

**3. FINANCIAL STATEMENTS - IN-HOUSE COLLECTION - ZONE C4**

**COMMITTEE RECOMMENDATION**

**That Council receive this report for information.**

**DOCUMENTATION**

1. Director, Solid Waste Division, Environment and Transportation Department report dated 28 Jul 2000 is immediately attached.

REGION OF OTTAWA-  
CARLETON

REPORT

RÉGION D'OTTAWA-CARLETON

RAPPORT

Our File/N/Réf. Your File/V/Réf.	<b>50</b> 57-00-0003
DATE	28 July 2000
TO/DEST.	Coordinator, Planning and Environment Committee
FROM/EXP.	Director, Solid Waste Division Environment and Transportation Department
SUBJECT/OBJET	<b>FINANCIAL STATEMENTS - IN-HOUSE COLLECTION - ZONE C4</b>

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### DEPARTMENTAL RECOMMENDATION

**That the Planning and Environment Committee and Council receive this report for information.**

### BACKGROUND

On 27 May 1998, Regional Council considered two reports with respect to levels of service for solid waste delivery. The common objective within the contracts are waste diversion, customer convenience and fiscal responsibility. In addition, the collection contracts were designed to encourage the development of a competitive marketplace in Ottawa-Carleton for waste management services. On 23 September 1998, Regional Council approved the retention of collection for Zone C4 by the Region (hereafter referred to as "In-house Collection") as part of the awarding of the 5 year residential waste collection contracts. In recognition of the need to monitor the financial performance of In-house Collection, Regional Council also approved the requirement of annual audited financial statement of expenditures and revenues, and required an annual information report on the qualitative and quantitative information relevant to the performance of this contract.

The methodology used to prepare the financial statements is consistent with our Managed Competition Protocol and with the Regional Internal Auditor's report on incremental costs approved by Council on 27 May 1998 and 08 September 1998, respectively. There are four fundamental concepts used in the preparation of the In-house Collection statements:

- a "going concern" operation
- this is a unit based contract

- expenditures and revenues are recorded on an accrual basis
- includes all incremental costs

## DISCUSSION

We are pleased to report that the audited financial statements (see summary at Annex A) for In-House Collection for the year ending 31 May 2000, reflects a surplus of \$119,104. The following table summarizes the contractual savings as a result of Council's decision to award Zone C4 to the Region (details are contained in Annex B) and the overall savings to the residents of Ottawa Carleton, as a result of first year operations.

**Table 1**

Savings from Regional bid	\$274,006
Surplus from in-house collection operations	<u>119,104</u>
Total savings	\$393,110

Across the Region, actual tonnages were 5-10% above estimated quantities, with some variation between Zones and different streams. For the year, in Zone C4 total tonnes for garbage exceeded the tendered estimated quantities by 6.2%, where leaf & yard waste was below the estimated quantities by 3.9% and recycling was essentially as estimated in the tender. The contract is structured to be paid at the bid unit rate for the actual tonnage.

Total savings are a combination of (1) savings as a result of the Region's bid price compared to the next closest bid and (2) savings as a result of actual costs of the operation compared to the Regions' bid price ('surplus from operations').

Savings as a result of the Region's bid price reflect aggressive pricing for garbage and recycling collection. Surplus from Operations is a result of lower than expected costs in the leaf and yard waste stream. These savings are attributable to route optimization and the reallocation of spare fleet from the original proposal. Other savings in the areas of facility rentals, workers compensation claims, labour costs and interest costs (as a result of phasing in fleet acquisitions) also contributed to the surplus. Overall, the financial performance for the first year of the operation reflects operational efficiencies and the productivity of dedicated and experienced staff.

## PERFORMANCE

In addition to the quantitative evaluation that the financial statements provide, an analysis has been done based on the information available in the Request For Services (RFS) software application. This system became operational in the fall of 1999 and as a result data represents only that period from 01 November 1999 to 30 May 2000. The general procedure for handling and logging calls can be described as follows: calls come into the 24 Hour Call Centre, some calls are handled directly by the operator and not recorded, other calls are logged, all requiring follow-up action by Solid Waste staff

(Customer Clerk and/or Inspector) or action by the appropriate contractor. The following table summarizes complaint calls logged into the system that required follow-up by the appropriate collector.

**Table 2**

	Zone C4 - Region	Zones C1,2,3,&5 - Combined Private Sector
Households (estimated)	45,824	162,486
Black Box Complaints	224	1,086
Blue Box Complaints	221	980
Christmas Tree Complaints	14	61
Garbage Complaints	440	1629
Leaf & Yard Complaints	130	436
Total Complaints	1,029	4,192
Estimated # of Pick-ups	3.2 Million	11.2 Million
Complaints per 1,000 Pick-ups	0.32	0.37

It should be noted that in addition to the RFS results, there are other indicators and surveys of the residents' views with respect to waste management services. Earlier this spring, the Corporate Research Group (CRG) Ltd. of Nepean surveyed residents regarding environmental matters. In their review of questions dealing with familiarity and importance of programs, CRG observed:

“Garbage collection was mentioned most often both unprompted and prompted and was rated highest in importance in both cases.”

