

---

<b>Report To:</b>	<b>Environment &amp; Regeneration Committee</b>	<b>Date:</b>	<b>7 March 2013</b>
<b>Report By:</b>	<b>Head of Environmental &amp; Commercial Services</b>	<b>Report No:</b>	<b>ERC/ENV/IM/12.151</b>
<b>Contact Officer:</b>	<b>Ian Moffat</b>	<b>Contact No:</b>	<b>715910</b>
<b>Subject:</b>	<b>Fleet Model - Review</b>		

---

## 1.0 PURPOSE

- 1.1 The purpose of this report is to provide the Environment & Regeneration Committee with an update on the Vehicle & Plant Equipment Procurement Model efficiency along with its financial sustainability for the next 3 Years.

## 2.0 SUMMARY

- 2.1 The model was agreed in June 2009, approving an overall investment of £7.8m per full cycle, split between 5 year and 7 year life expectancy for various types of vehicle and plant equipment. Therefore the initial investment was devised to maintain the programme to 2013/14; thereafter capital investment would be repeated on a cyclical basis as per the proposed replacement periods. Replacement costs would be funded primarily through prudential borrowing.
- 2.2 The size of the fleet at the outset of the programme was 334 items, which included a number of long term hires which had replaced fleet that was previously uneconomical to repair. The current fleet stands at 329 items.
- 2.3 Since launching the Procurement Model, 147 vehicles and 116 items of plant, including 50 vehicles and 21 plant items that were on long term hire have been replaced.
- 2.4 The average age profile of the fleet has reduced from 7.1 years in 2009/10 to 2.9 today which reflects a significant improvement in fleet asset management.
- 2.5 A total of £618,000 of efficiency savings was targeted to make up the balance of the initial loan charges. £265,000 of this was stripped from user's budgets leaving £353,000 to be delivered from efficiencies within the Vehicle Maintenance Trading Account (VMTA). These savings have been delivered.
- 2.6 The model was also based on residual values of both the existing fleet and the replacement fleet being used to offset the capital costs of vehicle to be replaced. Although residual values targets were not fully achieved, mainly as a result of the age profile and condition of the first batch of equipment that was sold, this is expected to resolve itself in the next full cycle, due to the consistent age and better condition equipment that will be sold.
- 2.7 It is therefore anticipated that the current model as detailed in appendix 1 will operate with a small shortfall each year from 2015/16 onwards, but with the earmarked reserve fund being carried forward it is not until 2020/21 that the model will actually operate with any shortfall. However, officers are confident that with the introduction of other savings and efficiency initiatives, such as the vehicle tracking system coupled with the development of the Fleet Management System, will cancel out the small operating shortfall ensuring the model continues to operate in the black.
- 2.8 A key to delivering further efficiency savings and optimising fleet utilisation was the installation of a vehicle tracking system and fleet management software package. The fleet management software package has been procured and is now operational. The procurement of the vehicle tracking system

---

has been delayed but it is now targeted to be installed and be operational by April 2013.

- 2.9 The Fleet model, although highly dependent on residual value targets being achieved, provides the Council with an efficient, flexible method of procuring and operating fleet items and reflects good fleet management practice.

### **3.0 RECOMMENDATIONS**

- 3.1 The Committee notes the efficiency savings that have been made and the reduction of the average age of the fleet that has been achieved since the introduction of the model.
- 3.2 The Committee notes that although the model predicts a funding shortfall from 2015/16 onwards, the Service management are confident that this will be corrected prior to this date by further efficiency savings as highlighted in this report.
- 3.3 The Committee notes that although the model is highly dependent on residual value targets being achieved, it provides the Council with an efficient, flexible and value for money method of procuring and operating fleet items.
- 3.4 That delegated authority is given to the Head of Environmental & Commercial Services to vary the replacement cycle, should there be a sound financial or operational need to do so, and provided costs can be contained in the approved funding model.
- 3.5 That delegated authority is given to the Head of Environmental & Commercial Services to procure nearly new or used vehicles, plant and equipment where it can be demonstrated that there would be an enhancement to service provision, and costs can be contained in the approved funding model.
- 3.6 That delegated authority is given to the Head of Environmental & Commercial Services to procure new addition fleet, refurbish or modify existing fleet where it can be demonstrated that there would be an enhancement to service provision, such as winter maintenance resilience, it would make sound financial or operational sense to do so, and costs can be contained in the approved funding model.

