

Report on Halifax
Regional Municipality's
Policing Options:
Cost Analysis



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Executive summary

Executive summary

- Halifax Regional Municipality (HRM) is currently served by two (2) separate policing agencies under a hybrid service delivery model involving both the Halifax Regional Police (HRP) and Royal Canadian Mounted Police (RCMP).
- Since amalgamation in 1996, HRM has been responsible for 100% of HRP's expenditures, and only 70% of costs associated with the RCMP. Under the current policing agreement, the Provincial Police Service Agreement "PPSA", the Government of Canada funds the remaining 30% of RCMP costs. This arrangement is set to expire in 2012.
- Given the approaching expiry date of the PPSA, Nova Scotia's Board of Police Commissioners issued a request for proposals in May 2009 to better understand the options available for policing. Four (4) policing alternatives were identified, including a status quo model (A), a model with a redefined urban core (B), and two models in which policing services would be the sole responsibility of one agency or the other (C and D). Proposals were received from both the HRP and RCMP.
- Deloitte was engaged in October 2009 to validate the cost assumptions underlying each proposal, prepare a current state cost model and perform a financial analysis of each options.
- Significant variances were observed in the way that information was collated and reported between the two agencies. As a result, there were some areas in which costs could not be validated. These areas were not deemed to be material.
- Overall, the assumptions used by both the HRP and RCMP in the development of their respective proposals appear reasonable. Each proposal carries with it a number of financial benefits and risks, such as:
 - Model A (Status Quo) – Would not be a substantial departure from the current service delivery model; however this option would perpetuate a duplication of administration and overhead (as it is today).
 - Model B (Redefined Urban Core) – Would provide cost savings relative to the status quo and would increase HRM's control over police service budgeting; it may also result in increased costs of policing to other jurisdictions in the Province, and reduce HRM's current insulation from risk and cost (provided by the RCMP under the PPSA).
 - Model C (HRP Only) -- Appears to be the most cost effective of the four options, and provide the greatest budgetary control; however, it has the potential to increase costs of policing to other jurisdictions in the Province and would eliminate cost-neutral access to specialized RCMP teams in unusual policing situations.
 - Model D (RCMP Only) -- Would reduce the overall cost of policing services to other jurisdictions within the Province; however it would require a significant financial investment by HRM given that it necessitates the immediate wind-up of the HRP pension plan and payout of severance to HRP staff.
- We propose several recommendations that, regardless of which option HRM prefers, may be useful in enhancing policing service delivery in HRM. Most notably, we suggest creating a robust financial reporting and accountability framework that allows for improved comparative reporting and performance management of the service delivery agencies, a contract negotiation and risk mitigation strategy, and the development of a comprehensive change management strategy, with communications plan.

