

City of Ottawa In-House Waste Collection – Zone 3

Statement of operations
19 months ended May 31, 2020



Independent auditor's report

To the management of the
City of Ottawa In-House Waste Collection division for Zone 3,

Opinion

We have audited the accompanying statement of operations [the "Statement"] of the City of Ottawa In-House Waste Collection division for Zone 3 [the "Division"] for the 19 months ended May 31, 2020.

In our opinion, the accompanying Statement is prepared, in all material respects, in accordance with the basis of accounting described in note 2.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Statement* section of our report. We are independent of the Division in accordance with the ethical requirements that are relevant to our audit of the Statement in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – basis of accounting and restriction on distribution and use

We draw attention to note 2 of the Statement, which describes the basis of accounting. The Statement is prepared to assist the Division in complying with the financial reporting provisions of note 2 referred to above. As a result, the Statement may not be suitable for another purpose. Our report is intended solely for management of the Division and the Members of the Standing Committee on Environmental Protection, Water and Waste Management and Council of the City of Ottawa [the "Members"] and should not be distributed to or used by parties other than the Division and the Members. Our opinion is not modified in respect of this matter.

Responsibilities of management for the Statement

Management is responsible for the preparation of the Statement in accordance with the financial reporting requirements detailed in note 2 of the Statement; this includes determining that the basis of accounting is an acceptable basis for the preparation of the Statement in the circumstances, and for such internal control as management determines is necessary to enable the preparation of the Statement that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the Statement

Our objectives are to obtain reasonable assurance about whether the Statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Statement.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Division's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Division to cease to continue as a going concern.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ottawa, Canada
October 16, 2020

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



City of Ottawa In-House Waste Collection – Zone 3

Statement of operations

	19 months ended May 31 2020 \$	12 months ended October 31 2018 \$
Revenue	9,140,489	5,718,666
Expenditures <i>[Schedule 1]</i>		
Labour costs		
Salaries	3,775,454	2,152,478
Employer benefit contributions	1,038,253	550,991
Overtime	699,834	356,475
WSIB costs	155,218	96,391
	5,668,759	3,156,335
Subcontracted labour	355,903	161,371
	6,024,662	3,317,706
Vehicle costs		
Maintenance, repairs and tires	3,050,856	1,711,639
Depreciation	399,231	670,987
Fuel	968,199	580,318
Insurance and licensing	67,809	43,739
	4,486,095	3,006,683
Materials and supplies		
Personnel and safety supplies	113,580	56,684
Miscellaneous repairs and services	133,967	42,184
Communications	45,452	27,898
Tools and parts	42,938	24,918
Office and administrative supplies	19,319	8,134
	355,256	159,818
Property lease	56,684	35,800
Professional services	10,666	9,882
	10,933,363	6,529,889
Deficiency of revenue over expenditures	(1,792,874)	(811,223)

See accompanying notes

City of Ottawa In-House Waste Collection – Zone 3

Notes to the statement of operations

May 31, 2020

1. Description of organization

The City of Ottawa [the "City"] was subdivided into a number of service zones for purposes of waste collection to foster more competition during the 1999 collection tender call. This continued to be in effect for the new collection tender/contract, which commenced in 2006. On October 29, 2012, the five curb-side collection zones were slightly modified from the previous contract to account for population growth. Under the new contract, signed on October 11, 2011, the City of Ottawa In-House Waste Collection division [the "Division"] was awarded the services for Zone 3 for the period from October 29, 2012 to May 31, 2019 with the option to renew for one additional year, at the City's sole option, to May 31, 2020. Under an extension letter signed May 9, 2019, the contract was extended to the period from June 1, 2020 to June 4, 2023.

The statement of operations was prepared to report the operating results of the collection activities of Zone 3 for the 19 months ended May 31, 2020. The Division was created through provincial legislation and is not liable for income taxes.

Change of fiscal year-end

In order to align with the end of the current waste management contract, the Division for Zone 3 changed its year end from October 31, 2019 to May 31, 2020. As a result of the Division changing its fiscal year-end, these financial statements reflect the 19-month period from November 1, 2018 to May 31, 2020.

2. Summary of significant accounting policies

The statement of operations of the Division for Zone 3 has been prepared by management in accordance with the significant accounting policies described below.

Revenue and expenditures

Revenue is recorded on an accrual basis as services are provided and in accordance with the terms of the contract with the City. The amounts are reported to demonstrate the Division's operations as if the Division were a going concern and operating independent from the City. Revenue for the current period is calculated using the prior period revenue figure adjusted by 50% of the Consumer Price Index and changes in the number of houses for the current period, in accordance with the escalation factors included in the waste services contract.

Expenditures are recorded on an accrual basis when services are rendered or goods are received.

Management fees

The annual management fee is determined by multiplying the purchase cost of the fleet by 2.5% [fiscal year 2018 – 2.5%], prorated for any acquisitions or disposals in the year. The fee is reduced by the estimated annual cost savings realized as a result of the implementation of in-house management of parts inventory by the City's Fleet Services Branch in 2017. The fee is recognized rateably at 1/12 per month.

