




**CITY OF HAMILTON**  
**HAMILTON POLICE SERVICES BOARD**

<b>TO:</b>	Mayor and Members General Issues Committee
<b>COMMITTEE DATE:</b>	July 6, 2015
<b>SUBJECT/REPORT NO:</b>	Hamilton Police Services Board Operating Budget Surplus / Deficits Policy (PSB 15-059)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Lois Morin, Hamilton Police Services Board
<b>SUBMITTED BY:</b>	Lois Morin
<b>SIGNATURE:</b>	

**RECOMMENDATION**

That the Hamilton Police Service Board Report PSB 15-059, respecting the 2014 Operating Budget Surplus / Deficits Policy, attached hereto as Appendix "A", be received.

**EXECUTIVE SUMMARY**

The Police Services Board met on Thursday, April 23, 2015, and respectfully submits the above recommendation, which, the Police Board approved.

**Alternatives for Consideration – Not Applicable.**

N/A

**FINANCIAL – STAFFING – LEGAL IMPLICATIONS (for recommendation(s) only)**

**Financial:** (see attached report PSB 15-059)

**Staffing:** n/a

**Legal:** (see attached report PSB 15-059)

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*OUR Vision: To be the best place in Canada to raise a child, promote innovation, engage citizens and provide diverse economic opportunities.*

*OUR Mission: WE provide quality public service that contribute to a healthy, safe and prosperous community, in a sustainable manner.*

*OUR Values: Accountability, Cost Consciousness, Equity, Excellence, Honesty, Innovation, Leadership, Respect and Teamwork*

**SUBJECT: Hamilton Police Services Board Operating Budget Surplus / Deficits  
Policy (City Wide) (PSB 15-059)**

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**HISTORICAL BACKGROUND (Chronology of events)**

(see attached report PSB 15-059)

**POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

(see attached report PSB 15-059)

**RELEVANT CONSULTATION**

(see attached report PSB 15-059)

**ANALYSIS AND RATIONAL FOR RECOMMENDATION  
(Include Performance Measurement/Benchmarking Data if applicable)**

(see attached report PSB 15-059)

**ALTERNATIVES FOR CONSIDERATION  
(Include Financial, Staffing, Legal and Policy Implications and Pros and Cons for  
each alternative)**

(see attached report PSB 15-059)

**ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN**

(see attached report PSB 15-059)

**APPENDICES**

**Appendix A - PSB 15-059 – Operating Budget Surplus / Deficits Policy**

cc Chief Glenn DeCaire, Hamilton Police Service

## **HAMILTON POLICE SERVICES BOARD**

### **- RECOMMENDATION -**

**DATE:** 2015 April 23  
**REPORT TO:** Chair and Members  
Hamilton Police Services Board  
**FROM:** Glenn De Caire  
Chief of Police  
**SUBJECT:** *Operating Budget Surplus/ Deficits Policy*  
(PSB 15-059)

#### **RECOMMENDATION:**

- a) That the Hamilton Police Services Board approve the Operating Budget Surplus/Deficit Policy as described in Appendix A and Appendix B.
- b) That the Hamilton Police Services Board send the approved policy to the General Issues Committee and Council of the City of Hamilton.

#### **FINANCIAL / STAFFING / LEGAL IMPLICATIONS**

**FINANCIAL –** Any operating budget surplus or deficit be allocated/(funded) to/(by) the Hamilton Police Service allotted reserves, through Hamilton Police Service Board resolution, per the approved draft policy in Appendix A and Appendix B.

**STAFFING –** n/a

**LEGAL –** The annual budgets, finances, and reserve funds of municipalities and all of its Boards are governed under the *Municipal Act*. The *Municipal Act* states that local Boards submit annual budgets (s.290, 6) in detail and form required by the Municipality. Budgets may provide for reserve funds that the municipality deems necessary (s.290, 5g), include estimated revenues to be paid into the reserves (s.290, 2.2) and estimated expenses to be paid out of reserves (s.290, 2.4). Therefore, while established Police reserves are set aside for future Police operations, Council has the ability to use all reserves for its purpose and change the use of any reserve.

## **BACKGROUND:**

At its meeting of April, 22, 2014, the Hamilton Police Services Board (HPSB) directed staff to prepare an information report on the retention of operating budgetary surplus (deficits).

### **Past / Present Practice**

It has been the past and present practice for all City of Hamilton (CoH) Boards, including the HPSB, to retain any and all operating budget surplus in their respective program reserves. Likewise, any deficits are funded through their program reserves as well.

Historically, the HPSB has retained annual operating budget surplus (funding deficits) in (from) Police reserves.

In addition, in the spirit of cooperation, the CoH's Finance Department and the Hamilton Police Service (HPS) have worked well together in dealing with Police operating surplus allocations and retentions, as well as in dealing with any operating deficits. Furthermore, there has been tremendous cooperation when the HPS has requested funding for capital projects as part of the CoH's annual capital budgeting process which have resulted in some capital projects being funded through City allotted reserves.

