



**FLEET REVIEW  
FOR  
SHIRE OF DONNYBROOK-BALINGUP**

23rd Feb 2017

V1.9

## TABLE OF CONTENTS - INDEX

TABLE OF CONTENTS - INDEX .....	2
REVIEW SCOPE .....	3
EXECUTIVE SUMMARY .....	3
SUMMARY RECOMMENDATIONS .....	6
<b>1. LIGHT FLEET .....</b>	<b>8</b>
1.1. KEY DELIVERABLES .....	8
1.2. LIGHT FLEET INTELLIGENCE AND TRENDS .....	9
1.3. AVERAGE ANNUAL VEHICLE OPERATING COSTS .....	9
1.4. OPTIMUM CHANGEOVER OF LIGHT FLEET .....	12
1.5. PRIVATE USE AND FRINGE BENEFITS TAX .....	14
1.6. VEHICLE VALUES TO BE INCLUDED IN SALARY PACKAGES .....	17
1.7. OPTIONS FOR PROCURING COUNCIL OWNED LIGHT VEHICLES .....	18
1.8. LIGHT FLEET FUNDING OPTIONS .....	18
1.9. OPTIONS FOR PROVISION OF VEHICLES (OTHER THAN COUNCIL OWNED OR LEASED) .....	20
1.10. LIGHT FLEET SUMMARY ACTIONS .....	23
<b>2. PLANT &amp; HEAVY VEHICLES .....</b>	<b>24</b>
2.1. KEY DELIVERABLES .....	24
2.2. HEAVY FLEET INTELLIGENCE AND TRENDS .....	24
2.3. UTILISATION .....	25
2.4. OPTIMUM REPLACEMENT TIMING .....	27
2.5. TEN YEAR PLANT & VEHICLE REPLACEMENT PLAN .....	29
<b>APPENDIX 1 - NEW PLANT/VEHICLE/EQUIPMENT BUSINESS CASE TEMPLATE .....</b>	<b>31</b>
<b>APPENDIX 2 - RISK ASSESSMENT TEMPLATE .....</b>	<b>34</b>
<b>APPENDIX 3 - SALARY PACKAGING .....</b>	<b>43</b>

## REVIEW SCOPE

The review is to:

- Review current turnover timeframes for both light vehicles (LV) and large plant in relation to years owned, kilometres travelled and hours of operation, and make recommendations on the optimum turnover timeframe, based on minimising operational and changeover costs to the Shire.
- Advise on the benefits and negatives to both the Shire and staff of implementing novated leases or leases for the Shire's LV fleet, including recommendations if this is a structure that the Shire should consider.
- Review and comment on the impact of increasing or decreasing the timeframe of the changeover of LV's in relation to: (a) attracting and retaining staff, (b) Existing officer salary packages and private use arrangements.
- Provide comment on the relevance of a LV and plant replacement policy having scope for changing market factors such as special offers, price variations etc.
- Provide comment on strategy's for the Shire to minimise FBT liabilities.
- Develop and provide a draft policy in relation to LV and plant replacement that Uniqco recommend the Shire have endorsed by Council.
- Make comment if there are any other considerations that the Shire should take into account in relation to its plant replacement program.

## EXECUTIVE SUMMARY

The focus areas for the review were:

- Utilisation for heavy vehicles and plant
- Optimum replacement timing for the whole fleet and
- Options for provision of light vehicles and
- Policies for vehicle usage and strategies to minimise FBT

Uniqco has provided, as an addenda to this review a fleet maturity summary of the Shire's current position in relation to its mobile assets. The mobile asset maturity indicators show, that for the size and resource available to the Shire, the Shire is quite mature in its fleet delivery strategy. The review has highlighted that the council would benefit from formalisation of its fleet practices within its policy to provide a framework of governance.

The review process included a questionnaire and information request followed by a site visit and discussion with key stakeholders.

### Heavy plant

A number of heavy vehicles and plant were identified below the Institute of Public Works Engineering (IPWEA) utilisation benchmarks and these should be subject to an operational review in the first instance.

In regard to replacement timing the major issue is changing the heavy fleet and utilities based on years only and changing light fleet too early with the exception of utilities that are being held longer but based on age only. By using both age and utilisation as the optimum replacement point the Shire will affectively replace assets at their lowest average cost point. Where an asset has high utilisation it is extremely critical to replace on the utilisation point as this is the point at which downtime increases, maintenance costs increase, and resale value substantially reduces.

We recommend the fleet be changed over at the optimum replacement points recommended by the IPWEA based on a combination of age or actual utilisation (engine hours or kilometres travelled) whichever occurs first. Timesheet hours should not be taken into consideration as these are not a true reflection of how hard the item is working.

Items should only be held beyond optimum replacement where utilisation is lower than the benchmarks and subject to a risk assessment by a qualified and experienced mechanic. This process can be applied to the identified low utilised plant, trucks, tractors, mowers, generators to extend their life.

