

**2. FINANCIAL STATEMENTS FOR IN-HOUSE SOLID WASTE COLLECTION –
EXTERNAL AUDIT RESULTS 2018**

**ÉTATS FINANCIERS POUR LA COLLECTE DES DÉCHETS SOLIDES PAR
LA VILLE - RÉSULTATS DE LA VÉRIFICATION EXTERNE DE 2018**

COMMITTEE RECOMMENDATION

That Council receive this report for information.

RECOMMANDATION DU COMITÉ

Que le Conseil prenne connaissance de ce rapport.

DOCUMENTATION / DOCUMENTATION

1. General Manager's Report, Public Works and Environmental Services Department dated 28 June 2019 (ACS2019-PWE-SWS-0017).

Rapport du Directeur général, Direction générale des travaux publics et de l'environnement, daté le 28 juin 2019 (ACS2019-PWE-SWS-0017).

2. Extract of Draft Minute, 17 September 2019.

Extrait de l'ébauche du procès-verbal, le 17 septembre 2019.

**STANDING COMMITTEE ON
ENVIRONMENTAL PROTECTION,
WATER AND WASTE MANAGEMENT**

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**COMITÉ PERMANENT DE LA
PROTECTION DE
L'ENVIRONNEMENT, DE L'EAU ET
DE LA GESTION DES DÉCHETS
RAPPORT 5
LE 25 SEPTEMBRE 2019**

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25 SEPTEMBER 2019**

**Report to
Rapport au:**

**Standing Committee on Environmental Protection, Water and Waste Management
Comité permanent de la protection de l'environnement, de l'eau et de la gestion
des déchets**

17 September 2019 / 17 septembre 2019

**and Council
et au Conseil**

25 September 2019 / 25 septembre 2019

**Submitted on June 28, 2019
Soumis le 28 juin 2019**

**Submitted by
Soumis par:**

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Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2019-PWE-SWS-0017

**SUBJECT: FINANCIAL STATEMENTS FOR IN-HOUSE SOLID WASTE
COLLECTION – EXTERNAL AUDIT RESULTS 2018**

**OBJET: ÉTATS FINANCIERS POUR LA COLLECTE DES DÉCHETS SOLIDES
PAR LA VILLE - RÉSULTATS DE LA VÉRIFICATION EXTERNE DE
2018**

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REPORT RECOMMENDATIONS

That the Standing Committee on Environmental Protection, Water and Waste Management recommend Council receive this report for information.

RECOMMANDATIONS DU RAPPORT

Que le Comité permanent de la protection de l'environnement, de l'eau et de la gestion des déchets recommande au Conseil de prendre connaissance de ce rapport.

EXECUTIVE SUMMARY

On November 15, 2011, City Council approved and awarded a six-and-a-half-year collection contract for Zones C3 (urban core) and C5 (East end) to the In-house Collection Group (City staff) as part of the Solid Waste Curbside Collection and Services (Tender No. RFT01811-91027-T01) report ([ACS2011-ICS-ESD-0040](#)). As part of the approval of the in-house bid, staff was tasked to report back annually with financial and operational performance results.

In April 2019, the Solid Waste Residential Collection Contracts Renewal report ([ACS2019-PWE-GEN-0001](#)) approved the delegation of authority to the General Manager of Public Works and Environmental Services Department to negotiate, finalize and execute a short-term three-year curbside collection contract with each of the existing curbside collection service providers, including the In-house Collections Group, in accordance with section 22(1)(d) of the Procurement By-law ([By-law No. 50 of 2000](#)). This new contract will be issued to the current service providers under similar terms and conditions as the existing contract, supplying collection services in all five curbside zones.

In year 6, the in-house collection contract resulted in an operating deficit of \$811,223 for Zone C3 and a deficit of \$976,999 for Zone C5 as reflected in the Statement of Operations submitted by the City's external auditor Ernst & Young attached as Document 1 and Document 2 to this report. The in-house bid has also resulted in contractual savings, attributable to the City's bid price compared to the next closest bid, in the amount of \$543,657 for Zone C5 in 2018, resulting in total Year 6 deficits of

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\$433,342 for Zone C5. Over the six-year contract to date, the in-house collection of Zone C5 has resulted in \$1,031,478 of cumulative savings under the current contract.

In terms of customer service requests, Zones 3 and 5 from the in-house bid yielded 1.77 calls per 1,000 households in 2018, representing 39 per cent of all calls received (versus 61 per cent for zones managed by the private sector).

SOMMAIRE

Le 15 novembre 2011, le Conseil municipal a approuvé l'octroi au groupe de collecte à l'interne (personnel municipal) d'un contrat de six ans et demi pour les zones C3 (noyau urbain) et C5 (Est) à la suite du rapport *Collecte de déchets solides en bordure du chemin et services (appel d'offres n° RFT01811-91027-T01)* ([ACS2011-ICS-ESD-0040](#)). On avait alors demandé au personnel qu'il rende compte annuellement des résultats financiers et opérationnels.

