

EAST AYRSHIRE COUNCIL

CABINET – 20 APRIL 2011

STRATEGIC REVIEW REVENUE BUDGET 2 (SRRB2) - TRANSPORT BUDGET REVIEW

Report by Depute Chief Executive / Executive Director of Neighbourhood Services

1 PURPOSE OF REPORT

- 1.1 The purpose of this report is to advise Cabinet of the findings of the Transport Budget Review and to approve the cost savings identified across the current transport arrangements.

2 BACKGROUND

- 2.1 A report to Cabinet on 19 May 2010 set out the Council's Efficiency Strategy for the period 2011/12 – 2013/14 (SRRB2). This is the Council's strategy for identifying options to close the forecast spending gap which is estimated to be in the region of £35 million over the period of the next Scottish Government Spending Review (2011/12 -2013/14).
- 2.2 Issues raised by the community and voluntary sector, and employees, during the 2010/11 Budget Consultation engagement process have been formalised into a number of business reviews which form strand 1 of the Council's efficiency strategy (SRRB2). Lead Officers were appointed for each review and project brief prepared for all those reviews identified.
- 2.3 The SRRB2 review of the 'Transport Budget' has incorporated a number of aspects and has, therefore, taken a wide strategic review of arrangements plus identified and reviewed significant areas of spend on transport.
- 2.4 The current spend on Transport Activity across the Council accounts for £12.5m. This is split across all services of the Council with the areas of spend identified below.

Service Area	Budget Spend
Education	£ 5,297,630
Social Work	£ 1,397,330
Neighbourhood Services	£ 3,982,400
Housing Revenue Account	£ 1,494,440
PP Neighbourhood Service	£ 29,580
Finance & Corporate Spt.	£ 297,090
Central Services	£ 6,400
Total	£ 12,504,870

Spend Area	Value
Fuel	£ 1,595,790
Transport management	£ 716,350
Hire & Lease Costs	£ 3,253,930
Internal mileage	£ 1,559,620
External Transport	£ 5,379,180
	£ 12,504,870

- 2.5** Of the key areas of spend considered in the review, these were grouped into 3 main themes, namely, Council Fleet Arrangements, School Transport and Community Transport. The Council's Fleet Arrangements are the subject of this report.
- 2.6** The Council in its operation of all its services require the use of vehicles to deliver direct services such as refuse collection, grounds maintenance and roads maintenance. A range of community contact and service support activities require Council staff to visit a range of locations around the East Ayrshire area, including Social Work, Housing and Asset Management staff, all utilising Council vehicles.
- 2.7** The Council presently operates 410 vehicles ranging from small multipurpose vans and cars to large refuse collection and roads vehicles. In addition, it operates 154 specialised items of plant such as pedestrian sweepers, tractors, trailers and mowing machines etc.
- 2.8** Key questions included: value for money of existing contracted services, including purchasing, leasing and hiring of vehicles, identify opportunities to rationalise the Council fleet, identify more flexible use vehicles and identify opportunities to share vehicle resources across services.

3 FLEET ARRANGEMENTS

- 3.1** There is no statutory requirement for a local authority to directly provide a Transport service. How the service is delivered is the Council's decision. The Council's preferred option for service delivery has generally been in-house provision where this is considered to provide best value. This approach was adopted by a Special Council meeting on the 19 August 1998 and has provided the authority with greater control over the management of road risk.

The legal requirements that apply to the Council in relation to transport are:-

- The Goods vehicles (Licensing of Operators) Act 1995
- Provision and Use of Work Equipment Regulations 1998 and
- Section 19 Permit Scheme as an operator of passenger carrying vehicles

3.2 As a result of the Transport Unit's ongoing commitment to continuous improvement and in line with work already commenced, the implementation of improved fleet management arrangements will result in efficiencies being realised within the Council's Transport budget.

4. FLEET ASSET MANAGEMENT STRATEGY

4.1 The implementation of a formalised Fleet Asset Management Strategy will ensure that the Council's fleet of vehicles and plant continues to be managed in a consistent and effective manner taking account of occupational risk associated with fleet and plant items. The Fleet Asset Management Strategy will assist in ensuring that the Council has the right vehicle, plant and equipment etc, in the right place, at the right time and at the right cost in order to maximise efficiency of services. Guidance to be used in the preparation of the Fleet Asset Management Strategy in the form of a process map is attached at Appendix 1.

