

**2. FINANCIAL STATEMENTS FOR IN-HOUSE SOLID WASTE COLLECTION –
EXTERNAL AUDIT RESULTS 2015**

**ÉTATS FINANCIERS POUR LA COLLECTE DES DÉCHETS SOLIDES PAR
LA VILLE - RÉSULTATS DE LA VÉRIFICATION EXTERNE DE 2015**

COMMITTEE RECOMMENDATION

That Council receive this report for information.

RECOMMANDATION DU COMITÉ

Que le Conseil prenne connaissance de ce rapport.

DOCUMENTATION / DOCUMENTATION

1. Acting Deputy City Manager's report, City Operations, dated 7 June 2016 (ACS2016-COS-ESD-0019).

Rapport de la directrice municipale adjointe par intérim, Opérations municipales, daté le 7 juin 2016 (ACS2016-COS-ESD-0019).

2. Extract of Draft Minute, 21 June 2016.

Extrait de l'ébauche du procès-verbal, le 21 juin 2016.

**ENVIRONMENT COMMITTEE
REPORT 10
13 JULY 2016**

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**COMITÉ DE L'ENVIRONNEMENT
RAPPORT 10
LE 13 JUILLET 2016**

**Report to
Rapport au:**

**Environment Committee
Comité de l'environnement
21 June 2016 / 21 juin 2016**

**and Council
et au Conseil
13 July 2016 / 13 juillet 2016**

**Submitted on June 7, 2016
Soumis le 7 juin 2016**

**Submitted by
Soumis par:
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Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2016-COS-ESD-0019

**SUBJECT: FINANCIAL STATEMENTS FOR IN-HOUSE SOLID WASTE
COLLECTION – EXTERNAL AUDIT RESULTS 2015**

**OBJET: ÉTATS FINANCIERS POUR LA COLLECTE DES DÉCHETS SOLIDES
PAR LA VILLE - RÉSULTATS DE LA VÉRIFICATION EXTERNE DE
2015**

REPORT RECOMMENDATIONS

That the Environment Committee recommend Council receive this report for information.

RECOMMANDATIONS DU RAPPORT

Que le Comité de l'environnement 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 City staff. As part of the approval of the In-house bid, staff was tasked to report back annually with financial and operational performance results.

The In-house collection resulted in an operating deficit for Year 3 of \$324,803 for Zone C3 and a deficit of \$143,894 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 \$511,883 for Zone C5 in 2015, resulting in total Year 3 cost savings of \$43,186.

In terms of customer service requests, the zones C3 and C5 from the In-house bid yielded 1.38 calls per 1,000 households in 2015.

SOMMAIRE

En 2011, le Conseil municipal a approuvé un contrat de six ans et demi pour la collecte des déchets solides pour les zones C3 (centre urbain) et C5 (est) et l'a octroyé au personnel municipal. Les conditions d'approbation de l'offre interne comprenaient l'obligation pour le personnel de rendre compte annuellement des résultats financiers et opérationnels.

Pour la troisième année du contrat, la collecte des déchets solides par la Ville a donné lieu à des déficits d'exploitation de 324,803 \$ pour la zone C3 et de 143,894 \$ pour 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 document 1. En outre, l'octroi du contrat à l'interne a entraîné des économies contractuelles de 511,883 \$ pour la zone C5 en 2015, étant donné la différence entre le prix offert par la Ville et le prix de l'offre la plus proche. Les économies totales pour la troisième année s'élèvent donc à 43,186 \$.

En ce qui concerne les demandes de service des clients, on a observé 1.38 appels par 1 000 ménages en 2015 dans les zones C3 et C5 servies par la Ville.

BACKGROUND

City of Ottawa 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. In addition, Council approved that the City (hereafter referred to as "In-house collection group") could bid on the remaining four collection zones but 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 approving the use of the In-house collection group for Zones C3 and C5, Council also approved:

"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 3 period of 12 months ended October 31, 2015, 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 an "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, 2015, 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 3 of \$324,803 for Zone C3 and \$143,894 for Zone C5.

Table 1 below presents the current and total contractual, operational and overall savings to area residents achieved by the In-house collection group. The contract is structured to be paid at the bid unit rate for the actual households collected.