For extension beyond optimum replacement to be feasible it is essential to ensure that scheduled maintenance takes place as per the manufacturer's recommendations.

There will be circumstances where an asset has to be replaced early. This could be due to the item no longer being suitable for the task, safety concerns or where the asset is suffering excessive failures culminating in high operational downtime and repair and maintenance costs. Where it is considered the risk of retaining the vehicle is too high it should be disposed of early.

### **Light fleet**

For the Light Vehicle fleet, irrespective of make/model/type, we recommend the changeover be at 5 years or 120,000km (whichever comes first). For light vehicles with high annual usage, consideration to a change over approaching 150,000km could be option, subject to review. While we accept that there may be some exceptions from time to time with attractive offers from dealers, this recommendation is based on vehicle whole of life cost.

Vehicles should not generally be held beyond 5 years due to the increasing risk in terms of vehicle safety, breakdowns and increasing maintenance costs.

There is the opportunity for the Shire to include the full cost of providing a fully maintained motor vehicle for private use in a staff member's employment package, in order to acknowledge the benefit. Without the inclusion, the employment packages are underrepresented, which doesn't allow for an accurate staff assessment of considering alternative options, as identified in this review.

### **Vehicles – council assets**

Council vehicles allocated for work-related purposes are the same as any other council asset used to provide goods and services to the community. Their use is subject to consideration of efficiency, effectiveness and economy as well as appropriate standards of probity and accountability.

### **Uniqco's approach**

The Shire's current employment contracts provide for salary packaging of vehicles based on values in part determined and advised by WALGA (WA's local government industrial body). The Shire needs to consider a move towards greater transparency by adopting Uniqco's approach to valuing the benefit of vehicles being salary packaged.

Uniqco's recommendations are designed to move the Shire towards greater transparency and best practice. What steps the Shire takes and the timing of the implementation is entirely up to the Shire.

Improved transparency includes easier access to key information for ratepayers, the wider public and Parliament. Recent findings by the Victorian Auditor General concluded that salary packaging approaches by Councils make it difficult to differentiate employee salary costs from fleet costs.

### **"no-worse-off" test**

The Uniqco approach is based on recent fleet management developments in the public sector. The implementation of Uniqco's approach, which may be different to the local government industry norm, can be undertaken over time as employment contracts become due. Otherwise, the Shire may consider implementing Uniqco's approach earlier. Either way the changes to employment contracts must be subject to the "no-worse-off" test. Where changes are made to employment contracts in a way that ensures the affected employee is "no-worse-off".

Further to the "no-worse-off" test, Uniqco recognises that amendment to current employment contracts typically requires assistance and engagement with the Shire's Human Resources (HR)

department. Engagement with HR was not part of the scope of this review, and should be considered in the implementation of the recommendations.

### **Fleet management – performance audits**

The Auditor General's performance (effectiveness and efficiency) audits may focus on an issue or theme and will allow ratepayers to benchmark their councils. Since 2004 Victorian, Tasmanian and NSW Auditor Generals, as part of their program of performance audits, have conducted fleet management audits involving government agencies and local governments. Uniqco expects the WA Auditor General, in due course, to conduct similar performance audits. As Councils, may be the subject of these performance audits they need to continue to take steps towards greater transparency and accountability and this includes their fleet arrangements.

### **Shaping fleet management**

Auditor General's across the country have shaped the development of public sector fleet management. Auditor Generals have encouraged public sector agencies to move past traditional salary packaging and look for new ways of providing vehicles for key personnel as part of their attraction and retention strategies.

### **Salary Packaging – choices and flexibility**

Councils should offer salary packaging choice and flexibility to their employees. It is this choice and flexibility that will result in greater attraction and retention of talent. While some approaches may meet the needs of employees there are others that may not.

There are essentially four options for Council to consider in salary packaging a vehicle for employees:

1. The Council provides a fully maintained car as part of the employee's total remuneration package for private and business use;
2. The Council provides a car allowance as part of the employee's total remuneration package and the employee provides their own fully maintained car for private and business use, which may be leased/financed;
3. The Council provides a car as well as a car allowance, which is an FBT offset paid by the employee as a post-tax contribution, as part of the employee's total remuneration package for private and business use; and
4. The Council provides a car as part of the employee's total remuneration package or a "cash out" option, which is discounted to provide for a pool vehicle.

Where vehicle usage is predominantly private it should be capped at 35,000 kms per annum, within the salary package. Usage beyond the cap should attract additional contributions from the employee within the salary package. Both council and management should be aware of the true cost of providing a motor vehicle as part of an employment package. This cost should include the cost of depreciation, cost of capital, running costs, registration/insurance, FBT and the administrative cost.

Once the true annual cost is determined it can be included in the employment package as a vehicle allowance which can be used to offer alternatives to a council provided vehicle that is not required for car pool use. Alternatives include a novated lease, cashing out in part or in full. This can result in a win-win with the Shire reducing FBT liabilities and the employee having the flexibility to choose a vehicle to meet their private as well as business use needs or simply cash out.