4.2 The Fleet Asset Management Strategy will formalise good planning arrangements by:-

- Creating a baseline of information on fleet profile for each service
- Assessing future needs of each service to match provision to both current and future requirements
- Being updated on an annual basis to enable informed decision making regarding future requirements for vehicles and plant
- Providing services with safe, reliable and cost effective vehicles and plant
- Assisting in ensuring continuous improvement in operational efficiency of the fleet
- Informing in the compiling of an asset replacement plan that meets the Council's financial needs

4.3 Baseline data has been issued to Service Users. Vehicle numbers operated by the Council have been reducing since 2008/09 as illustrated in the table below showing a 12% reduction between 2008/09 and 2010/11.

Number of Vehicles Operated by the Council

2008/09	2009/10	2010/11
466	436	410

4.4 Further work has been undertaken in a number of Services including Housing Asset Services, Waste Management, Roads Maintenance Unit and Education and Social Services to assess future needs and identify efficiencies, taking into account future service provision and redesign, efficient working practices and future fleet profile. The use of management tools, such as the vehicle tracking

system, has also assisted in informing on the utilisation of vehicles and ensuring efficient working. Initial results indicate further reductions in fleet numbers and the identification of future potential savings to the Council as services redesign is implemented fully and vehicle leases expire. Estimated future savings are illustrated below.

Housing Asset Services	£ 85,000
Waste Management	£ 80,000
Roads Maintenance	£ 75,000

4.5 Fleet Asset Management Plans will be compiled for all Service Users Units with the Transport Manager and the Transport Users Group (which includes officers of all relevant Services) taking an overview of all plans to challenge profiles and utilisation and identify opportunities for sharing of vehicles. Once all Fleet Asset Management Plans have been completed and reviewed Fleet Rationalisation Plans will be compiled and implementation commenced. Savings will be identified in the course of this year by the Head of Roads and Transportation in line with these plans.

5. HIRE, PURCHASE AND LEASE OF VEHICLES AND PLANT

5.1 Hire vehicles and plant are sourced through a hire framework contract which accommodates fluctuations in business activities, such as seasonal work or short term contracts, rather than for core activities. However, over a number of years, core vehicles have been sourced through the hire framework by extending hire periods every 12 weeks over prolonged periods.

5.2 In order that appropriate actions can be taken in the management of occupation risk associated with fleet items, it is considered best practice to have full control of vehicles and plant, including maintenance standards. The table below details the comparison between external hire costs per annum and the equivalent average lease costs per annum on a like for like basis.

Vehicle Type	Annual Hire Rate (External)		Annual Lease Costs	Annual Maint. Costs (Internal incl. RFL)	Equivalent Annual Lease Rate
Small Car	£3,276		£1,289	£533	£1,822
Car Derived Van	£2,912		£1,757	£634	£2,391
Transit sized van c/w Ladder rack	£6,136		£4,040	£1,209	£5,249
3.5t Pick Up	£5,148		£4,202	£1,230	£5,432
4x4 Pick Up Double Cab	£7,800		£4,332	£1,171	£5,503
26t Refuse Collection Vehicle	£46,800		£17,650	£13,739	£31,389

- 5.3** Therefore, it is recommended that core items should be purchased for lease or owned. This will ensure that all core vehicles and plant are specified fully to meet all requirements in terms of ‘fit for application’ and health and safety business objectives.
- 5.4** Service Users identify their requirements for new vehicles or plant and instruct the Transport Unit to progress the procurement through the Council’s Vehicle Purchase Framework Contract. Thereafter, the decision on the method of funding the purchase by either Capital or Lease is taken by the Head of Finance at the time of the receipt of fleet the item, ensuring best value for the Council.
- 5.5** To improve the process, it is proposed to introduce an Annual Asset Replacement Plan including full justification for replacement and with all alternatives considered, challenging the need for ownership and renewal. This process will also include analysis of life cycle costing, including maintenance costs (whether in-house or external, dependant on the final acquisition option chosen), fuel usage and CO2 emissions and will be informed by the Fleet Asset Management Strategy.