**Ian Moffat**  
**Head of Environmental & Commercial Services**

---

## 4.0 BACKGROUND

- 4.1 The size of the fleet at the outset of the programme was 334 items, which included a number of items that were beyond their economic use and also included long term hires which were replacing fleet that was uneconomical to repair. The current fleet stands at 329 items.
- 4.2 Since launching the Procurement Model, 147 vehicles and 116 items of plant, including 50 vehicles and 21 plant items that were on long term hire, have been replaced.
- 4.3 The average age profile of the fleet has reduced from 7.1 years in 2009/10 to 2.9 today which reflects a significant improvement in fleet asset management.
- 4.4 The model was agreed in June 2009, approving an overall investment of £7.008m per full cycle, split between 5 year and 7 year life expectancy for various types of vehicle and plant equipment. Therefore the initial investment was devised to maintain the programme to 2013/14; thereafter capital investment would be repeated on a cyclical basis as per the proposed replacement periods. Replacement costs would be funded primarily through prudential borrowing.
- 4.5 The model was also based on residual values of both the existing fleet and the replacement fleet being used to offset the capital costs of vehicles to be replaced. Although residual values have not been fully achieved this is expected to resolve itself in the next full cycle, due to the consistent age and better condition equipment that will be sold. Residual values were set prior to the market downturn in the Autumn of 2008.
- 4.6 A total of £618,000 of efficiency savings was targeted to make up the balance of the initial loan charges. £265,000 of this was stripped from user's budgets leaving £353,000 to be delivered from efficiencies within the Vehicle Maintenance Trading Account (VMTA). These savings have been delivered.
- 4.7 Most equipment was purchased via the Scotland Excel Framework and was selected using the Council weighted evaluation scoring of 60:40, Price 60 and Quality 40.
- 4.8 A number of replacements, mainly vehicles and plant operated by Grounds Maintenance Services, have been delayed, giving rise to capital slippage. This was in the main down to the uncertainty of the outcome of the RCH tender. The impact of the loss of the contract is currently being assessed and has not yet been reflected in the current financial model, it is expected this is likely to result in a reduction in the required capital programme of approximately £330,000.
- 4.9 APSE weightings have been applied to allocate maintenance, overheads and insurance costs. This approach makes administering the fleet budget easier by providing a platform for standardisation of charges.
- 4.10 A Fleet Management System was procured from Civica through competitive tendering at a cost of £33k. The system was procured in March 2010 and installed in August 2010. Work has been ongoing since installation, populating and developing the system using existing resources. The current status of the System is that most of the teething troubles have been resolved in consultation with the suppliers. The System's programmes that have been developed are functional and it is anticipated that over the next 12 months with the build up of data that meaningful management information will be available thus providing financial and performance reports on the Council's transport.
- 4.11 A contract for the provision of a Vehicle Tracking System (VTS) was prepared and exposed to competitive tendering. The budget for the VTS was £100k. The most economically advantageous tender submitted by Traffic Master was within budget however at an advanced stage in the procurement process it was realised that the tender price would effectively only provide the hardware for the VTS. This contract was terminated by mutual consent.

- 
- 4.12 Various options have been looked at including partnership arrangements with SPT and Stirling Council. In the case of SPT there was the possibility of working in partnership with one of their existing tracking systems. Further examination of this proved to be neither cost effective nor within budget. A contract prepared by Stirling Council was also considered however on closer examination it was determined by the Council's Procurement Section that this could not be pursued.
- 4.13 The Funding Model for the Replacement Programme has been amended to include an annual revenue cost of around £30K for a vehicle tracking system, (VTS). This was approved at the Policy and Resource Committee of 18<sup>th</sup> September. Tender evaluations have been concluded and we are targeting to have the system operational by April 2013.

## **5.0 CONCLUSIONS**

- 5.1 A key to the success of the model is realising the residual values. In 2015/16, the seventh year of the model, £772,000 has been forecasted as this is when the bulk of the 5 year old vehicles are due for replacement. Although no one can fully predict market conditions, steps have been taken to maximise residual values, by adopting a whole life cost approach when procuring Fleet items.
- 5.2 Although the current model predicts operating with a small shortfall each year from 2015/16 there are further savings which have been identified and once delivered will bring the model back into operating with a small surplus.
- 5.3 The Fleet model, although highly dependent on residual value targets being achieved, provides the Council with an efficient, flexible method of procuring and operating fleet items and reflects good fleet management practice.

## **6.0 CONSULTATION**

- 6.1 The Chief Financial Officer has been consulted on this report.

## **7.0 IMPLICATIONS**

- 7.1 There are no Human Resource implications in relation to this report.
- 7.2 There are no legal implications in relation to this report.
- 7.3 There are no Equalities implications in relation to this report.

**Vehicle Replacement Programme  
Financial Model**

Appendix 1

<b>Earmarked Reserve</b>	<b><u>2012/13</u></b> <b>£000's</b>	<b><u>2013/14</u></b> <b>£000's</b>	<b><u>2014/15</u></b> <b>£000's</b>	<b><u>2015/16</u></b> <b>£000's</b>	<b><u>2016/17</u></b> <b>£000's</b>	<b><u>2017/18</u></b> <b>£000's</b>	<b><u>2018/19</u></b> <b>£000's</b>	<b><u>2019/20</u></b> <b>£000's</b>	<b><u>2020/21</u></b> <b>£000's</b>	<b><u>2021/22</u></b> <b>£000's</b>	<b><u>2022/23</u></b> <b>£000's</b>	<b><u>2023/24</u></b> <b>£000's</b>
Earmarked Reserve b/fwd	0	223	327	373	363	294	195	139	65	(11)	(43)	(76)
<b>Capital Requirements:</b>												
Vehicle Purchases	325	363	1,198	2,970	352	1,619	600	1,225	3,070	244	251	371
Residual Value	(117)	(146)	(220)	(772)	(83)	(320)	(129)	(319)	(790)	(63)	(65)	(88)
Net Capital Requirement	208	217	978	2,198	269	1,299	471	906	2,280	181	185	283
Loan Charges	921	966	1,024	1,080	1,139	1,169	1,126	1,144	1,146	1,102	1,103	1,107
Additional Revenue Costs (Note a)		30	30	30	30	30	30	30	30	30	30	30
Loan Charges Funding Available	1,144	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100
Annual Funding Surplus/(Shortfall)	223	104	46	(10)	(69)	(99)	(56)	(74)	(76)	(32)	(33)	(37)
Earmarked Reserve c/fwd	223	327	373	363	294	195	139	65	(11)	(43)	(76)	(113)

Notes

a Additional running costs of Vehicle Tracking System