

# City of Ottawa In-House Waste Collection – Zone 5

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 5,

## Opinion

We have audited the accompanying statement of operations [the "Statement"] of the City of Ottawa In-House Waste Collection division for Zone 5 [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 5

### Statement of operations

	19 months ended May 31 2020 \$	12 months ended October 31 2018 \$
<b>Revenue</b>	<b>10,832,080</b>	6,603,672
<b>Expenditures</b> <i>[Schedule 1]</i>		
Labour costs		
Salaries	4,306,889	2,626,942
Employer benefit contributions	1,153,750	707,220
Overtime	980,535	566,359
WSIB costs	69,800	88,009
	<b>6,510,974</b>	3,988,530
Subcontracted labour	419,167	211,719
	<b>6,930,141</b>	4,200,249
Vehicle costs		
Maintenance, repairs and tires	3,880,073	1,605,148
Depreciation	471,500	742,139
Fuel	1,233,091	731,339
Insurance and licensing	75,472	49,201
	<b>5,660,136</b>	3,127,827
Materials and supplies		
Personnel and safety supplies	124,286	58,574
Miscellaneous repairs and services	166,154	43,129
Communications	46,800	28,668
Tools and parts	45,062	14,189
Office and administrative supplies	29,587	13,256
	<b>411,889</b>	157,816
Property lease	67,317	54,028
Interest on vehicle loan	4,037	28,503
Professional services	10,665	12,248
	<b>13,084,185</b>	7,580,671
<b>Deficiency of revenue over expenditures</b>	<b>(2,252,105)</b>	(976,999)

See accompanying notes

## City of Ottawa In-House Waste Collection – Zone 5

### 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 5 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 5 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 in align with the end of the current waste management contract, the Division for Zone 5 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 5 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 was 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 5

### 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.

#### Licencing

Vehicles with licence plates owned by the City are required to pay an annual fee to maintain the licence. The annual licence 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.

#### Interest on vehicles

Interest on vehicles is based on actual costs related to purchasing the vehicles and applying a rate of 3.01% [fiscal year 2018 – 3.01%], which is provided by the City's Treasury Division and is based on the cost of funds for a seven-year bond issue.

## City of Ottawa In-House Waste Collection – Zone 5

### 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	79-84 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			Total
	Garbage	Recycling	Organics	
	\$	\$	\$	\$
<b>Labour costs</b>				
Salaries	1,507,411	1,399,739	1,399,739	4,306,889
Employer benefit contributions	403,812	374,969	374,969	1,153,750
Overtime	343,187	318,674	318,674	980,535
WSIB costs	24,430	22,685	22,685	69,800
	<b>2,278,840</b>	<b>2,116,067</b>	<b>2,116,067</b>	<b>6,510,974</b>
Subcontracted labour	146,709	136,229	136,229	419,167
	<b>2,425,549</b>	<b>2,252,296</b>	<b>2,252,296</b>	<b>6,930,141</b>
<b>Vehicle costs</b>				
Maintenance, repairs and tires	1,952,331	963,871	963,871	3,880,073
Depreciation	128,306	171,597	171,597	471,500
Fuel	598,351	322,500	312,240	1,233,091
Insurance and licensing	31,582	21,945	21,945	75,472
	<b>2,710,570</b>	<b>1,479,913</b>	<b>1,469,653</b>	<b>5,660,136</b>
<b>Materials and supplies</b>				
Personnel and safety supplies	43,500	40,393	40,393	124,286
Miscellaneous repairs and services	32,167	29,870	104,117	166,154
Communications	16,380	15,210	15,210	46,800
Tools and parts	15,772	14,645	14,645	45,062
Office and administrative supplies	10,355	9,616	9,616	29,587
	<b>118,174</b>	<b>109,734</b>	<b>183,981</b>	<b>411,889</b>
Property lease	23,561	21,878	21,878	67,317
Interest on vehicle loan	1,413	1,312	1,312	4,037
Professional services	3,733	3,466	3,466	10,665
<b>Total expenditures</b>	<b>5,283,000</b>	<b>3,868,599</b>	<b>3,932,586</b>	<b>13,084,185</b>
<b>Statistical information</b>				
Actual tonnage in metric tonnes	44,195	18,265	27,418	89,878
<b>Actual cost per tonne</b>	<b>119.54</b>	<b>211.80</b>	<b>143.43</b>	<b>145.58</b>