6. FUEL USAGE

- 6.1** The Council purchased 1.395M litres of fuel during 2009/10. The total budget for fuel for 2010/11 was £1.596M. Corporate Management Team at its meeting on the 22 June 2009 set fuel reduction targets for the Council of 5% for 2009/10. The fuel management system allows fuel usage to be monitored by the Transport Unit and service users on a period by period basis. This close monitoring of fuel usage along with efficiencies implemented by service users resulted in a 4.48% (£58,885) reduction in fuel usage in 2009/10 despite the increased usage during the severe winter conditions. A further fuel savings target of 3.3% was set for 2010/11 by the Corporate Management Team. The actual reduction in fuel use for 2010/11 was 6.75%, all as shown in the table below.

Council Vehicle Fuel Use			
	2008/09	2009/10	2010/11
Total annual use (Litres)	1,460,646	1,395,257	1,301,078
% reduction		-4.48%	-6.75%

- 6.2** It is proposed to maintain this approach to fuel savings targets on an annual basis and to challenge services to use fuel more efficiently by continuing to set these ambitious targets. This will require services to manage their fleet effectively and efficiently to achieve their targets.
- 6.3** In addition to fuel reduction targets, the Transport Unit will continue to review emerging technologies to identify opportunities to further reduce fuel usage in line with the Climate Change (Scotland) Act 2009, which set CO2 reduction targets of 42% by 2020 and 80% by 2050.

- 6.4 While a further fuel saving target of 5% has been set for 2011/12, given the increase in fuel prices, it is not envisaged that an equivalent budget saving can be made at this time.

7. BUSINESS MILEAGE

- 7.1 Council on 18 August 2010, as part of the Revised Conditions of Service for Local Government Employees Report, agreed that the business mileage rate provided by the Council to staff as part of their Terms and Conditions would reduce to the HMRC rate used for tax purposes. Savings arising from this have been taken into account in the overall financial impact of the new Terms and Conditions of Service for Local Government Employees.
- 7.2 To ensure employees undertake work related vehicle journeys in the most efficient manner, a business mileage reduction target of 5% has also been agreed by Corporate Management Team in 2011/12 and 2012/13, similar to the fuel reduction target. The base internal mileage budget for 2011/12 is £1.31M. A 5% reduction would generate a potential saving of **£65,500 in 2011/12 and £62,225 in 2012/13**. However, this will be reviewed year on year. These sums will be removed from service budgets.
- 7.3 Investigation into the use of pool vehicles has determined a break even figure of 8,700 miles, taking into consideration the proposed new mileage rate and the costs for a van, including a tracker unit. The Transport Unit are also investigating the introduction of an on-line booking system for pool vehicles to assist service users. The use of pool vehicles could generate further savings on the basis that the vehicles are utilised in excess of 8,700 miles per annum.

8. VEHICLE TRACKING

- 8.1 The Council presently operates a live tracking system. The system tracks all movements of Council vehicles continuously 24 hours per day, 365 days per year and has the ability to report on a wide range of parameters. It is used to manage the Council's fleet performance effectively and as efficiently as possible by means of reducing vehicle engine idling, reducing speeding incidents and reducing mileage through route planning.
- 8.2 The Council recently re-tendered the requirement for a Live Vehicle Tracking System for the 341 vehicles presently fitted with the system, with the option to include additional Council vehicles during the term of the contract which will be for a period of 5 years with the option of 2 one-year extensions. The system will also be capable of covering different requirements of the operational uses of vehicles such as refuse collection, street cleaning, road gritting etc.
- 8.3 The contract was awarded to Masternaut UK Ltd, the previous provider at a much reduced price. Based on the 341 units currently installed, the annual saving to the Council will be approximately £94k per annum (based on approximately £156k spend per annum in 2009/10). There is potential to install units in approximately a further 100 vehicles and plant and install additional

functionality in some operational vehicles. This would still realise a saving of approximately **£50,000**.

