn - share of assets, less liabilities
- \$36,338 - Legal/Professional fees, City
- \$4,653 - Concurrent board remuneration
- **\$263, 271 - Total one-time de-amalgamation costs to date**

Other legal costs incurred by the City total \$57,825 and the Police Service has incurred additional costs of \$99,155 for a total amount of \$420,251.

In addition, there are still other potential financial impacts that could occur as a result of the agreement termination, and may be summarized as follows:

- Disputed contractual entitlements – Chief and Deputy Chief and associated legal costs, which could mostly be offset by the City's Statement of Claim and punitive damages being sought.
- Ongoing savings resulting from a renewed alignment of future operating budget increases with that of the City.

## **Background**

### **April 4, 2016 report request**

This report responds to the April 4, 2016 Council request that staff report to the Committee of the Whole on or before July 25, 2016 on the De-Amalgamation of the Police Services Board, (PSB) resulting from the termination of the City/Lakefield (Selwyn) agreement. The motion read as follows:

That staff provide an updated report on the cost-savings and expenses associated with the de-amalgamation of the Peterborough-Lakefield Police Services Board on or before the July 25, 2016 Committee of the Whole meeting.

### **Termination of Agreement**

The City/Selwyn Agreement contained specific language dealing with terminations, provisions for notice, the fair and equitable disposition and transfer or compensation for the assets, and the sharing of liabilities of the Police Service and Board, that may exist at the effective date of termination.

The two-year notice requirement was provided and December 31, 2014 (to coincide with Budget years) became the effective date of the termination.

### **One-time Costs**

The 2014 Capital Budget included a project in the amount of \$250,000 that was intended to pay for the one-time costs associated with the Termination of the Agreement with Selwyn which were re-branding and the disposition of the jointly owned assets/liabilities between the City and Selwyn. The amount was an estimate based on the information staff had at the time and what had occurred when the force was amalgamated with Lakefield many years ago. Staff had no idea of the amount of legal fees that would be incurred by the PSB or the City.

The one-time costs that have occurred to date and were charged to that account are summarized as follows:

- For the disposition of the jointly owned assets/liabilities of the City/Selwyn held as of December 31, 2014 – \$50,953
- One-time costs to replace items that contain the name of the Police Service such as signage, business cards, letterhead, flags, badges, shoulder flashes, etc. - \$70,677
- Legal/Professional fees, paid by the City on behalf of the PSB - \$100,650
- City Legal/Professional fees - \$36,338
- Concurrent board remuneration \$4,653

**Total one-time de-amalgamation costs to date incurred by the City- \$263,271**

At this point, the account was closed. Other City charges that have incurred since then have been charged to General Contingency. These ongoing costs are legal costs concerning the disputed contractual entitlements to the Chief and Deputy Chief. The Chief and Deputy Chief are seeking the equivalent of a year's wages, OMERS contribution and vehicle allowance, which altogether amount to some \$459,250. Legal costs incurred to date that have been charged to Contingency amount to \$57,825.

Related to the litigation referred to above, the City has filed a Statement of Claim to commence legal proceedings against the Chief and Deputy Chief for a similar amount.

The final tally of legal costs and what payments, if any are made has yet to be determined.

There have also been other charges incurred and absorbed within the Police Services budget. To date, that total is \$99,155 and was provided by Police Services staff.

Costs incurred to date total \$420,251.

**Revenue from Selwyn Township**

When the potential de-amalgamation was being discussed, the Police Chief indicated that, in his view, no portion of the Selwyn revenues would be offset by cost reductions in the force in the first year after termination. His argument was that the staff that came from Lakefield when the Agreement was first established have mitigated the need for additional staff resources to deliver effective policing in the City. Due to increased demand for services today, those staff resources provide direct benefit mostly to the citizens of Peterborough. This meant that when Council made the decision to de-amalgamate (Report CPFS12-089 dated December 3, 2012), they knew that there was a potential lost revenue from Selwyn of \$0.8 million with no reduction in costs.

