

PW18.3

ATTACHMENT 4

Ernst and Young Review Items and Response

Item	Item Summary	Response
Review Item #70	These items speak to the fact that both E&Y and the City think future efficiencies exist for in-house curbside collection service, and that these should be documented. In addition, it was mentioned that certain benefits to having a mix of service delivery options (internal and external) may be beneficial.	Although Staff are not specifically recommending contracting out, staff are recommending an alternative approach that could result in contracting out, namely managed competition. A deferral of the issue is not being recommended, as a managed competition approach will support in-house services in the exploration of delivery efficiency options.
Review Item #4, 5, 8, 31, 42, 43, 44, 46, 51	These items generally relate to the cost analysis methodology used by SWMS to determine the potential future bids for District 3 and District 4. A sensitivity analysis was also incorporated which estimated a low, medium and high cost scenario. The total estimated costs were then compared to internal costs for both D3 and D4.	Additional detailed analysis, in particular with respect to fleet costs has been completed and the cost related forecasts on a cost per tonne and cost per household basis have been revised. This updated analysis is contained in Confidential Attachment 3 in recognition of the pending procurement.

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<p>Review Item #4, 6, 7, 13, 18, 32, 33, 39, 40, 43, 44, 48, 63, 69</p>	<p>These items focused largely on the redeployment costs associated with D3 and D4. Redeployment costs for D3 were estimated to be \$48.3M, whereas redeployment costs for D4 were only \$855K. This large discrepancy exists because a number of staff from D4 could be absorbed by D3. If both D3 and D4 were contracted out at the same time, total redeployment costs could be as high as \$100M (since adsorption would be possible under this scenario).</p> <p>E&Y also indicated that the calculation of the redeployment costs and associated timelines, were potentially too high, and suggested SWMS re-examine these to ensure they are accurate. In addition, E&Y believes certain cost mitigation strategies could be used to reduce redeployment costs.</p>	<p>An updated analysis has been prepared to reflect changes to redeployment efforts and costs. This updated analysis is contained in Confidential Attachment 2.</p>
<p>Review Item #4, 39, 44</p>	<p>These items relate to SWMS acknowledging that D3 had the highest cost of services. However, they also suggest that the redeployment of staff results in a significant cost barrier for the first contracting out period.</p>	<p>A longer term approach (more than 1 term of contract) has been taken in the supplemental report which is more consistent with the long term fiscal planning of the City which helps to mitigate these one-time costs.</p>

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Review Item #14, 18, 45, 52, 65, 69	<p>These items relate to the fact that E&Y consistently stated that, although they agree with the methodology used by SWMS to determine potential external proposal costs, it could not be said with any certainty that these would reflect actual bids. This is due to other market factors that may occur and the only way to determine actual bid estimates, was to 'go to market.' SWMS, agreed with this assumption and explained that they understood the limitations of the approach.</p> <p>E&Y reiterated the need to better understand potential redeployment costs.</p>	A managed competition approach is being recommended to address concerns identified with respect to potential uncertainty in the assumptions regarding marketplace conditions.
Review Item #15, 66	E&Y explained that the potential financial benefits of contracting out curbside collection services need to be weighed against operational risks. This includes both disruptions to the external service provider due to financial difficulties, or other issues, as well as the potential inability, in the event of a service disruption, for SWMS to use in-house resources (as they would no longer exist).	The potential operational risks associated with a service disruption will be included and addressed as part of the recommended procurement.
Review Item #22, 31	SWMS determined that D3 could not be contracted out without including nights and Toronto Island collection services, as the same equipment is used. Accordingly, the SWMS estimates for external bid pricing include these services.	Concerns regarding the inclusion of nights collection, Toronto Island collection, and toxic taxi will be addressed pending the outcome of the recommended procurement in D4.
Review Item #28, 29, 30, 32, 34, 37, 38, 42, 43, 44, 46, 51	These items relate to the methodology used by SWMS to estimate future potential proposal costs. This includes, the rate of inflation, the discount rate applied, the use of previous bids to form baselines, etc.	Financial information has been updated to include 2015 data which was not available at the time the last report was prepared.

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Review Item #34	SWMS summarized various cost and collection data for all Districts including total households, total tonnes collected, the cost per tonne, etc.	Tonnage data has been updated to include 2015 data which was not available at the time the last report was prepared.
Review Item #50	SWMS applied the same methodology to D4, as they did with D3 (2% inflation, escalated to the new estimated contract start date of 2017).	Given the delay in decision making, the assumed start of contract is now 2019 for the purposes of analysis.
Review Item #53, 54, 55, 56, 57, 58,	These items relate to the analysis of the financial impact of contracting out D3 and D4 at the same time. E&Y confirmed that it did not make financial sense to contract out D3 and D4 simultaneously.	The amended Report is not recommending a simultaneous approach to procurement for District 3&4 and therefore any aspect of the report discussing this approach is no longer relevant.
Review Item #59	E&Y noted that there are certain advantages to maintaining a balance between in-house and contracted out curbside collection services.	Feedback provided by E&Y has been incorporated into the supplemental Report.