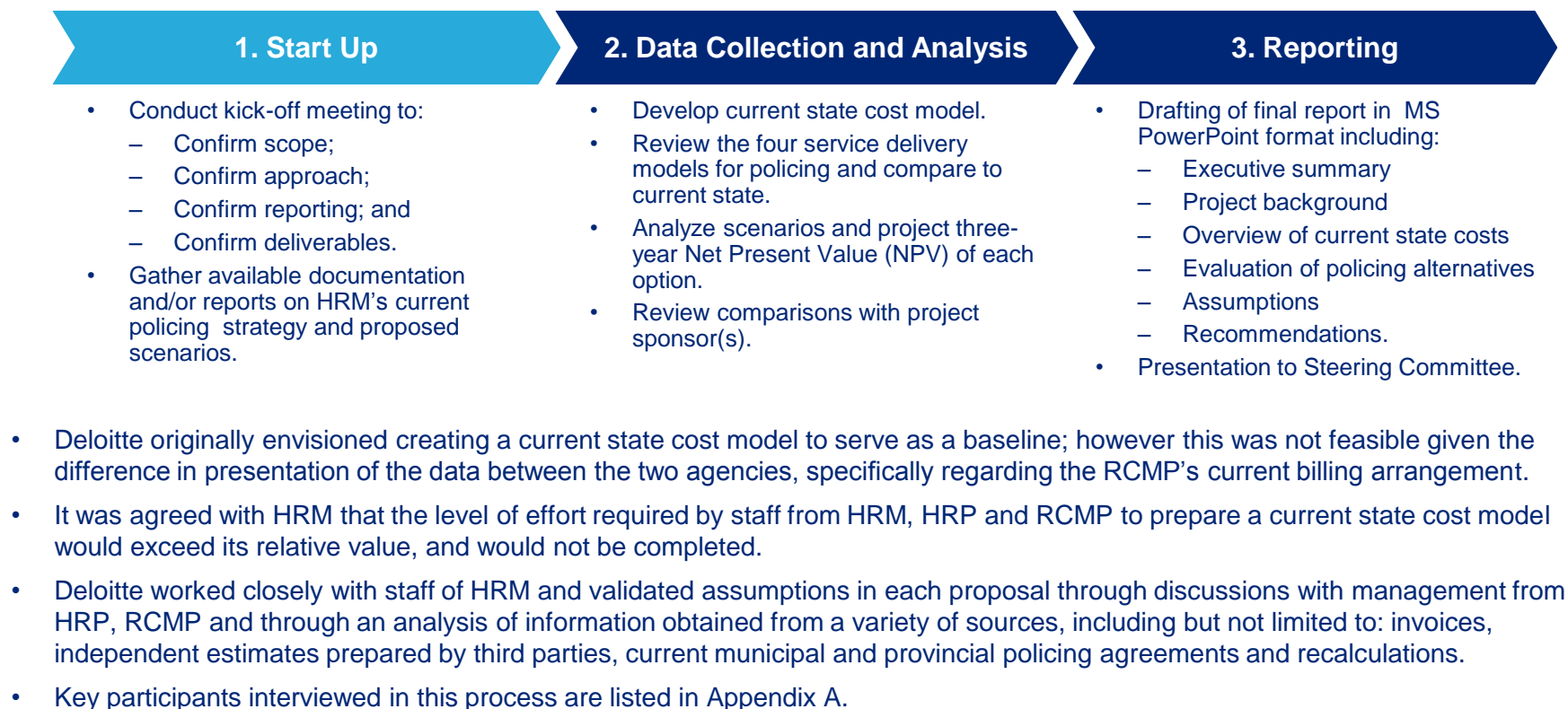
Project background

With its existing policing model set to expire in early 2012, HRM requested proposals from the RCMP and HRP

- The Halifax Regional Municipality (HRM) is the only municipality in Nova Scotia that has a dually administered police force, with services being provided by both the Halifax Regional Police (HRP) and the Royal Canadian Mounted Police (RCMP).
- This model has been in place since the County of Halifax, City of Halifax, City of Dartmouth and Town of Bedford amalgamated to form the HRM on April 1, 1996.
- Currently, HRP is responsible for providing policing services to HRM's urban core and rural Sambro Loop, while RCMP are contracted to police other areas, including Sackville, Eastern Passage and extending to more rural areas of the HRM, from Sheet Harbour to Middle Musquodoboit and St. Margaret's Bay.
- The Provincial Police Service Agreement (PPSA) is the key contract that governs policing services in HRM. In fact, the majority of jurisdictions in Nova Scotia are policed under a Provincial arrangement, meaning that fees for RCMP police services are calculated at a Provincial level, with costs being driven on a variable basis linked to the number of total FTEs serving the Province (including those serving the HRM) – thus any change in HRM policing services provided by the RCMP will impact other jurisdictions across the Province.
- Under the current arrangement established at the time of amalgamation, the Crown pays for 30% of RCMP services, with HRM carrying only the remaining 70% of costs.
- The current PPSA for HRM is set to expire on March 31, 2012.
- The expiry of these contracts provides HRM with the opportunity to reassess how it delivers policing services to its constituents. The governing body for policing services in the Province of Nova Scotia, the Board of Police Commissioners, issued a request for proposals on May 13, 2009, requesting that RCMP and HRP submit proposals based on the following four (4) alternatives:
 - Model A – Retain the current mixed service delivery model, with policing provided by a combination of HRP and RCMP;
 - Model B – Modify the service delivery mix between HRP and RCMP, transferring the duties for policing Lower Sackville and Cole Harbour to HRP;
 - Model C – Contract services for the entire district to HRP; and
 - Model D – Contract services for the entire district to RCMP.
- A key consideration in evaluating the alternatives will be assessing whether the renegotiation of an Municipal Police Service Agreement "MPSA" (a service exchange agreement with the RCMP) and PPSA will result in an increase in the level of cost for which HRM is responsible.
- Deloitte was engaged to assist HRM in assessing and evaluating the cost implications of each proposed policing solution, including assistance in reviewing and validating cost assumptions and calculations.