However, it was incumbent upon Selwyn to find an alternate method to deliver policing to the Lakefield Ward effective January 1, 2015. They really had only two options: enter into a contract policing arrangement with the City or expand their OPP contract, which provided policing service to other Wards, to include Lakefield. Ultimately Selwyn elected a contracted service arrangement delivered by City Police. Because this is a contract based on specific services to be provided rather than an amalgamated service with shared ownership, it was at a reduced cost to them. The cost differential or “lost” revenue to the City amounts to about \$0.3 million annually. As an example, the 2014 revenue from Selwyn was \$866,966 and the 2015 revenue was \$534,335, a difference of \$332,631.

Although this is a loss of revenue from Selwyn, there is also a reduction in the City’s risk from the Amalgamated Agreement to the contractual relationship. There are specific services to be provided within the Contract. An additional billing can occur if additional services are required. For instance, if additional overtime is required beyond an amount included in the contract or if any special services are required that the Police Service must pay for, additional costs can apply. There is also a provision to increase the contractual amount if the provision of services increases due to any legislated changes beyond the control of the Police Service. These are additional risks that Selwyn has that they did not have before.

## **Ongoing Budgetary Impacts**

### **Budget Process**

Section 39 of the **Police Services Act** (PSA) determines the process for approving the Police Services budget. The Police Chief recommends a budget to the Police Services Board and the PSB determines the Police Budget it submits to City Council. City Council establishes the overall budget. If the Board is not satisfied that the budget is sufficient, the board can ask the Ontario Civilian Police Commission to determine the budget.

Section 31 of the PSA outlines the responsibilities of the Board and its first sentence highlights the Board’s responsibility to consider the interests of the municipality when it says:

**A board is responsible for the provision of adequate and effective police services in the municipality and...**

In Council’s mind, this is similar to providing other municipal services in that they are always trying to balance the service citizens expect with a reasonable tax increase. When Council approved the de-amalgamation, they did not believe the interests of the City of Peterborough were being met. In the Amalgamation Agreement with Selwyn, they had given up one of the municipal votes. They had one Council member on the board and one citizen appointee and the de-amalgamation was about taking a step towards better ensuring that their municipality’s interests were protected.

## **Analysis of Police Services Operating Budgets**

Chart 1 provides a summary of 2010 - 2016 Police Services Operating Budget amounts and percentage increases. Line 4 is the budget request from the PSB. Lines 5 and 6 show the additional funds requested from the previous year, in dollars and percentage increase. Line 7 shows the cumulative average increase requested. Over the period 2011 – 2016, the average annual requested Operating Budget increase was 6.03%.

From 2011 to 2015, Council did not approve the initial request of the PSB. Council asked the PSB to revisit their request and re-submit. Line references 9 and 10 quantify the reductions made, which led to an approved police budget on line 11. Lines 12 and 13 show the final additional funds approved over the previous year in dollars and percentage. Line 14 shows the cumulative average increase approved. Over the period 2011 – 2016, the average annual approved Operating Budget increase was 5.03%.

To give the context of the magnitude of a request each year, line 15 shows the amount that a 1% increase in the Police Services approved budget is. Each year from 2012 to 2015, the final Police Service's budget (Line 11) was less than the initial request (Line 4).

In 2012, City staff presented a Draft 2012 Budget that achieved Council's 2.5% guideline for 2012 but had to accommodate an initial 8.4% or \$1.6 million increase in the Police 2012 Operating Budget. To accommodate the Police request within the 2012 guideline, other City department's requests were limited or scaled back.

Beginning with the 2013 Budget, Council has annually established a certain percentage increase in the net Police Services budget that would be accommodated within the City's general increase and any increase in the net Police Services budget beyond that percentage has been addressed by Council during its Budget deliberations.

The 2016 requested and approved increase was 2.68%. Although this seems quite favourable, it was primarily the result of the annualization of the new contract with Cavan Monaghan Township, which began on October 1, 2015. There are fixed components of the Police Services budget that are reflected in the Cavan Monaghan contract, therefore the additional revenue is assisting in reducing the net requirement.