Similarly, some Councillors have done surveys of residents' opinions on Regional services. Results from two of those surveys are very similar: Councillor P. Hume found a 91% satisfaction level with garbage collection and recycling and Councillor G. Hunter also found garbage pick-up and recycling at 91% response in the top two categories of evaluation (very satisfied and somewhat satisfied). In both cases, these were the highest rated Regional services.

## CONCLUSIONS

Based on the audited financial statements and the qualitative information available with respect to services provided, collection by Regional staff have delivered the savings identified in their bid comparison with the private sector and exceeded those savings by an additional \$119,104, while providing a level of service at least equal to that of the private sector. Although this is only the first year of a five year contract, there will be pressures that will increase costs in the subsequent years, but there will also be opportunities to reduce or contain those costs. Subsequent evaluations of staff's performance should not be done in isolation of the savings achieved in the first year. Innovative approaches to service delivery and continued co-operative dialogue with the collective bargaining agent will be keys to providing cost effective services for the new City.

*Approved by  
P. McNally, P.Eng.*

PM/CC/

Statement of Operations

**Regional Municipality of Ottawa-Carleton**  
**In-House Waste Collection**  
May 31, 2000

## AUDITORS' REPORT

**Director of Solid Waste Division  
Regional Municipality of Ottawa-Carleton**

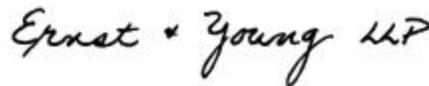
We have audited the statement of operations of the **Regional In-House Waste Collection** [a component of the Regional Municipality of Ottawa-Carleton] for the twelve months ended May 31, 2000. This financial information is the responsibility of the Regional Municipality of Ottawa-Carleton Solid Waste Division management. Our responsibility is to express an opinion on the financial information based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.

In our opinion, this statement presents fairly, in all material respects, the results of operations of the **Regional Municipality of Ottawa-Carleton In-House Waste Collection** for the twelve months ended May 31, 2000 in accordance with the significant accounting principles disclosed in Note 2 of the financial statement.

The In-House Waste Collection is a component of the Region and has no separate legal status or existence.

Ottawa, Canada,  
July 17, 2000.



Chartered Accountants



**Regional Municipality of Ottawa-Carleton  
In-House Waste Collection**

**STATEMENT OF OPERATIONS**

For the twelve months ended May 31, 2000

	\$
<b>REVENUE</b>	<b>3,087,890</b>
<b>EXPENDITURES</b>	
<b>Labour costs</b>	
Salaries	1,012,109
Overtime	65,294
WSIB costs	15,864
Supplemental EI	2,594
Employer benefit contributions	170,263
<b>Payroll costs</b>	<b>1,266,124</b>
Labour subcontracted	44,201
<b>Labour costs</b>	<b>1,310,325</b>
<b>Vehicle related costs</b>	
Maintenance and repairs/tires	707,766
Fuel	238,491
Insurance/licensing	29,632
Depreciation	470,780
<b>Vehicle related costs</b>	<b>1,446,669</b>
<b>Materials and supplies</b>	
Personnel/safety supplies	18,184
Tools and parts	718
Office/administration supplies	6,842
Conferences and receptions	2,816
Communications	19,695
<b>Materials and supplies</b>	<b>48,255</b>
Professional services	18,586
Property lease	13,150
Interest on vehicle loan	130,066
Loss on disposal of vehicle	1,735
<b>Total expenditures</b>	<b>2,968,786</b>
<b>Operating surplus</b>	<b>119,104</b>

On behalf of the Board:

Director

Director

**Regional Municipality of Ottawa-Carleton  
In-House Waste Collection**

**NOTES TO FINANCIAL STATEMENTS**

May 31, 2000

**1. DESCRIPTION OF ORGANIZATION**

On September 23, 1998, the Regional Municipality of Ottawa-Carleton [the "Region"] awarded, through a competitive bidding process, a five year residential waste collection contract for Zone C4 of the Region, to the Solid Waste Division of the Region. The statement of operations was prepared to report the operating results of the collection activities of Zone C4 for the twelve months ended May 31, 2000. This statement does not reflect the results of operations of the Solid Waste Division of the Region; it reflects only the incremental costs incurred by The Solid Waste Division to perform the contracted collection services for Zone C4, and revenue as described below. The Region qualifies as a non-profit organization in the Income Tax Act, and as such, is not liable for income tax.