A novated lease may not be attractive to all eligible staff, but the offer of the car allowance and their choice of vehicle can be very attractive. Where this option is being considered each individual staff member is advised to discuss the implications with their financial advisor or accountant.

Should a staff member (not on contract) opt to continue with a council provided vehicle they should not be offered a choice of vehicle. We recommend council owned vehicles be selected based on the lowest whole of life cost vehicle in a class commensurate with the staff member's position in the organisation. The vehicle is to be changed according to policy based on optimum replacement timing.

Staff who continue to opt for a council owned vehicle should then be required to contribute a post-tax amount to offset the FBT liability associated with private use.

Note that none of these changes can be offered to people with contracts unless the person elects to opt for the choice of providing their own vehicle.

A draft policy for Council owned light vehicles has been provided in a separate document for review and consideration.

The majority of the recommendations potentially have significant financial impact on the organisation and should be relatively straightforward to implement at an operational level.

Critical to realising the benefit will be the development of an aligned executive that recognises and communicates the value provided at the operational level and the opportunity available to the Council in the successful implementation of these recommendations.

We understand that resource in the form of staff time and technology will be required to drive this change, but Uniqco is very familiar with the amount effort required to affect these change as we currently provide this as an outsourced service to some local government clients throughout Australia. The time expertise and effort required can however see savings that will exceed the cost of implementation

In order to implement a sustainable change, we advise:

1. The creation of a steering group to champion the change and provide regular updates to the Executive Management Team and provide governance over the implementation.
2. Sequencing and prioritisation of the recommendations detailed in this report into an implementation plan.
3. Establishment of a reporting framework for both the operational (plant and fleet) performance / compliance and the realisation of the benefits achieved from implementing these recommendations.
4. Close liaison with human resources and finance to ensure accurate data provision and measurement of financial outcomes.

A summary of the recommendations for Council to implement are included below.

## SUMMARY RECOMMENDATIONS

The following recommendations are categorised by the level of:

1. Relative positive impact the recommendation will have on the organisation will benefit from through the application of best practice ( ● High, ● Medium & ● Low)
2. The ease of implementing the recommendation based on Uniqco's assessment of current practices and organisational culture. ( ● Ease, ● Somewhat easy & ● Difficult)

### *Light Fleet Recommendations*

*Impact to Organisation*

*Ease of Implementation*

#### **Average Annual Vehicle Operating Costs**

1. Council reviews the use of Uniqco recommended values for LV's within salary packages (when due for renewal) to represent the true cost of providing a fully maintained Council vehicle.



<b>Light Fleet Recommendations</b>	<b>Impact to Organisation</b>	<b>Ease of Implementation</b>
<b>Optimum Changeover of Light Fleet</b>		
2. Council considers that for the Light Vehicle fleet, irrespective of make/model/type, the changeover be at 5years or 120,000km (whichever comes first), as a minimum. For light vehicles with high annual usage, consideration to a change over approaching 150,000km could be option, subject to review.	●	●
3. Vehicles are not held beyond 5 years due to increasing risk in terms of vehicle safety and breakdowns and increasing maintenance costs.	●	●
4. Where vehicles exceed their warranty period, continue to purchase roadside assistance from RAC (or similar) or the manufacturer of the vehicle.	●	●
<b>Risk Management in the Choice of Fleet Vehicles</b>		
5. The following minimum standards be adopted:		
a) ANCAP 5 star rating for passenger cars and 4 star rating for utilities.	●	●
b) Green vehicle star rating of minimum of Euro Level 5 for passenger cars, 4WD wagons, utilities and vans	●	●
6. Where utilities are required for operational reasons, passenger air bags, ABS braking and diesel fuel (where available) be included in the standard vehicle specification.	●	●
<b>Private Use and Fringe Benefits Tax</b>		
7. Where light vehicles that attract FBT are used for a substantial amount of work-related travel, Council should provide a written policy that requires the use logbooks in accordance with Australian Taxation Office guidelines to minimise FBT liability noting that this will also provide invaluable information on business use for managing the fleet. * We understand that this is currently the way logbooks are used but could find no written policy to confirm this	●	●
8. For the purpose of FBT calculations Council note the opportunity for low utilisation vehicles that are held for 5 years, to reduce the base value of a car by one-third in the FBT year that starts after the car has been owned or leased for four years.	●	●
9. Staff with private use of a council vehicle be provided with an allowance to make post tax contributions to offset the FBT liability.	●	●
<b>Vehicle Values to be Included in Salary Packages</b>		
10. The actual cost of providing a Light vehicle to be included in staff salary packages (consistent with the salary package examples provided by Uniqco).	●	●
<b>Own or Lease?</b>		
11. The Council continues to own rather than lease (operating) light vehicles.	●	●
<b>Car Allowance</b>		
12. Subject to the staff vehicle not being required for car pool use the Council could consider offering a "Car Allowance" option to senior staff on the proviso that the employee must provide their own vehicle for their business use without any additional payments from Council.	●	●