En avril 2019, on approuvait dans le rapport *Renouvellement des contrats de collecte des déchets solides en bordure de rue* ([ACS2017-PWE-GEN-0007](#)) la délégation de pouvoir au directeur général des Travaux publics et de l'Environnement pour qu'il puisse négocier, finaliser et signer un contrat à court terme de trois ans pour la collecte des déchets en bordure de rue avec chacun des fournisseurs de services existants, dont le groupe de collecte à l'interne, conformément à l'alinéa 22(1)(d) du *Règlement sur les approvisionnements* [[Règlement n° 50 \(2000\)](#)]. Ce nouveau contrat sera attribué aux fournisseurs de services actuels pour la collecte en bordure de rue dans les cinq zones, selon des modalités semblables au contrat existant.

Pour la sixième année du contrat, la collecte des déchets solides par la Ville a donné lieu à un déficit de fonctionnement de 811 223 \$ dans la zone C3 et de 976 999 \$ dans la zone C5, comme en témoigne l'état des résultats soumis par Ernst & Young, le vérificateur externe de la Ville, joint au présent rapport en tant que documents 1 et 2. En outre, si l'on compare le prix offert à l'interne et celui de la soumission la plus proche, l'octroi du contrat à l'interne a entraîné des économies contractuelles de 543 657 \$ pour la zone C5 en 2018, ce qui porte le déficit de la sixième année à 433 342 \$ pour la zone C5. Jusqu'à maintenant, le contrat de six ans accordé à l'interne a donné lieu à des économies cumulatives de 1 031 478 \$ pour la zone C5.

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Pour ce qui est des demandes de service, le groupe interne a enregistré dans les zones 3 et 5 1,77 appel par 1 000 résidences en 2018, ce qui représente 39 % des appels reçus (61 % des appels concernaient les zones gérées par le secteur privé).

BACKGROUND

On November 15, 2011, Ottawa City Council approved and awarded one zone (Zone C3) of the six-and-a-half-year collection contract (October 29, 2012 through May 31, 2019) to City staff as part of the Solid Waste Curbside Collection and Services (Tender RFT01811-91027-T01) report ([ACS2011-ICS-ESD-0040](#)). In addition, Council approved that the City (hereafter referred to as “In-house Collection Group”) could bid on the remaining four collection zones with a restriction that they would only be awarded up to four zones. The In-house Collection Group followed a managed competition process that was overseen by a fairness commissioner. Subsequently, Zone C5 was also awarded to the In-house Collection Group as the lowest successful bidder.

In awarding the contract to the In-house Collection Group for Zones C3 and C5, Council also directed:

“That Council require an annual audit of expenditures for works awarded to the City, that Council require an annual information report, qualitative and quantitative in nature, relevant to this program, as suggested by the City Internal Auditor, and that such reports follow the usual Committee process.”

This report presents both the audited financial statement for the Year 6 period of 12 months ended October 31, 2018, and the department’s performance report. Both the financial statement and performance report are the responsibility of management. The auditor’s responsibilities are discussed in each section.

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DISCUSSION

Financial Results

As in prior years, the methodology used by management to prepare the financial statements is consistent with the Managed Competition Protocol and the Internal Auditor's Report on incremental costs approved by Regional Council on May 27, 1998 and September 8, 1998, respectively. There are four fundamental concepts used in preparation of the in-house collection statements:

1. this is a "going concern" operation;
2. this is a unit-based contract;
3. expenditures and revenues are recorded on an accrual basis; and,
4. all incremental costs are included.

The Statement of Operations of the In-house Collection Group for the 12 months ended October 31, 2018 was audited by Ernst & Young LLP, the City's external auditor. Their audit was designed in accordance with the Generally Accepted Auditing Standards (GAAS) to provide reasonable, rather than absolute, assurance that the statements are free from material misstatement. An unqualified opinion was issued on the statements. The Statement of Operations and the Auditor's Report are provided in Document 1.

The in-house collection operations resulted in operating deficits for Year 6 of \$811,223 for Zone C3 and \$976,999 for Zone C5. Zone C3 represents a deficit against the in-house collections contract estimate at the time of tender, whereas Zone C5 represents a deficit as compared to the contract awarded to in-house operations for Zone C5. The deficit is offset by a savings of \$543,657 as compared to the second lowest bid in the tender process, for a net loss of \$433,342. Over the six-year contract to date, the in-house collection of Zone C5 has resulted in \$1,031,478 of cumulative savings under the current contract.

