

- | |
|---|
| <p>4. FINANCIAL STATEMENTS FOR IN-HOUSE
SOLID WASTE COLLECTION – EXTERNAL AUDIT RESULTS 2016

ÉTATS FINANCIERS POUR LA COLLECTE DES DÉCHETS SOLIDES
PAR LA VILLE - RÉSULTATS DE LA VÉRIFICATION EXTERNE DE 2016</p> |
|---|

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 & Environmental Services, dated 18 August 2017 (ACS2017-PWE-GEN-0028)

Rapport du Directeur général, Travaux publics et services environnementaux, daté le 18 août 2017 (ACS2017-PWE-GEN-0028)

**Report to
Rapport au:**

**Environment and Climate Protection Committee
Comité de l'environnement et de la protection climatique
19 September 2017 / 19 septembre 2017**

**and Council
et au Conseil
27 September 2017 / 27 septembre 2017**

**Submitted on August 18, 2017
Soumis le 18 août 2017**

**Submitted by
Soumis par:
Kevin Wylie, General Manager / Directeur général, Public Works & Environmental
Services / Travaux publics et services environnementaux**

**Contact Person
Personne ressource:
Marilyn Journeaux, Director / Directrice Solid Waste Services / Services de
déchets solides
*613-580-2424 Ext 21528, Marilyn.Journeaux@ottawa.ca***

Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2017-PWE-GEN-0028

**SUBJECT: FINANCIAL STATEMENTS FOR IN-HOUSE SOLID WASTE
COLLECTION – EXTERNAL AUDIT RESULTS 2016**

**OBJET: ÉTATS FINANCIERS POUR LA COLLECTE DES DÉCHETS SOLIDES
PAR LA VILLE - RÉSULTATS DE LA VÉRIFICATION EXTERNE DE
2016**

REPORT RECOMMENDATION

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

RECOMMANDATION DU RAPPORT

Que le Comité de l'environnement et de la protection climatique 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 4 of \$589,899 for Zone C3 and a deficit of \$665,060 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 \$520,836 for Zone C5 in 2016, resulting in total Year 4 deficits of \$734,123.

In terms of customer service requests, the zones C3 and C5 from the In-house bid yielded 1.28 calls per 1,000 households in 2016.

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 quatrième année du contrat, la collecte des déchets solides par la Ville a donné lieu à des déficits d'exploitation de 589,899 \$ pour la zone C3 et de 665,060 \$ 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 520,836 \$ pour la zone C5 en 2016, étant donné la différence entre le prix offert par la Ville et le prix de l'offre la plus proche. Les déficits totaux pour la quatrième année s'élèvent donc à 734,123 \$.

En ce qui concerne les demandes de service des clients, on a observé 1.28 appels par 1 000 ménages en 2016 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 4 period of 12 months ended October 31, 2016, 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, 2016, and 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 4 of \$589,899 for Zone C3 and \$665,060 for Zone C5. Zone 3 represents a deficit against the In-House collections contract estimate at the time of tender. Zone 5 represents a deficit as compared to the contract awarded to In-House Operations for Zone 5, which is offset by a savings of \$520,836 as compared to the second lowest bid in the tender process, for a net loss of \$144,224. However, over the four-year contract to date, the In-House collection group has resulted in \$429,834 of cumulative savings under the current contract.

Table 1 below presents the current and total contractual, as well as overall savings 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 - Contractual Savings and Overall Savings to Residents Year 4 2015-2016

	Zone 3	Zone 5	Total In-House	Total Years 1-3	Total Contract to Date
Savings from Next Lowest Bid (1)	<u>\$ N/A</u>	<u>\$520,836</u>	<u>\$520,836</u>	<u>\$1,504,565</u>	<u>\$2,025,402</u>
Surplus/(Deficit) from In-House collection Operations (2)	<u>\$(589,899)</u>	<u>\$(665,060)</u>	<u>\$(1,254,959)</u>	<u>\$(340,609)</u>	<u>\$(1,595,568)</u>
Total Savings (1 + 2)	<u>\$(589,899)</u>	<u>\$(144,224)</u>	<u>\$(734,123)</u>	<u>\$1,163,956</u>	<u>\$429,834</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.

Year 4 resulted in operating deficits in both Zones mainly due to increased labour, fleet as well as 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 and new trends/repair requirements are developing), and that the warranty expired on essentially the entire fleet (i.e. we are now 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 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 has resulted in a deficit of \$734,123 in the 4th year of the contract, and total savings of \$429,834 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, 2015 to October 31, 2016 (Year 4)**

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	1,098	43%	1,471	57%	2,572
Black Box collection	1,146	38%	1,889	62%	3,035
Blue Box collection	1,150	36%	2,087	64%	3,237
Organics / Yard waste collection	4,293	37%	7,266	63%	11,559
Total calls / year	7,687	38%	12,716	62%	20,403
Households	115,389	40%	174,790	60%	290,179
Average weekly service requests per 1,000 households	1.28		1.40		1.35

When tracked by the average weekly service request per 1,000 households, zone C3 and C5 (In-house collection group) reported a 7% decrease in calls while Zones C1, C2, and C4 reported a 3% decrease in calls over the previous contract year.

In Year 4, the In-house collection group received an average of 1.28 calls per 1,000 homes per week or 67 calls per 1,000 homes/year. The overall City average calls per week decreased from 1.43 to 1.35.

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 receiving the information in this report.

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
(Previously distributed to all members of Council and held on file with the City Clerk)

Document 2: Statement of Operations, City of Ottawa, In-House Collection – Zone 5
(Previously distributed to all members of Council and held on file with the City Clerk)

DISPOSITION

City Council to receive this report for information.