

Best Practice Guide on Vehicle Acquisition



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Executive summary

Best Practice Guide on Vehicle Acquisition

This Guide has been developed to support and assist a wide range of public sector/Local Authority decision-makers in respect of vehicle acquisition. Vehicles form an important part of the expenditure and functionality of most organisations and the range of vehicle types and acquisition options must be considered carefully to optimise expenditure, efficiency and flexibility of operation.

Vehicle use is also an important part of the environmental footprint of an organisation and careful vehicle selection is an essential part of meeting green and emissions targets.

The advice and guidance is intended mainly for decision-makers who do not have specific expertise in transport or fleet management. For complex vehicle types and/or specialist applications, reference should always be made to properly-qualified technical knowledge.

The information is structured round a simple and logical concept which provides the basis for the rational procurement of one or more new vehicles within a corporate structure. The key stages identified are:

- 'The Journey'** establishing the scope and nature of the demand to ensure that the right numbers of vehicles of the right types are available – at the right price
- 'The Vehicle'** identifying the detailed specification which offers the best solution to deliver against the demand for travel
- 'The Driver'** consideration of the in-use conditions and availability of properly-licensed employees
- 'The System'** the back-office services and resources needed to support the delivery of business travel by the vehicles, in a cost-efficient way

Each of these areas is important in itself. An understanding of how they interact is important to ensure that the output – the provision of mobility and business travel is fit for purpose and affordable.

The Guide deals with all vehicle types, but where specialist vehicles are involved, specific expertise should be involved to ensure that the product is fully fit for purpose.

There are descriptions and examples of all the main funding options, set out in plain language, to illuminate the decision-making process.

It is important to point out that in all cases, local circumstances, standing orders and lines of authority must be considered, as well as the general-level guidance set out here. Innovation and market exploration are important factors in optimising procurement – but not at the risk of breaching local policies.

The Guide is complemented by a glossary (for the necessary jargon) of common terminology in fleet and at-work driving.

London Councils hopes that the information will be helpful in containing and reducing fleet costs and its environmental impact.

Best practice guide



Provenance and conception

The diversity of local authority (LA) responsibilities is such that acquisition and use of many types of vehicle is necessary, far beyond the more traditional options of public transport and waste management. The wide range of services delivered by LA departments has brought a commensurate increase in the demand for transport of people and goods by motor vehicle.

This means that more people from different disciplines may be involved in both acquisition and operation of vehicles, than the 'traditional' Engineering and Transport Manager with existing experience in vehicle operations – often coupled with expertise in vehicle technology and road traffic legislation.

This Guide is intended to help all stakeholders consider – before any commitment – the implications of their ideas about the involvement of 'vehicles' in their work. It addresses the high-level decisions about the right specification, funding method, fuel type and environmental impact, longer-term operation and cost streams that will necessarily flow from their choices.

The Guide is designed to make the target audience 'smarter customers' who appreciate that there are choices with consequences. These consequences have material cost, as well as resource, sustainability and service delivery implications. Early empowerment should encourage refinement of the nature of the need/demand; the types of vehicle most likely to be suitable; the timeframes (e.g. is the need short or long-term?) and the life-time cost streams.

The work has been developed specifically for the LA market, using a wide range of experience across many different forms of 'fleet', including public, private and charity sectors; and across many styles and sizes of fleet.

The core ideals and disciplines of 'good practice' are highly transferrable across all organisations. Someone somewhere has to acquire the vehicles, arrange finance and maintenance, renew the annual Vehicle Excise Duty (road tax), insure them and finally dispose of them into the relevant used-vehicle market. These principal tasks apply irrespective of the nature of the core business, or the numbers of vehicles involved.

Best (or good) practice involves a clear concept of the objectives of the business – in this case

'running the right vehicles, for the right people at the right time – and at the optimum cost' – within a recording system which provides transparency with accountability. The Guide examines each of these points to enable all readers to identify with the ideals and translate these into their own policies and structures.

The key objectives of this Guide are to help you develop and refine your own systems, thereby helping to reduce and contain costs and reduce the environmental footprint of the fleet.