Table 1 presents the current annual savings, as well as the overall cumulative savings, achieved by the In-house Collection Group for Zone C5 since that zone was tendered and awarded to the in-house operations. The contract is structured to be paid at the bid unit rate for the actual households collected.

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**Table 1 – Zone C5 Contractual Savings in Year 6
(November 1, 2017 to October 31, 2018)**

	Zone C5 (Year 6)	Years 1 to 5 Total	Total Contract to Date
Savings from Next Lowest Bid (1)	\$543,657	\$2,555,675	\$3,099,332
Surplus/ (Deficit) from In-house Collection Operations (2)	\$(976,999)	\$(1,090,856)	\$(2,067,855)
Total Savings / (Deficit) (1 + 2)	\$(433,342)	\$1,464,820	\$1,031,478

Total savings are a combination of the following: (1) savings as a result of the City's bid price compared to the next closest bid, adjusted to reflect actual households collected, and (2) surplus/(deficit) as a result of actual costs of the operation compared to the City's bid price allocation as per the attached audited Statement of Operations in Documents 1 and 2.

Year 6 resulted in operating deficits in both zones mainly due to increased labour, fleet and fuel costs, as per the financial statements in Documents 1 and 2. The factors contributing to the increase in vehicle maintenance costs are that the units are aging (therefore the preventive maintenance requirements are increasing, replacement parts are not readily available and are more expensive), and that the whole-unit warranty expired on the entire fleet (i.e., the City is responsible for labour and parts associated with the repairs that were previously covered). With respect to labour costs, there was a significant increase in overtime as a result of a recent grievance and arbitration ruling which now obligates the Solid Waste Services in-house operations to use full-time operators for overtime for short-term vacancies instead of using a casual labour pool or a third-party subcontractor.

The in-house contract for Zones C3 and C5 have resulted in a total deficit of \$1,244,565 in Year 6 of the contract, and a total deficit of \$1,356,349 since the beginning of the contract.

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Service Requests

In addition to the audited Statement of Operations for the In-house Collection Group, management summarizes service requests received through 311 and Ottawa.ca.

If a resident submits a request, a work order is created and issued to the appropriate contractor for review and resolution. Issue management is handled on a case-by-case basis, and Solid Waste Services staff work closely with individual contractors, as required.

Table 2 – Service Requests for Solid Waste Collection - November 1, 2017 to October 31, 2018 (Year 6)

Call Type	In-house Services (Zones C3 and C5)	% of City Total	Contracted Services (Zones C1, C2, & C4)	% of City Total	City Total
Garbage collection	1,825	42%	2,562	58%	4,387
Black box collection	1,450	38%	2,368	62%	3,818
Blue box collection	1,458	36%	2,617	64%	4,075
Organics / yard waste collection	6,036	39%	9,309	61%	15,345
Total calls / year	10,769	39%	16,856	61%	27,625
Households	117,001	39%	180,705	61%	297,706
Average weekly service requests per 1,000 households	1.77		1.79		1.78

When tracked by the average weekly service request per 1,000 households, Zones C3 and C5 (In-house Collection Group) reported a 16 per cent increase in calls while Zones C1, C2, and C4 reported an 11 per cent increase in calls over the previous contract

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year. The majority of the respective increases are the result of blue, black and green bin replacement requests.

In Year 6, the In-house Collection Group received an average of 1.77 calls per 1,000 homes per week. The contracted services for Zones C1, C2 & C4 received an average of 1.79 calls per 1,000 homes per week. The overall City average calls per week increased from 1.58 to 1.78 from the previous contract year.

RURAL IMPLICATIONS

There are no rural implications.

CONSULTATION

There was no public consultation.

ADVISORY COMMITTEE(S) COMMENTS

No consultation was required as this report is administrative in nature.

LEGAL IMPLICATIONS

There are no legal impediments to Committee and Council's receipt of this report for information.

RISK MANAGEMENT IMPLICATIONS

There are no risks associated with this report.

FINANCIAL IMPLICATIONS

There are no financial implications associated with this report.

ACCESSIBILITY IMPACTS

There are no accessibility implications with this report.

ENVIRONMENTAL IMPLICATIONS

There are no environmental implications associated with this report.

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TERM OF COUNCIL PRIORITIES

The managed competition process has resulted in competitiveness in the market place resulting in fiscal savings.

SUPPORTING DOCUMENTATION

Document 1: Statement of Operations, City of Ottawa, In-house Collection – Zone 3

Document 2: Statement of Operations, City of Ottawa, In-house Collection – Zone 5

DISPOSITION

Report forwarded for information pursuant to Solid Waste Services – Collection Contracts: In-house Bid Authority – Managed Competition report ([ACS2011-ICS-ESD-0019](#)).