

**1. FINANCIAL STATEMENTS FOR IN-HOUSE SOLID WASTE COLLECTION –
EXTERNAL AUDIT RESULTS 2020**

**ÉTATS FINANCIERS POUR LA COLLECTE DES DÉCHETS SOLIDES PAR
LA VILLE - RÉSULTATS DE LA VÉRIFICATION EXTERNE DE 2020**

COMMITTEE RECOMMENDATION

That Council receive this report for information.

RECOMMANDATION DU COMITÉ

Que le Conseil prenne connaissance de ce rapport.

DOCUMENTATION

1. Associate General Manager's Report, Public Works and Environmental Services Department, dated 5 November 2020 (ACS2020-PWE-SWS-0003).

Rapport du Directeur général adjoint, Direction générale des travaux publics et des services environnementaux, daté le 5 novembre 2020 (ACS2020-PWE-SWS-0003).

**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 12
LE 25 NOVEMBRE 2020**

**REPORT 12
25 NOVEMBER 2020**

**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 November 2020 / 17 novembre 2020

**and Council
et au Conseil**

25 November 2020 / 25 novembre 2020

**Submitted on November 5, 2020
Soumis le 5 novembre 2020**

**Submitted by
Soumis par:**

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Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2020-PWE-SWS-0003

**SUBJECT: FINANCIAL STATEMENTS FOR IN-HOUSE SOLID WASTE
COLLECTION – EXTERNAL AUDIT RESULTS 2020**

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25 NOVEMBER 2020**

**OBJET: ÉTATS FINANCIERS POUR LA COLLECTE DES DÉCHETS SOLIDES
PAR LA VILLE - RÉSULTATS DE LA VÉRIFICATION EXTERNE DE
2020**

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

In 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 Collections Group as part of the Solid Waste Curbside Collection and Services (Tender No. RFT01811-91027-T01) [report](#). As part of the approval of the in-house bid, staff were tasked to report back annually with financial and operational performance results.

In 2019, the Solid Waste Residential Collection Contracts Renewal [report](#) 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](#)). These new contracts were 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 7, the 19-month period between November 1, 2018 and May 31, 2020, the in-house collection contract resulted in an operating deficit of \$1,792,874 for Zone C3 and a deficit of \$2,252,105 for Zone C5 as reflected in the Statement of Operations submitted by the City's external auditor Ernst & Young attached as Document 1 and

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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 \$891,767 for Zone C5 in 2020, resulting in total Year 7 deficits of \$1,360,338 for Zone C5. Over the term of the contract, the in-house collection contract for Zone C5 has resulted in \$328,861 of cumulative deficits under the current contract, primarily due to the cost of maintaining and operating aging collections vehicles.

In terms of customer service requests, Zones C3 and C5 from the In-house Collections Group yielded a weekly average of 2.51 calls per 1,000 households in Year 7, representing 31 per cent of all calls received (versus 69 per cent for Zones C1, C2 and C4).

SOMMAIRE

En 2011, le Conseil municipal a approuvé et octroyé au groupe interne de collecte des déchets un contrat de six ans et demi pour la collecte dans les zones C3 (noyau urbain) et C5 (Est), comme l'indique le [rapport intitulé *Collecte de déchets solides en bordure du chemin et services \(appel d'offres n° RFT01811-91027-T01\)*](#). Il avait alors demandé au personnel de rendre compte annuellement des résultats financiers et opérationnels qui découleraient de ce contrat.

En 2019, le [rapport intitulé *Renouvellement des contrats de collecte des déchets solides en bordure de rue*](#) recommandait que soit délégué au directeur général des Travaux publics et de l'Environnement le pouvoir de négocier, de mettre au point et de signer un contrat à court terme (trois ans) pour la collecte des déchets en bordure de rue avec chacun des fournisseurs existants, dont le groupe interne, en vertu de l'alinéa 22(1)d) du Règlement sur les approvisionnements [[Règlement n° 50 \(2000\)](#)]. Ainsi, de nouveaux contrats ont été attribués aux mêmes fournisseurs pour les cinq zones, selon des modalités semblables aux contrats précédents.

Pour la septième année, qui couvrait en fait une période de 19 mois allant du 1^{er} novembre 2018 au 31 mai 2020, la Ville a enregistré un déficit de fonctionnement de 1 792 874 \$ pour la zone C3 et de 2 252 105 \$ pour la zone C5, comme en témoigne l'état des résultats soumis par Ernst & Young, le vérificateur externe de la Ville, et joint au présent rapport en tant que documents 1 et 2. En revanche, le contrat octroyé à l'interne a permis pour la zone C5 en 2020 des économies contractuelles de 891 767 \$

par rapport au prix de la soumission la plus proche, ce qui fait chuter le déficit de la septième année à 1 360 338 \$ pour la zone C5. Pour la durée du contrat le groupe interne a vu à la collecte dans la zone C5, le déficit cumulé s'élève à 328 861 \$. Ce montant est principalement attribuable aux coûts liés à l'entretien et à l'exploitation des véhicules de collecte, qui prennent de l'âge.