Relevance

Role of vehicles/fleet/business travel

Public sector vehicle fleets are required to deliver essential services, for example, refuse collection vehicles for cleansing services or ambulances for social services. Cars and vans are used for more generalised purposes. These vehicles underpin the provision of public services, and more efficient operations mean the delivery of better services at a reduced cost.

It has always been necessary to manage all aspects of the acquisition and use of these vehicle assets. They are relatively expensive; have impact on both capital and revenue budgets; and are usually highly visible within their local communities.

The UK public sector will be enduring a tough financial regime for at least three years which will require costs to be reduced, including those of vehicle fleet. As most fleet operators know, when budget resources remain scarce fleets their costs often come under close scrutiny as these are one of the most visible forms of expenditure.

Against this background, anyone required to consider a potential requirement for any new vehicle needs guidance in a recognised structure to ensure that all the relevant factors are considered.

This Best Practice Guide sets out the factors that need to be assessed whenever there is a proposal to acquire a new vehicle (or group of vehicles). Relevant management can consider the options available and how to exploit these against the reduction in resources expected to apply over coming years.

This Guide is not a transport textbook to provide a range of theoretical ideas for specific cases. Rather it is intended to offer a clear, practical picture of the stages and options to be considered, and issues to be faced by any LA stakeholders who may not necessarily have specific transport experience or expertise; or appreciation of the funding options,

Such stakeholders may be from different disciplines such as procurement, finance, facilities, Children's Services or Adult Social Care and others, where acquisition and use of many types and sizes of vehicle are involved as only a low-level background part of their service delivery. There is, however, enough depth

to help and support employees with some existing transport expertise.

Local circumstances/conditions

The Guide itself must also fit in with wider LA structures and policies. While the contents and ideas in this publication might well start re-evaluation of other processes, it must be clear that any activities within the fleet area should follow existing procedures in terms of building a business case, ensuring budget availability and authority; and follow any standing requirements from local policies, national government and EU procurement rules.

The Guide covers the key factors for almost all vehicle types:

- Cars (hatchback, saloon, estate)
- Motorcycles
- Small vans & pick-ups
- Large vans and light tippers
- Medium-weight trucks (3.5 tonnes to 16 tonnes Gross Vehicle Mass)
- Heavy trucks (over 16 tonnes Gross Vehicle Mass)
- Small vehicle-related/mechanical plant items

(trailers, parks mowers, pavement sweepers etc)

Broadly speaking, similar techniques and processes as outlined in this Guide apply to all of these types. Other highly specialised vehicles (waste freighters, ambulances, security) also need be considered carefully in conjunction with recognised professionals and suppliers in the relevant areas to ensure the complex specifications required are optimised and meet all legal standards.

Note: this paper does NOT address 'public transport' (bus/tramway train etc.) provisions which are considered as services in their own right.

For simplicity, 'business travel' means 'use of motor vehicles for transport of public sector employees and/or materials for public works and functions'. The terms will not apply (unless made clear) to business travel by air/rail/sea.

Fleet strategy



It has long been understood that there can be a significant difference in overall costs of apparently-similar vehicles, depending on make, fuel consumption, reliability, and disposal proceeds when the vehicle is removed from the fleet and sold. There are also cost differences from the way the vehicles are acquired, funded and managed.

By optimising the way these factors interact, costs can be reduced. Just as importantly, better and more efficient fleet operation will reduce the carbon emissions from the fleet and support wider environmental policies.

The LA Fleet Policy should already cover all the key areas:

- Cost control
- Authorisations for use
- Fuel use and costs
- Maximising availability and if necessary fleet rotation to equalise use and mileage
- Road safety and Duty of Care
- Environmental impact of vehicles and their use; and impact on wider authority Green targets and actions
- Performance reporting

This Guide assumes that these elements already exist in an acceptable format, and that there is a clear picture of the existing Inventory, replacement cycle policy, mileage patterns and historic costs.

The Guide is designed to support improvements to the cost profile and the overall efficiency of the fleet operation through the new-vehicle acquisition process. All new vehicles coming into the fleet should improve the outturn in terms of delivered service. Vehicle acquisition therefore plays a critical role in the continuous improvement process.

There are many solutions to the fleet requirement question, readers should refer to standing orders and other references developed to assist LA develop common planning and replacement policies.

