



KEMPSEY  
Shire Council

## DIRECTOR CORPORATE AND COMMUNITY SERVICES REPORT

10<sup>th</sup> July 2007

DCCS9	REVIEW OF FLEET MANAGEMENT		
	FILE: 212	GBS	{ Folio No. * }

### SUMMARY:

Reporting on the review of Council's Fleet Management by Uniqco International.

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### DESCRIPTION:

Uniqco was engaged to undertake an audit and review of Council's fleet management practices, and to provide specific recommendations for improvement.

Representatives of Uniqco conducted an onsite visit on 7<sup>th</sup>/8<sup>th</sup> May 2007 and made a presentation to Council at its meeting on 8<sup>th</sup> May.

A report on the review has now been provided and a full copy of that report has been provided to all Councillors.

Attached at [\(Appendix D – Page 4\)](#) is a copy of the Executive Summary.

The management procedures and processes in place at Kempsey Shire are reported as being generally good. The report states: -

*"In summary the most critical action from this review is to implement a funding strategy to bring the fleet within optimum replacement criteria over the next 2 financial years, and to maintain the required funding for the 10 year replacement plan".*

Most, if not all, of the recommendations are contingent upon, or incidental to, the adoption of such a funding strategy.

A schedule setting out the fifty eight (58) recommendations from the report has been compiled into a "Priority Action Plan" which includes Council's proposed response in the form of: -

- Action Proposed
- Resources Required, and
- Responsible Person

is also attached at [\(Appendix E Part 1 – Page 8 Part 2 – Page J15\)](#).

As indicated above the major issues to be addressed by Council are: -

- 1) funding the backlog of fleet due for replacement, and
- 2) establishing a funding strategy which ensures the optimum replacement of fleet items.

The report identifies the need for Council to inject a significant sum of money over the next two (2) years for replacement of fleet items which are well beyond their optimum replacement time. This is additional to the funding already provided in the 10 Year Financial Plan adopted by Council.

The two (2) year period is suggested on the basis of financial capacity and recognition that Council's existing Fleet Management resources would not have the capacity to fully implement all of the required replacements in this financial year.

Funding options are: -

- a) direct allocation from general revenue
- b) borrowing from Council's internal reserves (if any)
- c) allocation from revenue obtained from "windfall" eg. land sale
- d) borrowing by external loans
- e) utilising operating leases.

Options a), b), and c) do not appear to provide a solution for Council at this time.

The leasing of fleet could be further considered but should be restricted to certain heavy fleet items which meet particular utilisation criteria. As stated in the Uniqco report, leasing generally represents a 15% increase in costs over other options. Ownership over leasing is recommended.

Borrowing externally is a legitimate option for Council to pursue. As with any business activity, the income earned through internal hire rates should be sufficient to repay the loan financing costs as well as the normal operating costs ie. the fleet items purchased through loans should be self-financing.

The Uniqco report recommends that the funding strategy for future plant replacement should be linked to a plant replacement reserve which is funded through the annual allocation of an amount equal to the annual sum of depreciation.

In addition, the amount held in the plant replacement reserve needs to be constantly monitored, reviewed, and where necessary "one-off" revenue injections made to compensate for higher than normal increases in replacement costs and for when new plant items not previously contributing to the replacement fund are purchased.

The major problem for the future success of a plant replacement reserve fund is that of safeguarding the fund from "raids" to fund other capital purchases and/or Council operations in future years. If Council is to endorse the concept of self funded fleet operations it will require a commitment of discipline and restraint in future years to adhere to the purpose of the fund ie. to optimise timely replacement of plant.

In previous years/Councils the plant replacement allocation has provided a quick budgetary fix.

As indicated in the Priority Action Plan the recommendations from Uniqco are either: -

- i) adopted for implementation, or
- ii) to be further investigated.

It is proposed that the Priority Action Plan will be used to monitor and record progress towards implementation (or otherwise) of the recommendations, and will be included in the six-monthly (March/September) report to Council on Fleet Management.

## REPORT IMPLICATIONS:

- *Environmental*

*A number of the recommendations in the Uniqco report cover environmental factors associated with fleet eg. purchasing criteria; alternative fuels; engine technology; and recycling of plant and vehicle waste. The application of best practice fleet management should have a positive environmental result.*

- *Social*

*Nil*

- *Economic (Financial)*

*Whereas, the Uniqco report considered Council's total fleet ie. General, Water, and Waste it is suggested that at this time Council should target the General Fleet requirements.*

*The degree of Council's involvement in Waste Services is currently under review and accordingly decisions relating to future plant requirements would be best deferred until the review has been finalised.*

*Council's Water Services plant are funded from Water and Sewerage budgets, and proposed replacement programs for the next two (2) years are self-funded from within those funds.*

*The General Fleet optimum replacement program as compared to the allocations in Council's 10 Year Financial Plan shows as follows:-*

<u>Year</u>	<u>Optimum Replacement Program</u>	<u>Budget Allocation</u>
2006/07	\$4,169,400	\$771,000
2007/08	672,900	881,580
2008/09	396,800	1,107,260
	<u>\$5,239,100</u>	<u>\$2,759,840</u>

*The above indicates a shortfall in funding of \$2,479,260.*

***NOTE:*** *The replacement program only provides for replacement of existing plant items. Any new items would require additional funding.*

*It is proposed that the shortfall be addressed by raising loans of \$1.5M in 2007/08 and a further \$1.0M in 2008/09.*

*Repayments (P&I) on a loan of \$1.5M @ 6.6% over 7 years amount to \$271,039 pa, and for a loan of \$1.0M the repayments amount to \$180,693 ie. a total of \$451,732.*

*These loan repayments would add 1.13% and 0.75% respectively (a total of 1.88%) to Council's Debt Service Ratio.*

*The loan expenses would become a component of the fleet operating costs, and as such factored into and recovered through the hourly plant hire rates.*

*Depreciation on Council's General Fleet for 2006/07 is recorded as being approximately \$750,000 however this amount is lower than expected due to the old age of Council's existing fleet, many items of which now have nil depreciation as they have been fully depreciated years ago. When the fleet is updated it is expected that the annual depreciation figure would be around \$1.1M and it is this amount which should be transferred to the Plant Replacement Reserve each year.*

*The current 10 Year Financial Plan provides for depreciation of approximately \$950,000 pa only.*

▪ *Policy or Statutory*

*Fleet Management practices comply with legislative and Council Policy requirements.*

▪ *Director's Review*

*As per report.*

**RECOMMENDATION:**

1. That the information contained in the Priority Action Plan be noted.
2. That progress reports on implementation of the recommendations contained in the Uniqco report on the Review of Plant and Vehicle Management be provided to Council on a six (6) monthly basis.
3. That Council make application to the Department of Local Government for a loan allocation in the 2007/08 financial year of \$1,500,000 and a further loan allocation in the 2008/09 financial year of \$1,000,000 for the purpose of funding the backlog in replacement of General Fleet items.
4. That Council adopt the funding strategy for future plant replacement being tied to:-

- a) a plant replacement reserve funded through the annual allocation of an amount equal to depreciation, and
- b) the use of loan funds to top-up the reserve funding available for plant replacement.

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**G B Snape**  
**DIRECTOR CORPORATE AND COMMUNITY SERVICES**