



## **DIRECTOR CORPORATE SERVICES REPORT**

12<sup>th</sup> September 2006

<b>DCS16</b>	<b>FLEET MANAGEMENT ANNUAL REVIEW REPORT FILE: 468      CAD</b>
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### **SUMMARY:**

Reporting on the 6 monthly review of the Kempsey Fleet Management Business Plan for the year ending June 30th 2006.



The operational plan for the Kempsey Fleet Management Unit indicated that reports would be presented to Council monthly, six monthly and annually.

The monthly report was to detail fleet items purchased and disposed of for the previous month, this is currently the present practice.

Six monthly reports were to detail;

1. Fleet replacement program estimates against actuals.
2. Utilisation trends.
3. Availability rates (downtime).
4. Business Plan action review.
5. Propose hire rates for the next financial year.

The annual report was to address many of the items above including a number of others as detailed below;

1. Fleet replacement program estimates against actuals.
2. Utilisation comparisons against previous years.
3. Availability rates (downtime).
4. Written Down Value (WDV).
5. Business Plan action review.
6. Reporting on the long term fleet replacement program (currently 8 year).
7. Internal Customer Satisfaction Survey – Fleet & Workshop

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Fleet traditionally has provided Council information on the various operational aspects on fleet performance and with a change in the fleet management team is now intending to provide these performance indicators more in line with industry best practice using tried and tested Key Performance Indicators (KPI's).

## 1. Fleet Replacement Program – Estimates against Actuals

Comparison of the actual net Fleet purchases against the original 2005/2006 budget provisions plus Contributions shows: -

	<b>Original Budget</b>	<b>Revised Budget</b>	<b>Actual Changeover</b>	<b>Diff</b>
General Fleet	\$1,022,803	\$485,416	\$471,453	(S) \$13,963
Water Fleet	\$370,600	\$468,670	\$346,122	(S) \$122,548

The significant reduction in the amount available for actual changeover of General Fleet in 2005/06 has had, and will have an ongoing detrimental impact on Council's General Fleet performance.

The reasons for the reductions are: -

- i) increased Fleet operating expenses due to fuel price rises, higher maintenance cost on aged plant, etc.
- ii) need to recoup previous year over-expenditures due to higher Fleet operating expenses.
- iii) Fleet Hire rates not revised to reflect current operating costs.

### **General Fleet**

Please note the following General Fleet revenue (from sales) will be attributed to the 2006/07 budget –

- iv) Ride on Mower – Iseki (V1214) \$4,790.91
- v) Table Top – Toyota Dyna (V1737) \$TBA (to be auctioned)

In General Fleet the replacement of the following items have been deferred indefinitely –

- i) Utility – Mitsubishi Triton (V1068) - \$ 18,000
- ii) Table Top – Toyota Landcruiser (V1096) - \$ 19,000
- iii) Utility – Ford Courier (V1726) - \$ 14,000
- iv) Wagon – Mitsubishi Outlander (V2085) - \$ 13,000
- v) Wagon – Mitsubishi Outlander (V2086) - \$ 13,000
- vi) Backhoe – John Deere (V1110) - \$117,000
- vii) Sedan – Holden Berlina (V2083) - \$ 15,000
- viii) Table Top – Mitsubishi Triton (V1037) - \$ 18,000
- ix) Table Top – Holden Rodeo (V1847) - \$ 16,000
- x) Table Top – Ford Falcon (V1921) - \$ 16,000

\$259,000

In General Fleet the replacement of the following items have been deferred to 2006/07 –

i) Sedan – Holden Commodore (V2080)	- \$ 14,000
ii) Utility – Mitsubishi Triton (V1886)	- \$ 19,200
iii) Table Top – Ford Trader (V1024)	- \$ 61,000
iv) Excavator – Hitachi (V1146)	- <u>\$180,000</u>
	<u>\$274,200</u>

In General Fleet the replacement of the following items did not proceed as items were sold out right –

- i) Wagon – Mitsubishi Outlander (V2084)
- ii) Utility – Nissan Navara (V1455)

## **Water Fleet**

In Water Fleet the replacement of the following items have been deferred indefinitely –

i) Sedan – Holden Commodore (VW2221)	- \$ 10,000
ii) Backhoe – Caterpillar (VW1123)	- <u>\$ 77,000</u>
	- <u>\$ 87,000</u>

In Water Fleet the replacement of the following items have been deferred to 2006/07 –

i) Table Top – Hino Ranger (VW1626)	- \$ 40,500
ii) Table Top – Mitsubishi Canter (VW1797) Revote	- \$ 59,500
iii) Table Top – Hino Ranger (VW1798) Revote	- <u>\$ 10,000</u>
	<u>\$110,000</u>

Attached. ([Appendix M & N](#))

## **Key Performance Indicators (KPI's)**

### **2. Utilisation (KPI)**

Utilisation refers to the annual usage of a particular item of fleet and is generally measured in engine hours or kilometres travelled. Past practice within Council was to measure booked out hours for **utilisation reports** and this is provided at ([Appendix O](#)), however in the case of an item of plant sitting idle for a number of weeks, but on hire, only means the fleet department budget remains healthy at the expense of the rest of the organisation, in other words high depreciation and low utilisation, and not very cost effective.