9. TRANSPORT SERVICE PROVISION

9.1 The Transport Service has been provided through a mixed economy for fleet maintenance. The Transport Unit deliver their service from a purpose built operational base at Crookedholm Depot, Kilmarnock. Some services are also provided by external contractors and other internal services. External contractors are utilised when:-

- specialist services are not available in-house
- the in-house resource is fully committed
- it is more cost effective to use external provider

9.2 The external provision of specialist services is procured through the use of contracts and framework agreements. Such services include:-

- Tachograph Calibration and Repair
- Auto Electrical Repairs
- Accident Damage Panel Repairs
- Vehicle recovery (Framework tender awarded 14th December 2010)
- Outdoor Amenities provision of specialist repairs for agricultural equipment

9.3 The Transport Unit also provides a vehicle repair service to NHS Ayrshire & Arran for up to 85 vehicles. This remains an informal agreement at the instance of NHS Ayrshire and Arran. It is based on a contract that ended on 31st October 2007 and provides income of approximately £25k per annum to the Unit.

9.4 Prior to 31 March 2011, the contract for the maintenance of refuse collection and street cleansing vehicles in the south of the authority was carried out by Kerr and Smith, Cumnock; this had been the arrangement renewed, as required, by re-tendering the contract since the Council's inception and, indeed, by the predecessor District Council over a total period of c. 30 years. In order to keep all options open while the Transport Review progressed, the contract was exposed to the market, with tender returns due on 2 March 2011. The tender document included the 22 vehicles (see table below) which were covered by the previous contract. In addition, it also invited tenders for a further 27 vehicles which also operate in the South area and which were previously maintained in-house in order to further benchmark costs in this respect.

Vehicles Maintained by Contractor	Number
Refuse Collection Vehicles	8
Kerbside Collection Vehicles	4
Street Cleansing Sweepers	4
Skip Loader	1
Large Goods Tipper	1
Light Goods Tippers	4
TOTAL	22

9.5 The budget settlement for 2011/12 and predicted settlements for 2012/13 and 2013/14 have produced significant challenges for Council services particularly with regard to identifying the efficiencies that require to be made. The review which is the subject of this report, has identified in paragraph 5, opportunities to reduce Council vehicle numbers through service redesign, decreasing employee numbers, and by maximising vehicle utilisation and efficiency. The opportunity has also been taken to increase the inspection period for HGVs from 6 weeks to 8 weeks and for LGVs from 6 months to 12 months or 12,000 miles, all of which was encapsulated in the tender documentation.

9.6 Given all of the above, during the tender period up to 2nd March 2011, the opportunity was taken to revisit the Best Value Review of the Transport Unit; it has since been concluded, in all of the circumstances and following evaluation of (i) the single tender returned; (ii) the capacity within the existing Transport facility at Crookedholm to maintain additional vehicles without increasing the existing Transport Budget; (iii) the additional costs to the Service Users / Client Services; (iv) the potential environmental impact; and (v) the previous contractor's performance together with management resource expended on the management of that contract that it is both more efficient and effective to retain in-house, the maintenance of the 22 vehicles operating in the South of the area (see details at paragraph 10.4 above). This action consolidates the vehicle maintenance provision at the Crookedholm Depot, ensuring that it is operating at optimum efficiency, thereby providing Best Value for the Council and better securing the Depot's future.

9.7 The further and significant advantage to the Council of maintaining all of its fleet in-house is the ability to ensure a consistent standard of quality, capable of being monitored at first hand, thereby improving the management of road risk. This will place the Council in a secure position in terms of sustaining its responsibilities as an operator by having direct control over the standard of safety inspection, documentation and level of maintenance of all of its fleet.

10. FURTHER SAVINGS

10.1 The Transport Unit has carried out a full review of the service as part of a Best Value Service Review and identified a number of other operational savings in addition to those savings taken as part of the Council's budget savings for 2010/11 and 2011/12. These include:-

Tachograph analysis outsourced, deletion of vacant post	£25.5k
Efficiency savings from supplies and services	£30.0k
Total	£55.5k

11 CONCLUSIONS

11.1 In reviewing all aspects of transport costs across the Council a number of key themes are identified:-

- (1) The demand for transport due to the geography and community arrangements within East Ayrshire will continue to require significant costs to be allocated to meet the legislative, strategic and operational needs of the Council;
- (2) that transport has been an area under scrutiny and review and a number of areas have been advanced in previous years, generating significant savings linked to core service changes;
- (3) the transport structures within the Council provide a strong link between logistical support and service demands, although further strengthening of these links will generate further efficiencies in future years; and
- (4) further challenge of the status quo and reasons for the existing levels of provision should continue, linked to specific service reviews.