Deloitte was engaged to assist HRM in evaluating the cost implications of each proposed policing solution

- The work was completed between end of October and early December 2009. The following approach was agreed with HRM:



Building an understanding of the current state cost model required a good understanding of a number of key elements

- Details of the current state cost model that could be adequately compared to the proposed models was not available.
- Generally, the proposals were presented in a manner that differs from the current billing method breakdown. The proposal budgets were not prepared under a standard set of assumptions that provided ease of comparability.
- For example, there was no standard criteria laid out for how salary costs were presented, resulting in RCMP presenting salary costs under a conservative (“worst case scenario”) model, and HRP preparing their models on the basis of current and projected demographics.
- While there were challenges in arriving at complete understanding of current state, there are key elements of HRM’s current policing arrangement that we can point out:
 1. **Current costs:** HRM currently pays approximately \$74M (\$20M RCMP and \$54M HRP) annually for policing services.
 2. **Funding arrangement:** HRM is currently responsible for funding 100% of HRP related costs and 70% of RCMP related costs as governed by elements of the PPSA. This is significant because the 70/30 funding arrangement is likely to be renegotiated in the next contract, and discussions with RCMP have indicated the trend is toward 90/10 funding arrangements for similar sized jurisdictions. This is also important because the RCMP FTE rate is determined on a provincial level, so any changes to the number of FTEs in HRM will have an effect on costs to other jurisdictions within the Province.
 3. **Number of officers:** Today, HRP employs 470 full-time police officers, whereas RCMP funds 178 FTEs; however the actual RCMP headcount in HRM is unknown. All costs associated with the RCMP (including capital assets, divisional administration “DivAdmin”, and salary costs) are built into a per FTE rate, based on an annual fee of \$114,050 per FTE in 2009/10. Under the current arrangement, it is difficult to determine how costs have been broken out.
 4. **Liability:** Under the current arrangement, the RCMP fund significant legal liability, insurance, recruiting, pensions, training, and other costs on a national basis, resulting in risk and cost insulation to the HRM.
 5. **Duration of shifts:** Currently, both HRP and RCMP operate 12 hour shifts.

Evaluation of policing alternatives

Four (4) policing alternatives identified by the Board of Police Commissioners were reviewed

- The following options were defined by the Board of Police Commissioners in the request for proposals issued to HRP and RCMP on May 13, 2009:

Model	Description
Model A	Status Quo
Model B	Redefined urban core. Assumes HRP takes on additional responsibility for policing Cole Harbour and Sackville.
Model C	HRP only
Model D	RCMP only

- A comparative analysis of four (4) options was conducted, including an analysis of the key cost assumptions, financial risks and opportunities within each option.
- Assumptions have been tested for reasonableness through tracing to underlying documentation where possible and through a recalculation of all formulas to ensure the integrity of data. Given the significant variances in the manner through which information was reported between the two parties and the speculative nature of reports, there were some areas where costs couldn't be verified. These areas were not deemed to be material to the overall report.
- The following pages contain our analysis and observations on each of the four policing options.
- Each model has been normalized on the basis of a 90% direct municipal service agreement, with financial analysis being prepared using a combination of data obtained from both HRP and RCMP.
- A three-year NPV evaluation and cost analysis at varying funding models can be found in Appendices B and C, respectively.

Cost analysis of each option illustrated key differences in assumptions and underlying service delivery models

- This evaluation of costs of each proposal is conducted over a three year period in order to provide a more “apples to apples” comparison of each proposal (i.e. data for three years was combined for each costing item).
- The focus of analysis was on material numbers, namely salaries, as they represent approximately 70% of the total costs associated with policing under each model.
- For comparative purposes, costs have been grouped into the functional areas of People, General & Administrative, Equipment and Transition:
 - **People Costs:** All expenses associated with salaries, benefits, training and pensions of full time staff members.
 - **General & Administrative (G&A) Costs:** All expenses associated with administrative overhead, ancillary services, consulting services, and appeals.
 - **Equipment Costs:** All expenses associated with buildings, vehicles and equipment.
 - **Transition Costs:** Costs directly attributable to transitioning to a revised model.

Cost analysis of each option illustrated key differences in assumptions and underlying service delivery models (cont'd)

- The following table provides a summary of the cost elements of each of the proposals from the RCMP and HRP:
 - This model is presented under the assumed basis of a 90% direct municipal contract arrangement for all RCMP costs, which is an increase from the current 70% funding model.
 - Note ^[1] -- A revision was made to RCMP salary costs to allow for an improved level of comparability amongst the proposals. The basis of the revision was a difference in the underlying assumptions used to prepare estimates surrounding rates of pay between HRP and RCMP. In their original proposal, the RCMP made a “worst case scenario assumption” that Registered Members would be paid at the maximum of their given pay class as per their internal Annual Rates of Pay classes, with any new entrants joining at the highest rate of pay in their class. The revisions included within this report were submitted on an informal basis, directly to Deloitte. We suggest these figures could be resubmitted to the Board of Police Commissioners as an addendum to the RCMP’s original proposal.
 - In contrast, HRP made the assumption that salary costs would be based on the current demographic, where one third of any new entrants would come directly from the RCMP. These individuals would be grandfathered in at existing pay rates, while the remaining two thirds of new staff would join at the entrant rate. The RCMP provide a revised estimate on salaries under each model to reflect anticipated costs based on the current demographic under actual rates vs. the maximum rate.