### **Research / Best Practices**

The HPS examined and reviewed several applicable and possible sources such as the *Police Services Act*, and the *Municipal Act*. HPS requested CoH By-Law Department and City's Clerk Department for a Council approved By-Law. In addition, HPS contacted the CoH's Finance Department for a policy and/or procedure on surplus/deficits. Past practices were examined, both with the HPS and other Boards within the City of Hamilton. The London Police Service was contacted as they have previously examined the topic and surveyed the Big 12 Police Services in the province. Further, the Ontario Association of Chiefs of Police (OACP) Budget and Finance Committee's "Best Practices" document issued in March 2007 was reviewed.

### **Police Services Act, Municipal Act**

Both the *Police Services Act* and the *Municipal Act* are silent on the issue of budgetary operating surplus / deficits. However, annual budgets, finances, and reserve funds of municipalities and all of its Boards are governed under the *Municipal Act*. As such, the CoH, through Council resolution, has the ability to use all reserves for its purpose and change the use of any reserve.

### **City of Hamilton By-Law, Clerk's and Finance Departments**

The CoH By-Law, Clerk's and Finance Departments all confirmed there is no formal City-wide policy, procedure, or By-Law that provides direction for the allocation of budgetary operating surplus/deficits.

*The Finance Department stated, for their year-end reporting to Council, they traditionally recommend and receive approval, through Council resolution, that the operating surplus, for City of Hamilton Boards (Police, Library, and previously, HECFI), be transferred to their respective reserves and use for future capital projects and/or tax stabilization.*

In addition, the CoH, in its annual Reserves report to Audit, Finance, and Administration committee (AF&A, 2014 – FCS14057), identifies and reports all reserves, including the HPS reserves. In the detailed reserves report, all information is provided including a description "source of funding". Under this sub-heading, it states "contributions from operating fund". Therefore, through various CoH AF&A reports, Council has traditionally approved the distribution of the HPS operating surplus / deficits to the Police reserves.

### **Big 12 Police Services in Ontario**

The London Police Service conducted a survey of the Big 12 Police Services (Hamilton, Toronto, York, Peel, Halton, London, Durham, Niagara, Ottawa, Waterloo, Windsor, OPP) in the province for the retention of year end operating surplus/deficits. Of the twelve (12) Police Services, only two (2) have a formal policy for the retention of year end surplus.

It was initially reported all but one (1) of the Police Services retain their surplus in their capital reserves. However, the one (1) Police Service later confirmed, though their policy states surpluses are retained by their respective municipality, they in fact do retain surplus in their Police allocated reserve. They are in the midst of updating their policy. Like the HPS, all Police Services report their operating surplus / deficits to their Boards and Council with allocation recommendations.

OACP – Best Practices Document – March 2007

The OACP's Budget and Finance Committee issued, in March 2007, "Budget and Financial Management Best Practices" document whereby it examined reserves and management of operating surplus and deficits. The Committee reported the best practice would be for the Service to retain surplus/deficits. *It promotes stable funding through reserve management, tax dollars allocated for policing to remain in policing, and discourages "use it or lose it" philosophy. In addition, retention of operating surplus supports sustainability as it ensures funding opportunities for future service delivery.*

Hamilton Police Service Board Resolution

As a result of the information report PSB 14-065, HPSB carried a motion for HPS to meet with CoH Finance staff to prepare policy recommendations for operating surplus or deficit of the HPSB and forward the policy to the Board for approval. Such meeting took place on September 16, 2014. Issues identified and discussed were on current and past practice, practices employed by other City programs, and other Police Services.

City Finance staff stated the Hamilton Public Library does have a formal policy as part of the City's General Reserve Policy and agreed a formal policy for HPS should be included as part of the CoH General Reserve Policy. The Library Board policy was used as a guideline to create the HPS program specific policy on operating budget surplus/deficit. In addition, it was agreed, since annual operating budget, as described in both the *Municipal Act* and *Police Service Act*, is program specific, any surplus shall remain program specific, and thus, retained in Hamilton Police allotted reserves. As well, any deficits would be funded from the Hamilton Police reserves.

As such, the formal policy in Appendix A and Appendix B was developed with assistance, review and approval of City of Hamilton's Finance staff.



Glenn De Caire  
Chief of Police

GD/J. Randazzo

Attachments: *Appendix A and Appendix B*

**HAMILTON POLICE SERVICE**

**POLICE RESERVES**

**OPERATING BUDGET SURPLUS (DEFICIT) RETENTION POLICY**

**Policy Statement**

The creation of a formal operating budget surplus (deficit) retention policy to Police Reserves and a policy on the creation, use, and management of reserves, within the framework of a formalized Police reserve policy, is a best practice initiative recommended by Ontario Association of Chiefs of Police (OACP), and followed by all Police Services and Municipalities throughout the Province of Ontario.

Reserves are used to accumulate funds over time to replace capital assets and provide a measure of financial flexibility to budget shortfalls or unexpected or unanticipated events. A balanced approach to the planning and use of the reserves is considered good financial management, it permits Police funds to be spent sensibly in future Police operations, and ensures Police service levels are maintained and not immediately impacted by any potential unexpected events.

**Purpose**

To establish guidelines and criteria for proper administration of Hamilton Police Service's accumulated operating budget surpluses and/or deficits retained by the Hamilton Police Service in Police designated reserves.