11.2 The key driver for reductions in transport costs must be linked inextricably to general service transformation and the basis that transport costs are a consequence of service needs rather than a core outcome. Further efficiencies will continue to be identified in line with future service redesign following the completion and review of all Fleet Asset Management Plans.

12. FINANCIAL IMPLICATIONS

12.1 Savings identified within this review for 2011/12 are:-

Business mileage	£65,500
Vehicle tracking	£50,000
Further savings p11.1	£55,500
Total	£171,000

12.2 The change in maintenance arrangements for the 22 vehicles which were included previously in the external South Area Vehicle Maintenance contract will be contained within the existing transport budget.

13. RISK IMPLICATIONS

13.1 If Council vehicles are not operated and maintained to the Council's Operator's Licence, the Council would be at risk thereby jeopardising the ability to deliver services.

14. LEGAL IMPLICATIONS

14.1 The legal requirements which apply to the Council in relation to transport are:-

- the Goods vehicles (Licensing of Operators) Act 1995
- Provision and use of work equipment regulations 1998
- Section 19 Permit Scheme as an operator of passenger carrying vehicles

15. LINKS TO COMMUNITY PLAN

15.1 A well maintained, fuel efficient vehicle fleet will contribute to the aims of the Improving Community Safety and Delivering Community Regeneration Community Plan themes.

16. RECOMMENDATIONS

16.1 It is recommended that Cabinet:-

- (i) approves the budget savings identified in section 13.1
- (ii) approve the Fleet Asset Management Strategy attached at Appendix 1;
- (iii) notes that the maintenance of 22 vehicles previous included in the external South Area Maintenance Contract has been brought in-house; and
- (iv) otherwise notes the contents of the report.

Elizabeth Morton
Depute Chief Executive / Executive Director of Neighbourhood Services
14 April 2011
EM/JB

Members wishing further information, please contact John Bryson, Head of Roads and Transportation, telephone 01563 576310

Implementation Officer: john.bryson@east-ayrshire.gov.uk

LIST OF BACKGROUND PAPERS

1. **The Goods Vehicles (Licensing of Operators) Act 1995**
<http://www.legislation.gov.uk/ukpga/1995/23/contents>
2. **Provision and Use of Work Equipment Regulations 1998**
<http://www.legislation.gov.uk/uksi/1998/2306/contents/made>
3. **Section 19 Permit Scheme as an Operator of Passenger Carrying Vehicles.**
<http://www.legislation.gov.uk/uksi/2009/365/contents/made>



Fleet Asset Management Strategy

1
What we want to achieve (purpose)

To ensure that through good planning East Ayrshire Council has the right vehicle, plant equipment, etc. in the right place at the right time and at the right cost to support the strategic, corporate and service goals and objectives of the Council and assist good service delivery.

- Create a baseline on information on the fleet portfolio.
- Assess the future needs of the Council to match provision to both current and future requirements.
- Prepare annual corporate fleet asset management plans to enable informed decisions.
- Act to improve the operational efficiency of the portfolio.
- Provide users with a safe, reliable and cost effective asset.
- Create an asset replacement plan that meets Council financial needs.
- Provide a centre of excellence for all fleet asset user requirements.

2
What are we responsible for (portfolio)

Vehicles, Plant and Equipment are a corporate strategic asset – they have a capital value, cost money to use and maintain, legally require statutory safety inspections to comply with various regulations and are required to meet EAC service and corporate objectives.