	Model A: Status Quo	Model B: Redefined Urban Core	Model C: HRP Only	Model D: RCMP Only
People	\$176,873,961	\$185,920,780	\$179,062,348	175,939,319
G&A	30,605,371	26,067,181	17,411,981	73,225,722
Equipment	50,833,588	34,216,156	35,847,121	30,092,433
Transition				81,407,508
Revision ^[1]	(2,040,725)	(750,783)	0	(6,871,998)
Total	\$256,272,195	\$245,453,334	\$232,321,450	\$353,782,984

Currently, there are a total of 648 FTEs providing policing service in HRM

- Deloitte focused on larger dollar item assumptions related to salaries, which contribute to over 70% of the total costs of each proposal.
- The following table describes the FTEs involved in providing policing services in HRM today:

FTEs		Model A: Status Quo	Model B: Redefined Urban Core	Model C: HRP Only	Model D: RCMP Only
RCMP	Regular Members	176	67		595
	Civilian Members	2	1		22
	Guards & Matrons	0	0		12
	Total RCMP	178	82		629
HRP	Regular Officers	470	583	637	
	Total HRP	470	583	637	
	TOTAL	648	665	637	629

- Deloitte was unable to validate the number of administrative employees in place under each option, given that a number of staff are employed under a shared services model with HRM and cost/FTE equivalency information is not easily obtainable.
- Additionally, the RCMP proposal in Model D includes a cost for HRM employees (\$7.6M per annum) but did not specify the actual number of employees.

Model A does not represent a fundamental departure from the current service delivery model from a financial perspective

- The following table illustrates the costs of Model A (Status Quo) over an initial three-year period.

Model A	Year 1	Year 2	Year 3	Total
People	\$57,224,097	\$58,940,820	\$60,709,044	\$176,873,961
G&A	9,901,767	10,198,820	10,504,784	30,605,371
Equipment	16,446,209	16,939,595	17,447,783	50,833,588
Transition	0	0	0	0
Revision	(660,236)	(680,043)	(700,445)	(2,040,725)
Totals	\$82,911,837	\$85,399,192	\$87,961,166	\$256,272,195

- Based on discussions with the RCMP and a review of underlying documentation, the status quo as presented by the RCMP contains a number of proposed changes to its policing operations, such as 11 hour shift and a new administrative accountability structure.
- While these changes have the potential to enhance the quality of policing services in HRM, they do not have a material financial impact on the status quo model, as FTEs in this model remains constant and FTEs are the primary cost driver for the RCMP.
- It is assumed that no transition costs would be incurred under Model A.
- During an initial discussion with the RCMP, it was noted that under the proposed RCMP Enhanced Police Service Delivery Method, “significant cost savings” would be realized with the change from a 12-hour to an 11-hour shift model.
- The estimated cost savings associated with this model were deemed to be \$294,000 annually per the RCMP’s report. Putting this in context, \$294,000 annually would make up less than 0.3% of the total cost of policing in HRM. Given the relative value of these savings to the total policing budget, no additional work was performed to validate these savings.

Model B appears to provide cost savings, increased control of policing budgets and the ongoing benefits of RCMP presence in HRM

- The following table illustrates the costs of Model B (Redefined Urban Core) over an initial three-year period¹:

Model B	Year 1	Year 2	Year 3	Total
People	\$55,088,877	\$64,892,232	\$65,939,671	\$185,920,780
G&A	8,121,426	9,120,858	8,824,897	26,067,181
Equipment	17,169,140	7,060,996	9,986,020	34,216,156
Transition				
Revision	(242,901)	(250,188)	(257,694)	(750,783)
Totals	\$80,136,542	\$80,823,898	\$84,492,894	\$245,453,334

- Model B provides HRM the opportunity to retain RCMP presence in HRM.
- We also observe that Model B appears to offer the following financial opportunities:
 - Provides cost savings relative to the status quo model.
 - Provides increased control over the budget of the police portfolio for the HRM.
 - Reduces some of the duplication of administrative costs between RCMP and HRP.

¹ Users of this report should note that HRP cost allocations have been extrapolated by Deloitte in order to provide a more comparable analysis from the perspective of a breakdown of costs under people, general & administrative, equipment and transition. In the proposal provided by HRP, only incremental costs were detailed for each of Models B, C, and D.

Deloitte extrapolated the cost categories associated with each of the incremental costs over the existing cost base (multiplied by a 3% inflation factor).

The effect of this extrapolation is the over-allocation of equipment costs in Year 1 of the table above, which nets itself out over the three year period and has no effect on the total column.