Table 1 - Financial Performance of the In-house Collection Group

Table 1
Contractual Savings and Overall Savings
to Residents

	Year 3 2014-2015		Total Contract In-House Date	Total Years 1-2	Total to
	Zone 3	Zone 5			
Savings from City Bid (1)	\$ -	\$511,883	<u>\$511,883</u> <u>\$1,505,565</u>	<u>\$992,682</u>	

In House Operations	\$(417,192)	\$(239,287)	\$(656,479) \$(897,385) <u>\$187,782</u>	\$(240,906) <u>\$368,994</u>
Cost avoidances	<u>\$92,389</u>	<u>\$95,393</u>	<u>\$556,776</u>	
Surplus/(Deficit) from In-House collection Operations (2)	<u>\$(324,803)</u>	<u>\$(143,894)</u>	<u>\$(468,697)</u> <u>\$(340,609)</u>	<u>\$128,088</u>
Total Savings (1 + 2)	<u>\$(324,803)</u>	<u>\$367,989</u>	<u>\$43,186</u> <u>\$1,163,956</u>	<u>\$1,120,770</u>

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. Table 1 reflects that the year 3 deficit from In House Collection Operations is a combination of the performance of the In House Operations and the cost avoidances that were included in the City bid. These cost avoidances are not incremental to the City and, therefore, not included in the Statement of Operations prepared by the external auditor.

As per the financial statements in Documents 1 and 2, Fleet costs are over budget in Year 3. Factors contributing to fleet costs exceeding the allocated budget include the following, much of which would have been difficult to account for when the contract was originally developed:

- increased parts prices that are dependent upon the American dollar (USD), which was relatively at par with the Canadian dollar (CAD) at Year 1, but has an exchange rate of \$1.28 CAD for every USD today;
- An increase in the Management Fee applied to Fleet users as a result of a corporate review of said fees undertaken by the Finance Department in 2013; and,
- Ongoing maintenance of 5 surplus refuse units that is required for operational effectiveness and the successful management of this contract.

The unpredictable factors outlined above directly impacted the costs associated with the overall aging refuse packer fleet. Furthermore, year over year, fleet costs increase as a result of the age of the overall fleet. When the contract came into effect, most units were new and at the lowest cost point in their lifecycle; as these units aged and experienced more usage, more parts and labour were required to keep them on the road. More specifically, the following two items were highlighted by Fleet Services as contributing factors to these increases:

- The Annual Safety Inspections and associated repairs that were not required in the first year of the units' lifecycle, but were required in the second and third years in order to be comply with the City's Commercial Vehicle Operator's Registration (CVOR).
- The Preventative Maintenance Program has different stages based on usage and age, with each stage being more extensive than the previous one. A unit will generally require minimal maintenance and repairs at the beginning of its lifecycle, but will increase over time.

The In House contract has resulted in a savings of \$43,186 in the 3rd year of the contract, and total savings of \$1,163,956 since the beginning of the contract.

Performance Results

In addition to the audited Statement of Operations for the In-house collection group, management prepares an annual report on the performance of this contract for Committee and Council. The performance report includes both quantitative and qualitative assessments identified for the program.

Ongoing qualitative analysis is conducted to ensure that residents receive the appropriate service level and that costs related to their response are minimized. If a resident calls 3-1-1 with a service call, a work order is issued to the appropriate contractor for resolution. Monthly reports are prepared for each service provider, including the In-house collection group, illustrating their performance and assisting in identifying trends that require attention.

**Table 2 - Solid Waste Collection - Customer Service Requests –
November 1, 2014 to October 31, 2015 (Year 3)**

Call Type	In-house Services Zone C3 and C5	% of City Total	Contracted Services Zones C1, C2, & C4	% of City Total	City Total
Garbage collection	1,272	43%	1,687	57%	2,959
Black Box collection	988	37%	1,659	63%	2,647
Blue Box collection	1,119	36%	1,995	64%	3,114
Organics / Yard waste collection	4,873	39%	7,781	61%	12,654
Total calls / year	8,252	39%	13,122	61%	21,374
Households	115,146	40%	172,845	60%	287,991
Average weekly service requests per 1,000 households	1.38		1.46		1.43

When tracked by the average weekly service request per 1,000 households, zone C3 and C5 (In-house collection group) reported a 12% increase in calls while Zones C1, C2, and C4 reported a 18% increase in calls over the previous contract year.

In Year 3, the In-house collection group received an average of 1.38 calls per 1,000 homes per week or 72 calls per 1,000 homes/year. The overall City average calls per week rose to 1.46 from 1.21. A significant contributing factor in the increase in calls City wide can be attributed to a procedural change that occurred November 3rd 2014 and

resulted in more calls being directed to the contractors (internal and external) for resolution.

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 the receipt of the 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.

TECHNOLOGY IMPLICATIONS

There are no technological implications associated with this report.

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

Staff will follow any direction from Committee and Council upon receipt of this report.