As stated above good performance indicators rely on the actual hours and or kilometres of particular items of plant measured

against industry benchmarks and it should be noted that not all fleet will have similar benchmarks, for example the industry benchmark for an Excavator is 800hrs, Bobcat 500hrs, Backhoe 700hrs, Front end loader 700hrs and so on. These benchmark standards were sourced from Uniqco International who in partnership with the Institute of Public Works Engineers Australia (IPWEA) have surveyed over 160 government organisations to set the industry benchmarks.

The key to driving improved performance of Council fleet is the provision of information and it is expected that along with the actual utilisation indicators and other performance tools and strategies the days of having fleet *"just in case we need it"* will disappear.

Attached at [\(Appendix P\)](#) is the latest utilisation report based on industry benchmarks per item of plant, for perusal and information. Please note shaded plant items are below industry benchmarks.

### **3. Availability (Downtime KPI)**

This is often called the hidden cost of fleet management. In many cases downtime is substantial and can greatly affect productivity.

Downtime is a major factor in every decision when establishing long term fleet replacement programs and optimum changeover timeframes. Downtime costs not only comprise the cost of the machine, but also include the cost of idle skilled labour, inconvenience costs, and idle capital investment.

Carrying out comprehensive assessments of plant downtime enables informed decisions to be made on optimum replacement times for plant when developing long term plant replacement programs and clearly demonstrates that if we are to ensure service delivery is achieved on time and at the lowest cost Council will be required to adopt and follow, at minimum, a 8 year plant replacement program.

The fleet department from the start of the 2005/06 year has as one of its KPI's, Fleet Availability, with a current benchmark set at 96% availability. The reporting for the period of 1 February 2006 to 30 June 2006 is attached at [\(Appendix Q\)](#) with the overall performance for the year at 99.12% (Downtime is measured 24 hours 7 days a week).

### **4. Written Down Value (WDV KPI)**

Part of Fleet Management role in the financial management of the fleet is to maintain the value (Written Down Value) of the Council's investment in the fleet. Long term we should be spending at least as much on capital replacement as the annual depreciation. This will ensure the WDV is maintained.

Attached at [\(Appendix R\)](#) are estimated WDV for 2005/06 - actuals are yet to be finalised for 2005/06.

The Written Down Value was reduced by \$418,957 during the past year.

## 5. Business Plan Action Review

The 2005/06 Fleet Management Business Plan included an action plan for Fleet Management planning, Fleet Strategies, OH&S planning and Financial planning. Both the 6 monthly report and the annual report requires Fleet to provide a review of these outcomes. Attached at [\(Appendix S\)](#) is the action plan for the various areas of operation with comments on outcomes.

## 6. 8 year Fleet Replacement Program

The Fleet Replacement allocation for 2006/07 as shown in the Fleet Business Plan to meet the 8 year replacement program is shown below and compared to the actual allocation provided in the 2006/07 Budget.

The major shortfalls in the replacement budget will only lumber the Council with ageing Fleet which into turn will generate increased maintenance costs, increased downtime and increased work load on the Workshop.

The practice of "balancing the Fleet budget" by way of the reducing the Replacement Program must be reviewed. As a result of this practice the General Fleet 2006/07 Replacement Program will be further revised downwards by approximately \$150,000 to \$621,000, which equates to a total shortfall of \$4,626,300. This reduction is to recoup the higher operating costs from the 2005/06 year.

Fleet Replacement Allocation			
Department	Fleet Replacement Program 2006/2007 As per replacement program	Draft Budget 2006/2007 Changeover Allocation	Shortfall
General Fleet	\$ 5,247,300	\$ 771,000	\$ 4,476,300
Water Fleet	\$ 1,020,900	\$ 444,200	\$ 576,700
Waste Fleet	\$ 923,000	\$ 215,000	\$ 708,000

## 7. Internal Customer Satisfaction Survey – Fleet & Workshop

Attached at [\(Appendix T\)](#) is the result of the above survey carried out in August 2006.

## REPORT IMPLICATIONS:

- *Environmental*

*Nil*

- *Social*

*Nil*

- *Economic (Financial)*

*Addressed within the report.*

- *Policy or Statutory*

*There are no policy or statutory implications arising from this report.*

- *Director's Review*

*The reduction in funding actually available for Fleet replacement is the cause of concern.*

*Also, it is suggested that the WDV and the annual depreciation has largely lost relevance as a performance measure for Kempsey Shire.*

*The WDV is merely a historical record of the original purchase price less depreciation over the years. To finance the replacement of Fleet items it is more relevant to consider the current Replacement Value.*

*For example an item of Fleet may have been purchased 7 years ago for \$100,000 and with a 15% pa depreciation may now in Council's books be fully depreciated with a \$Nil WDV. However the current Replacement Value of this item may now be \$150,000.*

*Using this example, the problems are:-*

- a) the cost of the replacement item is \$50,000 more than the original purchase price, and this additional amount has not been funded, and*
- b) as the Fleet has been fully depreciated (but not replaced) it continues to operate with \$Nil annual depreciation. This understates the true annual depreciation write-off.*

*By way of comparison, values as at 30<sup>th</sup> June 2006 are as follows:*

	<u>June 2005</u>	<u>June 2006</u>
<i>Written Down Value</i>	\$4,288,431	\$3,869,474
<i>Replacement Value</i>	\$15,064,880	\$15,153,380

**RECOMMENDATION:**

1. That the information be noted.
2. That this report be further considered at the Extra-Ordinary meeting scheduled to be held on 19<sup>th</sup> September 2006.

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G B Snape  
DIRECTOR CORPORATE SERVICES