## **Future Budgetary Impacts**

Over the last 6 years, the Police Service Board requests and final approved budgets have generally declined, which was Council's intent. Providing adequate and effective police services will continue to be fundamental, but only time will tell if future budget increases will be at more reasonable and sustainable levels. Future costs are difficult to predict as policing is a complex profession that operates in a dynamic and often unpredictable environment. The recent change made to the governance structure is one step that has been taken to move the City forward in this regard.

**Chart 1**  
**City of Peterborough**  
**Police Services Operating Budget Analysis 2010 - 2016**

| <u>Ref</u> | <u>Description</u>   | <u>2010</u>       | <u>2011</u>       | <u>2012</u>       | <u>2013</u>       | <u>2014</u>       | <u>2015</u>       | <u>2016</u>       |
|------------|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| 1          | <b>Operating Requirements</b>                                  |                   |                   |                   |                   |                   |                   |                   |
| 2          | <b>Police Gross Operating Expenditures Request</b>             | 19,304,629        | 20,788,601        | 22,514,195        | 23,453,075        | 24,382,253        | 25,442,764        | 26,991,412        |
| 3          | Police Total Operating Revenues Request                        | 1,541,860         | 1,732,721         | 1,811,137         | 1,938,618         | 2,068,313         | 1,950,121         | 3,161,170         |
| 4          | <b>Police Net Requirement Request</b>                          | <b>17,762,769</b> | <b>19,055,880</b> | <b>20,703,058</b> | <b>21,514,457</b> | <b>22,313,940</b> | <b>23,492,643</b> | <b>23,830,242</b> |
| 5          | Change from prior year approved budget                         |                   | 1,293,111         | 1,611,356         | 1,334,085         | 1,014,897         | 1,418,283         | 621,334           |
| 6          | % Change from prior year approved budget                       |                   | 7.28%             | 8.44%             | 6.61%             | 4.76%             | 6.43%             | 2.68%             |
| 7          | Cumulative average increase requested                          |                   | 7.28%             | 7.86%             | 7.44%             | 6.77%             | 6.70%             | 6.03%             |
|            | <b>Difference - PSB request &amp; Approved Budget</b>          |                   |                   |                   |                   |                   |                   |                   |
| 8          | Change in Corporate Overhead Benefit Rate % by City - OMERS    |                   | 142,728           |                   | 150,744           |                   |                   |                   |
| 9          | Changes resulting from Council Request: Police Services Budget |                   | -106,906          | -337,731          | -366,158          |                   | -206,385          |                   |
| 10         | Prior Year Police Surplus                                      |                   |                   | -184,955          |                   | -239,580          | -77,350           |                   |
| 11         | <b>Approved Police Budget</b>                                  | <b>17,762,769</b> | <b>19,091,702</b> | <b>20,180,372</b> | <b>21,299,043</b> | <b>22,074,360</b> | <b>23,208,908</b> | <b>23,830,242</b> |
| 12         | Change from prior year Approved Budget                         |                   | 1,328,933         | 1,088,670         | 1,118,671         | 775,317           | 1,134,548         | 621,334           |
| 13         | % Change from prior year Approved Budget                       |                   | 7.48%             | 5.70%             | 5.54%             | 3.64%             | 5.14%             | 2.68%             |
| 14         | Cumulative average increase approved                           |                   | 7.48%             | 6.59%             | 6.24%             | 5.59%             | 5.50%             | 5.03%             |
| 15         | Amount 1% Represents of Approved Budget                        | \$ 177,628        | \$ 190,917        | \$ 201,804        | \$ 212,990        | \$ 220,744        | \$ 232,089        | \$ 238,302        |

## Summary

This report responds to Council's request to report on the costs and savings of the termination of the City Selwyn Amalgamated Agreement for Policing Services.

Submitted by,

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