Pour ce qui est des demandes de service au cours de la septième année, celles enregistrées pour les zones C3 et C5, où c'est le groupe interne qui assurait la collecte, ont totalisé une moyenne hebdomadaire de 2,51 appels par 1 000 résidences, ce qui représente 31 % des appels reçus (les 69 % restants concernaient les zones C1, C2 et C4).

BACKGROUND

On November 15, 2011, City Council approved and awarded a six-and-a-half-year collection contract for Zone C3 (urban core) to the In-house Collections Group as part of the Solid Waste Curbside Collection and Services (Tender No. RFT01811-91027-T01) [report](#). 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 could only be awarded an additional two zones. The In-house Collection Group followed a managed competition process that was overseen by a fairness commissioner. Subsequently, Zone C5 (East end) was also awarded a six-and-a-half-year collection 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 7, the 19-month period between November 1, 2018 and May 31, 2020, 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.

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 19 months ended May 31, 2020 was audited by Ernst & Young LLP, the City's external auditor. Their audit was designed in accordance with the Generally Accepted Auditing Standards 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 7 of \$1,792,874 for Zone C3 and \$2,252,105 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 \$891,767 as compared to the second lowest bid in the tender process, for a net loss of \$1,360,338. Over the term of the contract, the in-house collection for Zone C5 has resulted in \$328,861 of a cumulative deficit.

Table 1 presents the current annual results, as well as the overall cumulative results, 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.

**Table 1 – Zone C5 Contractual Results in Year 7
(November 1, 2018 to May 31, 2020)**

	Zone C5 (Year 7)	Years 1 to 6 Total	Total Contract
Savings from Next Lowest Bid (1)	\$891,767	\$3,099,332	\$3,991,099
Surplus/ (Deficit) from In-house Collection Operations (2)	\$(2,252,105)	\$(2,067,855)	\$(4,319,960)
Total Savings/(Deficit) (1 + 2)	\$(1,360,338)	\$1,031,477	\$(328,861)

Total savings/(deficit) 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 7 resulted in operating deficits in both zones mainly due to increased labour, fuel and specifically fleet costs, as per the financial statements in Documents 1 and 2.

The In-house Collections Groups saw an increase in labour and fleet costs due to the Novel Coronavirus (COVID-19). From mid-March to the end of this reporting period (May 31, 2020), approximately \$215,000 was spent on labour and fleet costs as a result of COVID-19. The City's Solid Waste Services saw an increase in all waste stream levels during the initial lockdown which commenced with the Province of Ontario entering a State of Emergency on March 17, 2020. To ensure there was enough staff and resources to protect the safety and wellbeing of waste collectors, and to meet the demand of the increasing waste levels, the In-House Collections Group secured additional labourers, deployed all available vehicles, and rented additional vehicles to maximize staffing capacity.

There was also an increase with respect to labour costs as a result of a grievance and arbitration ruling which 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 factors contributing to the increase in vehicle maintenances costs include:

- Higher than anticipated operational and overall upkeep costs for the City's co-collection vehicles (which allow operators to collect both organics and recycling at the same time);
- Aging units (preventive maintenance requirements are increasing, replacement parts are not readily available and are more expensive);
- The requirement to deploy more vehicles in response to COVID-19, increasing the maintenance and daily operational costs of the additional fleet; and,
- The expiry of the whole-unit warranty on the entire fleet (i.e., the City is responsible for labour and parts associated with the repairs that were previously covered).

While the industry standard lifespan for collection vehicles is approximately six years, the In-house Collection Group is currently operating vehicles that are nine years old. Staff are in the midst of transitioning 19 new collection vehicles into the In-House Collection Group's fleet but in the meantime, maintenance continues on existing collection vehicles to ensure no disruption in service to residents. All 19 new collection vehicles will be in operation by the end of 2020.

The new 3-year contract extensions [approved by Council](#) last year, which began on June 1, 2020, included the purchase of the above mentioned 19 new collection vehicles, as well as significant increases for fleet costs that should alleviate operational deficits incurred under the Year 7 contracts.

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 in Year 7
(November 1, 2018 to May 31, 2020)**

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	2,299	28%	5,884	72%	8,183
Black box collection	2,626	34%	5,078	66%	7,704
Blue box collection	516	14%	3,104	86%	3,620
Organics / yard waste collection	9,918	34%	19,516	66%	29,434
Total calls / year	15,359	31%	33,582	69%	48,941
Households	117,624	39%	183,512	61%	301,136
Average weekly service requests per 1,000 households	2.51		3.52		3.13

In Year 7, the In-house Collection Group received a weekly average of 2.51 calls per 1,000 households, representing 31 per cent of all calls received. The contracted services for Zones C1, C2 and C4 received a weekly average of 3.52 calls per 1,000 households, representing 69 per cent of all calls received.

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In Year 7, the overall average calls per week increased from 1.78 to 3.13 from the previous contract year, strongly due to the influx of calls as a result of the performance issues in Zone C1. The overall increase can also be attributed to the additional 7-months included in this reporting period when compared to the last year's 12-month reporting period.

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.

TERM OF COUNCIL PRIORITIES

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

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](#).