<ul style="list-style-type: none"> • Heavy and Light Commercial Vehicles. • Cars and Car Derived Vehicles. • Heavy Plant and Lifting Equipment. 	<ul style="list-style-type: none"> • Grounds Maintenance Equipment. • Depot Plant. • Trailers
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5
What we are responding to (planning context)

'Change Drivers' affecting EAC

- National
- Best Value and the Local Government in Scotland Act 2003.
- Budget pressures and increasing awareness on increased maintenance.
- Efficient government agenda.
- Building a Better Scotland by the Scottish Executive.
- Prudential Code & capital project appraisal.
- Increased user expectations.
- Department for Transport Legislation.
- Health and Safety Legislation.
- Management of Occupational Road Risk Legislation.
- Construction and Use Regulations.
- Council & Service Level
- Community, Corporate and Service Plans.
- Voluntary Group initiatives.
- Community Initiatives.
- Waste recycling directive.
- Public access strategies.

Implication for fleet asset management.

- Increased justification process of need for all fleet assets.
- Scrutiny of utilisation and running costs and full life costs.
- Production of asset performance measures.
- Demand for improved standards and flexibility.
- Sustainability in all phases of the asset life cycle.
- Compliance with all aspects of legislation.
- Improved access requirements for all users.
- Managing the fleet assets will be a key strategic challenge.
- Increased planning, acquisition, commissioning, decommissioning and disposal need.

3
What we are aiming for (objectives)

To ensure EAC service needs have effective vehicle, plant and equipment solutions that fully meet regulatory requirements.

- Have resource and capacity to manage fleet assets.
- Ensure fleet assets are 'fit for purpose'.
- Improve customer and stakeholder satisfaction.
- Prepare fleet asset management plans.
- Provide assets that give Best Value to the Council and the user.
- Ensure that fleet assets comply with all relevant legislation.

To raise awareness of vehicle, plant and equipment as a corporate asset and provide clear decision making for its' management and use.

- Provide clear decision making procedures and processes.
- Set standards for sustainable specification care and use.
- Comply with all legislation.
- Understand resource implications.
- Provide a clear direction of capital funding requirements.
- Work with end users to match vehicle, plant and equipment specification against need.

To demonstrate continuous performance improvement.

- Measure baseline performance.
- Set benchmark indicators.
- Benchmark with industry standard and suitable partners.
- Measure full life asset performance 7 costs.

To improve affordability of the fleet portfolio by improving utilisation and minimising running costs.

- Challenging the need for ownership and renewal of vehicles, plant and equipment etc.
- Monitor and report running costs and identify improvement opportunities.
- Re-justify vehicles, plant and equipment etc as part of the replacement process.
- Develop a justification process for authorisation of additional assets.

4
What will we do (actions)

Develop the portfolio to meet changing service needs and specification standards.

- Set minimum specification standards.
- Challenge and improve condition and suitability of vehicle plant Equipment etc.
- Assess the future needs of the service.
- Measure customer and stakeholder satisfaction.

Develop governance arrangements, clear decision making structures, processes and networks to deliver an integrated corporate fleet asset management service.

- Set up clear management structures, processes, procedures and reporting arrangements.
- Use proved project management skills to drive improvement.
- Seek opportunities for joint working and relationships.
- Develop a portfolio to support community based initiatives.

Focus improvement on areas of asset under utilisation, poor performance and high running costs.

- Demonstrate Best Value and continuous improvement.
- Challenge under-utilisation and poor performance using analytical data.
- Attract additional funding sources for the centralised capital purchase of all fleet assets.

Release value from the portfolio.

- Review why we hold any vehicle, plant, equipment etc.
- Reduce the number of fleet assets to a sustainable level.
- Generate receipts by the disposal of fleet assets.
- Review and evaluate life cycle of assets to optimise use and residual values.

6
How we will add value (outcomes)

- Demonstrate improved condition and suitability of portfolio.
- Optimise planned and reduce unplanned maintenance.
- Reduce operational running costs.
- Reduce council total fuel usage.
- Reduce emissions and carbon footprint.
- Disposal of end of life and surplus fleet assets.
- Attract additional funding.

7
How will we know we are achieving (critical success factors)

Having a portfolio that is 'fit for purpose'.

- Monitoring improvements using performance indicators.
- Client satisfaction with the assets that they use.

Being a lead authority in fleet asset management.

- Setting standards nationally for performance and practice.
- Upper quartile results for statutory performance indicators.