We observed risks associated with Model B related to exposure to increased costs by both HRM and other jurisdictions

- Based on our analysis of Model B, and discussions with both HRP and RCMP, we observe the following financial risks:
 1. A transition to an increased HRP presence has the potential to increase the overall cost of provincial policing:
 - Model B assumes that RCMP officers previously working in Sackville and Cole Harbour will have to be redeployed outside of HRM.
 - Under the PPSA, the Province will be responsible for absorbing up to one year's salary for all officers being transferred out of province. There may not be sufficient roles for HRM-based RCMP officers.
 - Out of province postings may be required at a "worst-case scenario" one-time direct cost to the Province of approximately \$5.1M under the current 70% funding arrangement.¹
 - Additionally, fewer HRM based RCMP would spread infrastructure and administration costs over fewer local members serving the Province. This would lead to an increase in the cost per FTE to jurisdictions across the Province and on the remaining RCMP members in the HRM.
 - This cost is not included in the proposal, as it would be a cost borne by the Province of Nova Scotia, not HRM.
 2. Potential costs associated with the provision of additional resources in the event of a significant policing emergency without federal implications (e.g., a riot, hostage taking) would not be covered to the same extent by the RCMP. The impact of these costs could not be quantified as it would vary based on the number of events requiring additional officers. This risk could be mitigated through service level agreements.
 3. Model B may increase HRM's exposure to legal liability and costs. Under the current policing arrangement, the Government of Canada retains liability for a number of policing activities and administrative costs, including legal services. Loss of an RCMP presence would result in an increased liability to HRM.
 4. Some transition costs have not been included in Model B:
 - Discussions with HRP and RCMP suggest that change management and communications related to this transition will be managed internally with no additional cost.
 - Given the existing concerns between integration of RCMP and HRP services, change management may be helpful in managing the transition.

¹ Based on information provided by Robert Purcell, Executive Director of Public Safety of the Nova Scotia Department of Justice.

We observed risks associated with Model B related to exposure to increased costs by both HRM and other jurisdictions (cont'd)

- We also observe that Model B assumes that one third of all new entrants would join the HRP ranks directly from the RCMP at a grandfathered salary:
 - Discussions with the RCMP indicate that historical absorption of RCMP officers is lower than one third in similar circumstances.
 - The resultant impact would be that this assumption potentially overstates the cost of people from an HRP perspective by an undeterminable amount; however information provided by the HRP indicates that some positions built in for RCMP officer transfers would be filled through lateral transfers from police forces across the country.

Model C provides greatest control over policing operations and budgets, but increases risk exposure to HRM and costs to the Province

- The following table illustrates the costs of Model C (HRP Only) over a three-year period.

Model C	Year 1	Year 2	Year 3	Total
People	\$56,190,064	\$58,612,734	\$64,259,550	\$179,062,348
G&A	6,076,488	5,621,925	5,713,568	17,411,981
Equipment	15,345,050	11,818,082	8,683,989	35,847,121
Transition				
Totals	\$77,611,602	\$76,052,741	\$78,657,107	\$232,321,450

- Model C provides HRM the greatest control over policing operations and budgets.
- We also observe that Model C appears to offer the following financial opportunities:
 - Provides cost savings relative to the status quo model, Model B, and Model D.
 - Provides increased control over the budget of the police portfolio for HRM.
 - Eliminates the duplication of administrative costs between RCMP and HRP.

Users of this report should note that HRP cost allocations have been extrapolated by Deloitte in order to arrive at a more comparable analysis from the perspective of a breakdown of costs under people, general & administrative, equipment and transition. In the proposal provided by HRP, only incremental costs were detailed for each of Models B, C, and D.

- Deloitte extrapolated the cost categories associated with each of the incremental costs over the existing cost base (multiplied by a 3% inflation factor).
- The effect of this extrapolation is the over-allocation of equipment costs in Year 1 of the table above, which nets itself out over the three year period and has no effect on the total column.

We observed greater risks associated with Model C in terms of exposure to increased costs by both HRM and other jurisdictions