City of Ottawa In-House Waste Collection – Zone 3

Notes to the statement of operations

May 31, 2020

Vehicle costs

Vehicle costs, including maintenance and repairs, fuel, insurance and licensing, and depreciation, are charged to the Division by the City's Fleet Services Branch, which follows a full-cost recovery allocation method, whereby all costs incurred by the Fleet Services Branch must be recovered from the departments/branches based on a per vehicle charge to those that are actually using the vehicles.

Insurance

The Risk Management Division of the City is responsible for insuring the City's vehicles, and the Division pays a premium for the insurance policy. The policy covers "Liability" insurance, but does not cover "Collisions", resulting in a lower overall premium. The cost of the premium relating to municipal fleet vehicles is paid for by the Fleet Services Branch. A charge-back is applied to each vehicle in the Division fleet to recover this cost. Each vehicle is assigned an equal share of the overall premium. Costs associated with actual claims are not included as part of the total expenses associated with this Division unless they pertain to the current period and are estimable.

During the year, two claims from 2014 were settled, resulting in a total payment of \$0.1 million by the City; a further \$0.2 million will be paid by the City in relation to one of these claims in the upcoming fiscal year. As these claims were for a prior period, based on the Division's accounting policies, the costs are not included in total expenses.

Licensing

Vehicles with licence plates owned by the City are required to pay an annual fee to maintain the licence. The annual license fee paid to the Ministry of Transportation of Ontario is charged to each vehicle and allocated to the Division on a monthly basis.

Maintenance, repairs and tires

These costs include parts, labour and commercial charges.

Parts and labour charges are incurred when a vehicle is repaired by internal City staff at one of the City-owned maintenance garages. Parts are charged back to the City at cost. Labour was charged to the Division at a rate of \$95 per hour for the calendar year 2019 and \$105 per hour for the calendar year 2020 [calendar year 2018 – \$95 per hour], which is calculated as budgeted expenditures [salaries, shop supplies, etc.] for the Municipal Fleet Maintenance Cost Centres divided by the estimated billable hours of the mechanics for the period.

Commercial charges [parts and labour] are incurred when the vehicle is repaired at an external garage. The Fleet Services Branch pays the supplier invoice and then charges the actual cost to the vehicle. Open work orders and commercial invoices are accrued each month and recorded as an expenditure in the period the service is rendered or goods are received.

Fuel

Fuel is obtained at City sites and charged back at cost with no mark-up. Fuel costs include fuel hedging costs which are allocated based on the fuel prices during the period when fuel is consumed.

City of Ottawa In-House Waste Collection – Zone 3

Notes to the statement of operations

May 31, 2020

Depreciation

Capital assets are recorded by the City at cost, except for used vehicles, which are recorded at estimated market value at the time of commencement of the contract. These capital assets are not included in this statement of operations. The depreciation related to these capital assets is recorded as an expenditure in the statement of operations of the Division using the straight-line method over the term of the contract or the asset's useful life as follows:

Vehicles	79 – 120 months
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Property lease

Lease expenditure is recorded as an allocation of estimated occupancy cost for the City.

3. COVID-19 pandemic

Beginning in March 2020, the outbreak of the Coronavirus disease ["COVID-19"] has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. The duration and impact of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank monetary and fiscal interventions designed to stabilize economic conditions. As a result of the pandemic, the Division has incurred some additional costs for personal protective equipment, labour, and vehicles, to ensure proper physical distancing, reduce staff exposure and overtime, and ensure proper cover-off for employees unable to work.

Schedule of costs by waste stream*[unaudited]*

19 months ended May 31

	2020			
	Garbage	Recycling	Organics	Total
	\$	\$	\$	\$
Labour costs				
Salaries	1,468,232	1,153,611	1,153,611	3,775,454
Employer benefit contributions	403,765	317,244	317,244	1,038,253
Overtime	272,158	213,838	213,838	699,834
WSIB costs	60,362	47,428	47,428	155,218
	2,204,517	1,732,121	1,732,121	5,668,759
Subcontracted labour	138,407	108,748	108,748	355,903
	2,342,924	1,840,869	1,840,869	6,024,662
Vehicle costs				
Maintenance, repairs and tires	1,454,332	798,262	798,262	3,050,856
Depreciation	137,719	130,756	130,756	399,231
Fuel	482,625	242,787	242,787	968,199
Insurance and licensing	32,087	17,861	17,861	67,809
	2,106,763	1,189,666	1,189,666	4,486,095
Materials and supplies				
Personnel and safety supplies	44,170	34,705	34,705	113,580
Miscellaneous repairs and services	23,225	18,248	92,494	133,967
Communications	17,676	13,888	13,888	45,452
Tools and parts	16,698	13,120	13,120	42,938
Office and administrative supplies	7,513	5,903	5,903	19,319
	109,282	85,864	160,110	355,256
Property lease	22,044	17,320	17,320	56,684
Professional services	4,148	3,259	3,259	10,666
Total expenditures	4,585,161	3,136,978	3,211,224	10,933,363
Statistical information				
Actual tonnage in metric tonnes	31,861	13,189	22,148	67,198
Actual cost per tonne	143.91	237.85	144.99	162.70