**2. SIGNIFICANT ACCOUNTING POLICES**

The statement of operations of the In-House Waste Collection has been prepared by management in accordance with accounting principles which are summarized below:

**Basis of accounting**

Revenue has been calculated on an accrual basis of accounting based on the tonnage collected at the rates proposed and accepted in the bid process.

Expenses are recorded on an accrual basis and include only the expenses incremental to the Region as a result of providing the contracted collection service to Zone C4.

**Depreciation for Capital assets**

Capital assets are recorded at cost, except for used vehicles, which are recorded at estimated market value at the time of commencement of the contract. Amortization is recorded using the straight-line method over their estimated useful lives as follows:

Vehicles	7 years
Leasehold improvements	5 years

**3. INTEREST ON VEHICLE LOAN**

The interest on vehicle loan represents the cost of funds borrowed from the Region to purchase the vehicles. The interest rate on the loan is 5% and the amortization period of the loan is consistent with the expected retention period of the vehicles.

**Regional Municipality of Ottawa-Carleton  
In-House Waste Collection**

**Schedule**

**STATEMENT OF REGIONAL IN-HOUSE COLLECTION COSTS BY  
WASTE STREAM**

*[unaudited]*

Year ended May 31, 2000

	<b>Garbage</b>	<b>Recycling</b>	<b>Leaf and Yard</b>	<b>Totals</b>
	\$	\$	\$	\$
<b>Labour costs</b>				
Salaries	545,932	368,610	97,567	<b>1,012,109</b>
Overtime	35,220	23,780	6,294	<b>65,294</b>
WSIB costs	8,557	5,778	1,529	<b>15,864</b>
Supplemental EI	—	2,594	—	<b>2,594</b>
Employer benefit contribution	91,840	62,010	16,413	<b>170,263</b>
<b>Payroll costs</b>	<b>681,549</b>	<b>462,772</b>	<b>121,803</b>	<b>1,266,124</b>
Subcontracted labour	23,842	16,098	4,261	<b>44,201</b>
<b>Labour costs</b>	<b>705,391</b>	<b>478,870</b>	<b>126,064</b>	<b>1,310,325</b>
<b>Vehicle related costs</b>				
Maintenance and repairs/tires	381,761	257,759	68,246	<b>707,766</b>
Fuel	128,640	86,855	22,996	<b>238,491</b>
Insurance/licensing	15,983	10,792	2,857	<b>29,632</b>
Depreciation	253,933	171,452	45,395	<b>470,780</b>
<b>Vehicle related costs</b>	<b>780,317</b>	<b>526,858</b>	<b>139,494</b>	<b>1,446,669</b>
<b>Materials and supplies</b>				
Personnel/safety supplies	9,808	6,623	1,753	<b>18,184</b>
Tools and parts	387	262	69	<b>718</b>
Office/administration supplies	3,690	2,492	660	<b>6,842</b>
Conferences and receptions	1,519	1,026	271	<b>2,816</b>
Communications	10,623	7,173	1,899	<b>19,695</b>
<b>Materials and supplies</b>	<b>26,027</b>	<b>17,576</b>	<b>4,652</b>	<b>48,255</b>
Professional services	10,025	6,769	1,792	<b>18,586</b>
Property lease	6,263	4,383	2,504	<b>13,150</b>
Interest on debt	70,156	47,368	12,542	<b>130,066</b>
Loss on disposal	1,735	—	—	<b>1,735</b>
<b>Total Expenditures</b>	<b>1,599,914</b>	<b>1,081,824</b>	<b>287,048</b>	<b>2,968,786</b>
<b>Statistical information</b>				
Actual tonnage in metric tonnes	34,043	10,515	4,462	<b>49,020</b>
<b>Actual cost per tonne</b>	<b>47.00</b>	<b>102.89</b>	<b>64.33</b>	<b>60.56</b>

**ANNEX B**

**Solid Waste Division  
In-House Collection  
Savings as a Result of Council Decision to Award Zone C4 to the Region**

Waste Stream	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
	Actual Tonnes per Zone	Actual Tonnes per Zone	Successful Bid Unit Cost (\$)	Successful Bid Unit Cost (\$)	Contractual Total Cost	Actual Tonnes Total	Competitor's Bid Price Based on Both Zones*	Competitor's Total Cost	
	C4	C5	C4	C5 *	(1*3+2*4)	(1+2)		(6*7)	
Garbage	34,043	32,921	45.87	55.74	\$3,396,687	66,964	\$55.38	\$3,708,674	
Recycling	10,515	11,480	99.14	129.75	2,531,977	21,995	\$118.98	2,616,862	
Leaf & Yard	4,462	4,943	105.68	100.94	970,491	9,405	\$90.13	847,626	
					\$6,899,155			\$7,173,161	

Contractual Savings (competitor's total cost – contractual total cost)	\$274,006
Surplus from Operations	<u>119,104</u>
<b>Total Savings</b>	<b><u><u>\$393,110</u></u></b>

\* denotes unit price + net GST