- At a high level, Model C magnifies a number of same financial risks presented in Model B.
- Model C could give rise to significant financial impacts to both the Municipality and the Province as a whole. Specifically, we observe that:
 1. A transition to an increased HRP presence has the potential to increase the overall cost of provincial policing:
 - Model C assumes that RCMP officers previously working in HRM will have to be redeployed outside of HRM.
 - Under the PPSA, the Province will be responsible for absorbing up to one year's salary for all officers being transferred out of province. There may not be sufficient roles for HRM-based RCMP officers.
 - Out of province postings may be required at a “worst-case scenario” one-time direct cost to the Province of approximately \$11.8M under the current 70% funding arrangement.¹
 - Additionally, fewer HRM based RCMP would spread infrastructure and administration costs over fewer local members serving the Province. This would lead to an increase in the cost per FTE to jurisdictions across the Province and on the remaining RCMP members in the HRM.
 - This cost is not included in the proposal, as it would be a cost borne by the Province of Nova Scotia, not HRM.
 2. Potential costs associated with the provision of additional resources in the event of a significant policing emergency without federal implications (e.g., a riot, hostage taking) would not be covered to the same extent by the RCMP. The impact of these costs could not be quantified as it would vary based on the number of events requiring additional officers. This risk could be mitigated through service level agreements.
 3. Model C may increase HRM's exposure to legal liability and costs. Under the current policing arrangement, the Government of Canada retains liability for a number of policing activities and administrative costs, including legal services. Loss of an RCMP presence would result in an increased liability to HRM.

¹ Based on information provided by Robert Purcell, Executive Director of Public Safety of the Nova Scotia Department of Justice.

We observed greater risks associated with Model C in terms of exposure to increased costs by both HRM and other jurisdictions (cont'd)

4. Some transition costs have not been included in Model C:

- Model C represents a significant change for staff, the general public and other stakeholders. Discussions with HRP and RCMP suggest that change management and communications related to this transition will be managed internally with no additional cost.
- This may understate the magnitude of change services required.
- We also observe that Model C assumes that one third of all new entrants would join the HRP ranks directly from the RCMP at a grandfathered salary.
 - Discussions with the RCMP indicate that historical absorption of RCMP officers is lower than one third in similar circumstances.
 - The resultant impact would be that this assumption potentially overstates the cost of people from an HRP perspective by an undeterminable amount; however information provided by the HRP indicates that some positions built in for RCMP officer transfers would be filled through lateral transfers from police forces across the country.

Model D would reduce HRM's liability and cost of policing to other jurisdictions in the Province

- The following table illustrates the costs of Model D (RCMP Only) over a three-year period:

Model D	Year 1	Year 2	Year 3	Total
People	\$56,918,477	\$58,626,031	\$60,384,812	\$175,929,319
G&A	23,690,744	24,401,467	25,133,511	73,225,722
Equipment	9,735,816	10,027,890	10,328,727	30,092,433
Transition ^[1]	81,407,508			81,407,508
Revision	(2,223,300)	(2,289,999)	(2,358,699)	(6,871,998)
Totals	\$169,529,245	\$90,765,389	\$93,488,351	\$353,782,984

- We observe that Model D appears to offer the following financial opportunities:
 - Reduced policing costs to the Province as a whole, as the RCMP's costing model is FTE-driven and Model D would increase the RCMP's complement to the province by 549 FTEs .
 - Eliminates the duplication of administrative and overhead costs between RCMP and HRP.

Note ^[1] – see Transition Costs on next page.

Model D requires the greatest investment from HRM, and would reduce visibility and control over operations and policing costs

- The transfer of all policing responsibilities in HRM to an all RCMP model appears to give rise to significant costs and would significantly decrease the level of control the Municipality would have over the policing budget.
- We observe the following key financial risks:
 1. Transition costs related to two primary variables: Costs associated with transition to Model D (proposed as \$50M for HRP pension wind-ups and \$25M related to payouts of severances and banked time) and capital infrastructure upgrades to existing facilities to meet RCMP standards (proposed in Model D as \$6M):
 - Users of this report should note that the true cost of pension wind up is indeterminable, as a result of:
 - Fluctuating market conditions, which drive the value of pension assets.
 - Recovering Pension Values: The estimate of \$50M used by the HRP as per a Mercer report conducted in 2008, during a low point of the economic downturn. Market recoveries since then would have increased pension assets and reduced overall liability (at this point in time).
 - This item relates primarily to cash flow and will not change the total liability to the HRM; however there may be issues with obtaining sufficient cash to cover the full liability in a one-time payment.
 - Additionally, the close-out of all HRP members would have a pervasive effect on the overall HRM pension plan, as the loss of 500+ members would potentially disrupt the balance and planning of the overall plan.
 2. Loss of control over operations and costing mechanism:
 - A changeover to an “all RCMP” model may result in a loss of control over operations and costing options for service delivery in HRM.
 - Centralized decision-making and financial modeling may reduce the transparency and visibility of costs to HRM. A mitigating factor would be the creation of a financial reporting framework that allows for better comparison between RCMP and HRP data.
 3. Need for redeployment of existing employees employed by the Municipality:
 - In the event an all-RCMP model of policing is preferred, some HRM employees supporting the HRP would be redeployed within the HRM. This may result in minimal net savings to HRM. A similar situation was reported related to the transition to Halifax Water.