**Policy**

1. That any future surpluses arising from the Hamilton Police Service operating budget be initially transferred to the Hamilton Police Service Tax Stabilization reserve, held by the City of Hamilton.
2. That any future deficits from the Hamilton Police Service operating budget be funded firstly from the Hamilton Police Service Tax Stabilization reserve.
3. That the use or transfers of funds from the Police Tax Stabilization reserve be approved by the Hamilton Police Service Board.

**Authority**

The City of Hamilton has authority for the establishment and use of reserves as per section 290 of the *Municipal Act*.



**General Guidelines**

1. All expenditures from any Police Reserve shall require Hamilton Police Service Board approval, either through a separate Board report, motion, or through the annual budget process.
2. All transactions for expenditure and revenues related to reserves are to be processed through the Police current operating fund or the Police capital fund and then transferred to or from the Police reserves.
3. Actual investment earnings from the City of Hamilton's investment management program are to be allocated to the Police reserves based on month end balances for a 12 month (Dec-Nov) period.

**Guidelines for Borrowing from Reserves**

1. Borrowings from a reserve are to be allowed only if the analysis of the reserve funds indicates excess funds are available and the use of the funds will not impact the reserves current operations.
2. All internal reserve borrowings are to be repaid with principal and interest.
3. The internal borrowings interest rate shall be the rate equivalent to the City of Hamilton's external borrowing rate at the time of the borrowing.

**Governing Legislation**

Reserves are governed by the Ontario *Municipal Act*.

**Policy History**

A formal Police reserve policy has not existed in the past. However, it has been a past practice any Police operating budget surplus (deficit) has been retained in Police reserves held by the City of Hamilton. Any and all transfers to / from the Police reserves have been approved by the Hamilton Police Service Board through a Board report, motion, or through the annual budget process.



**HAMILTON POLICE SERVICE**  
**OPERATING BUDGET SURPLUS (DEFICIT) RETENTION POLICY**  
**POLICE TAX STABILIZATION**

**Policy Statement**

This policy sets the guidelines for the sources, uses, and appropriate target levels for the balance in the Police Tax Stabilization Reserve.

**Purpose**

To offset Police Service cost increases due to fluctuations in the economy and/or to offset yearly budget increases and/or deficits.

**Policy**

1. That any future surpluses arising from the Hamilton Police Service operating budget be initially transferred to the Hamilton Police Service Tax Stabilization Reserve held by the City of Hamilton.
2. That transfers from the Tax Stabilization Reserve to any other Hamilton Police Service Reserve (i.e. Capital Reserve) and/or to fund planned capital expenditures, and/or to offset annual budget increases, be approved through recommendation and resolution by the Hamilton Police Service Board.
3. That any deficits from the Hamilton Police Service operating be funded firstly from the Hamilton Police Service Tax Stabilization reserves.
4. That the use of funds from the Tax Stabilization Reserve be approved by the Hamilton Police Service Board.

**Authority**

1. All uses of funds in the Tax Stabilization Reserve must be approved by the Hamilton Police Service Board either by a budget submission, by a separate Board report, or by motion of the Hamilton Police Service Board.
2. The City of Hamilton has authority for the establishment and use of Reserves per section 290 of the *Municipal Act*.

**Source of Funds**

The Police Tax Stabilization Reserve was initially funded through Omers' contribution holiday for the period August 1999 to December 2003 and/or via annual Operating Fund surplus through approved Board resolution. Moving forward, the source of funds are to be transferred to this reserve include;

1. Initial year end operating budget surplus.
2. Investment income earned on the Reserve's balance as per City policy and procedures.
3. Any approved transfers from other reserves.
3. Remaining balances in Police reserves approved for closure.
4. If applicable, repayment of principal plus interest for any internal borrowings from the reserve as per City policy and procedures.

**Use of Funds**

The use of funds from the Tax Stabilization Reserve is permitted upon approval of the Hamilton Police Service Board. Uses may include;

1. Extraordinary and unforeseen operating expenditures.
2. Operating revenue shortfalls.
3. To offset annual budget increases.
4. Operating program phase-ins, pilot projects, and one-time expenditures.
5. Operational reviews and departmental reorganizations.
6. Borrowing to fund operating budget programs or special requests.
7. To transfer funds, through Hamilton Police Service Board recommendation and resolution, to another Police Reserve for funding future Police capital projects.

**Target Levels**

The balance in the Police Tax Stabilization Reserve has a target level %, target level \$, and ceiling as follows;

Target Level %: 5% of the previous year's tax levy for Hamilton Police Service.

Target Level \$: \$7 million (based on 5% of the 2014 Police levy to nearest million)

Target Ceiling: To be equivalent to the Target level dollars amount.

**Governing Legislation**

There is no legislation governing the use of the Police Tax Stabilization Reserve.

**Limitations**

Changes in the use of the Police Tax Stabilization Reserve are to be approved through a Hamilton Police Service Board resolution and forwarded to City Council for approval as changes in Reserve and Reserve funds are ultimately at the discretion of Hamilton City Council.