Model D is the most costly option, and would reduce HRM's visibility and control over operations and policing costs (cont'd)

4. Difficulty in "going back":

- Moving to an all RCMP service delivery model would eliminate the underlying infrastructure of the HRP, which would significantly increase the costs of returning to a mixed service model in the future.
- All infrastructure would need to be recreated, resulting in significant one-time costs to reestablish a local police force.

5. Some transition costs have not been included in Model D:

- Model D represents a significant change for staff, the general public and other stakeholders.
- Discussions with HRP and RCMP suggest that change management and communications related to this transition will be managed internally with no additional cost.
- This may understate the magnitude of change services required.

In general, HRP's assumptions appear reasonable, although anticipated staff transfers and pension windup costs may be overstated

- Whereas the salary costs represent the largest amounts of total costs under each model, additional scrutiny was placed on evaluation of assumptions. The following assumptions were used to prepare the HRP proposals:

HRP proposals were prepared using known costs per the 2009/10 budget, with the addition of a 3% annual inflation rate.

This appears reasonable given historic inflation rates of pay and is in line with the Bank of Canada's targeted inflation rate of between 1 and 3%.

For Models B & C, HRP assumed that one third of required additional staff would transfer from the RCMP, with the remaining two thirds of officers being made up of new recruits.

This assumption may actually overstate the costs associated with recruitment of new officers, as discussions with RCMP management indicated that in past instances, only approximately 10% of RCMP officers transfer to the municipal force in the event of an amalgamation. Overall, this would have a minimal impact on the total costs associated with policing under Models B and C.

Civilian staff and Commissionaire costs have been estimated using the rate of pay identified in applicable collective agreements, with a 3% inflationary provision built in.

This assumption appears reasonable. Verification was achieved in the proposal by tracing the information in the proposal back to the underlying collective agreements, with no material discrepancies noted.

Costs associated with HRM Pension Plan were estimated by Mercer on December 4th, 2008.

Mercer is a credible actuary and is deemed to be reliable; however, given the fluctuation of markets over the past year, it is likely that the actual wind up costs presented by HRP of \$50M would be overstated, as the market value of investments have increased since the December 2008 reporting date, resulting in a decreased pension gap. Deloitte was unable to validate the assumption associated with the \$50M in total pension wind up costs; however, in the event Model D is selected, it is recommended that Mercer be re-engaged to perform an actuarial analysis in order to capture a full cost of wind up.

All benefit payouts (MAPP medical trust, Severances) were calculated based on actual liability at the proposal date.

This assumption appears reasonable.

In general, RCMP's assumptions appear reasonable, and are based on the premise that there will be no fundamental changes to the agreements

- The RCMP's proposals were based on the following premises:

Costing estimates of the RCMP have been prepared under fundamentally different methodology than those of HRP.

Initial models presented by the RCMP were estimated salaries at the maximum in the given pay scale.

Whereas this resulted in an overly conservative presentation of costing (overstatement of costs), the RCMP was asked to revise the salary portion of their estimate to reflect actual expected rates of pay across each model based on current and projected workforce demographics. The effect of these revisions was to reduce the total cost of People in each of the three models involving the RCMP.

The total costs of Model's A, B and D were in effect reduced by \$2.041M, \$0.751M and \$6.872M, respectively, based on an assumed 90% funding arrangement.

All pay estimates are based on full strength of workforce, and no additional allowances have been built in for items such as part-time employees, terms, casuals, payout or leave. In particular, under Model D it is difficult to predict whether any of these costs have been appropriately captured, in particular as it relates to the changeover in shift methodology to an 11 hour shift across jurisdictions. The potential impact of this methodology would be an understatement of actual costs by an indeterminable amount.

Salaries are based on the most recent Annual Rates of Pay for Regular and Civilian Members.

Salaries have been cross referenced to the Annual Rates of Pay for Regular and Civilian Members with no discrepancies noted.

All models are built using a 3% inflation rate (except where future costs were known based on pre-existing arrangements, or legislation, such as the *Expenditure Restraint Act*).

This appears reasonable given historic inflation rates of pay and is in line with the Bank of Canada's targeted inflation rate of between 1 and 3%.

All models are built based using current costing methodology, using the allocation rates for indirect costs and divisional administration as dictated under the current PPSA and MPSA arrangements. Each model was presented under 100%, 90% and 70% funding models showcasing both Service Exchange and Direct Contract arrangements, as appropriate.

These assumptions appear to be reasonable, as they are based on the current underlying agreements between the RCMP and the Province and Municipality, respectively. In discussions with the RCMP, the specific facets of the PPSA or MPSA (cost allocation basis) are unlikely to change when/if a new arrangement is reached following the expiration of the current agreements. The most likely future scenario is a 90% funding model, thus, this has been the focus of Deloitte's comparative analysis throughout the report.

Next steps

Next steps

- Regardless of which policing alternative HRM prefers, we believe that the following activities may be valuable to facilitate the transition to any new model:

Develop system-wide framework for accountability to monitor policing effectiveness.

- Prior to negotiation of a policing contract, HRM would benefit from establishing a clear, well-communicated framework for financial transparency and accountability. Key elements of this framework would include:
 - Consistent financial reporting between service providers, with a focus on comparability of information between the HRP and RCMP;
 - Creation of an “apples to apples” financial dashboard or template would allow for better system wide financial analysis.

Develop a change management plan to align leadership, coordinate change activities, and communicate key messages to all stakeholders.

- For each of these models, change management could represent the difference between a relatively smooth transition and a more difficult one. While a communications plan is a key element of change management as noted by both agencies, other important elements of a change strategy include:
 - Key messages;
 - Stakeholder engagement plan (including stakeholders indirectly impacted outside of HRM); and
 - Leadership alignment strategy.
- For Models C and D, dedicated, full-time change management resources would be beneficial.

Development of risk management strategy for new contract negotiation.

- Involvement of financially-oriented legal team would advise and assist HRM in mitigating immediate financial risks and developing a long-term risk mitigation strategy for the negotiation of new policing agreements with both the HRP and RCMP:
 - Support for identification of and assistance in negotiating key financial safeguards; and
 - Creation of service delivery metrics and performance metrics to mitigate financial risks.

Appendix A – Key participants

Data on underlying cost assumptions and proposals was collected from key stakeholders from HRM, RCMP and HRP

- **Halifax Regional Municipality:**
 - Barb Palmeter, Financial Consultant
 - Kate Wall, Financial Consultant
- **Halifax Regional Police:**
 - Robin McNeil, Superintendent, Administration
- **Royal Canadian Mounted Police:**
 - Darrell S. Beaton, Superintendent, Officer in Charge, Halifax District
 - Jodie Cahoon, Senior Financial Management Advisor
 - Duane Cooper, Corporal/ Investigator, Integrated Proceeds of Crime Unit
 - Darrell W. Harvey, Civilian Member, Management & Administration Services Officer

Appendix B – Three-year NPV evaluation

Three-year NPV evaluation

	Model A: Status Quo	Model B: Redefined Urban Core	Model C: HRP Only	Model D: RCMP Only
Per Proposal @ <u>100%</u>	\$229,493,645	\$215,918,385	\$202,058,469	\$335,668,410
Per Proposal @ <u>90%</u>	\$222,647,435	\$213,279,567	\$202,058,469	\$318,477,258
Per Proposal @ <u>70%</u>	\$208,559,304	\$206,499,216	\$194,509,137	N/A

- NPV calculations are based on a 7.3% discount rate, based on the Nova Scotia Government cost of borrowing.
- It is noted that Model D, as a direct police service model defined by the RCMP, is not eligible for a 70% funding arrangement, therefore no calculation was made.
- All NPV calculations represent the total three year cost of each Model based on the most recent information received from the HRP and RCMP. Revisions to salary expense expectations have been included.

Appendix C – Costs at varying funding levels

HRM's share of expenses in a new contract with the RCMP may increase from 70% to as much as 100%

- Today, HRM is responsible for paying only 70% of the cost of RCMP policing services, under the PPSA and MPSA's signed in April, 1992.
- Other provinces, including New Brunswick, are currently paying for 90% of the costs for provision of RCMP related services, with the exception of Moncton and Sackville, who are currently paying 100%. It is our understanding that the general trend as existing agreements expire is a movement towards a 90% cost sharing model.
- The following table shows a breakdown of policing costs for each model combining information provided by the HRP and RCMP to arrive at a total cost of policing to the HRM, as well as a snapshot of total FTE's under each model (next page).

	Model A: Status Quo	Model B: Redefined Urban Core	Model C: HRP Only	Model D: RCMP Only
Per Proposal @ <u>100%</u>	\$ 266,419,807	\$ 249,324,877	\$ 232,321,450	\$ 388,077,938
Revision	(2,267,472)	(834,204)	0	(7,635,554)
Revised Total	\$264,152,335	\$248,490,673	\$ 232,321,450	\$380, 42,384
Per Proposal @ <u>90%</u>	\$258,312,918	\$246,204,117	\$ 232,321,450	\$360, 54,982
Revision	(2,040,725)	(750,784)	0	(6,871,998)
Revised Total	\$256,272,194	\$245,453,334	\$ 232,321,450	\$353,782,984
Per Proposal @ <u>70%</u>	\$240,056,440	\$237,648,999	\$ 232,321,450	N/A

Deloitte.