Risk Management in Fleet Operations

There are many areas of risk in any form of transport.

For fleets – especially those in the public sector – these risks must be assessed, evaluated and have appropriate risk management strategies and policies in place.

Driving risks

In recent years the preoccupation in the UK fleet market has been on managing ‘on-road risks’ – the health and safety dimension of driving entitlements,

skills and controls to avoid crashes and near-misses, all to ensure a safe environment for drivers, passengers and other road users.

The market offers many services to assess and manage various aspects of these road safety risks:

- Driver licence checking
- Desk-based attitude analysis
- Driver training
- Telematics and monitoring
- and more

Other risk types

There are other types of risk as well and these cannot be ignored as part of the procurement process. These are generally more commercial/financial in nature – but are still material to the process of correct acquisition. These include:

- Maintenance/reliability risks – the potential for the vehicle to fail or break down beyond acceptable servicing and wear and tear. Could also extend to issue like excessive tyre wear
- Residual value risk – significant failure to achieve any expected disposal value due to used-market conditions, poor specification, general/national economic conditions, manufacturer demise
- Vehicle supplier risk – potential for supplier to fail/collapse. Before delivery, could mean loss of any advance payments or chassis (for multi-part vans/trucks/buses) and delays in establishing replacement supply. Failure after delivery could jeopardise parts and service provision
- Fuel cost risk – excessive increases in fuel costs will impact vehicles with very high fuel consumption disproportionately, both in first service life and in any used market (where potential buyers will be wary of an expensive-to-operate
- Funding risk – any borrowing which does not include ‘fixed-rate’ funding could lead to significant increase (occasionally a decrease!) in the funding costs in response to wider fiscal environment
- Redundancy risk – changes to the general business levels may render vehicles surplus to requirement. An open approach to initial specification and flexibility can make many vehicle types suitable for re-deployment elsewhere: a very tightly-specified car, van or truck may be impractical to re-allocate leading to early disposal (ownership) or termination

(leasing), both of which are likely to involve unbudgeted costs

- Change of use – similar to the ‘redundancy’ risk above, but where mileage/utilisation changes significantly. If utilisation drops, budgeted costs may be saved, but the ‘cost per unit of valuable work’ will increase. If utilisation increases, unbudgeted costs will be generated (particularly excess mileage charges under most leasing arrangements. Either change could impact on the economic life-cycle, which again changes the economies of the whole process
- Legislative risk – for trucks and passenger-carrying vehicles, possibilities for changes to driver licence requirements could involve re-training or need for more suitable new vehicles. Thresholds for environmental factors could compromise access of some trucks to inner-city areas. Changes to MOT rules could accelerate failure rates. Tax changes (to driver taxation, Vehicle Excise Duty could cause unbudgeted cost increases
- Non-management risks – the nature of vehicle operation provides many opportunities for ‘slippage’ form policy. Failure to monitor key metrics such as authorised use, mileage levels, fuel use, accident damage, excessive wear might look as valid cost-reduction opportunities or reduced administration, but these will only obtain in the short-term: there is abundant evidence to show that unmonitored fleets will almost always cost more overall than a well-managed fleet where well-considered policies are implemented on a regular basis

Normal procurement processes should have capacity to address these issues but the vehicle dimension, with so many different aspects beyond the initial ordering and supply, demands additional consideration.

Funding/operation – overview



The UK fleet supply chain is very large and mature. Over the years many funding options for fleets have been developed which need to be considered carefully: There are material differences in what is normally included in the various packages, the overall cost and payment profiles, additional services and the implications for various types of risk. There are also differences in the treatment of VAT.

The difference between a good and an indifferent process can amount to many hundreds of pounds per vehicle. With pressure on all overhead costs, it is important that the overall situation is reviewed on a regular basis to ensure that the arrangements actually do maximise the opportunities within the fleet environment of the LA. This should be a joint responsibility of Finance and Transport departments.

The major forms of funding

There are six main 'methods' of funding:

- Outright purchase – own funds
- Conditional Sale/Hire Purchase
- Contract Purchase
- Finance Lease – full amortisation
- Finance Lease – part-amortisation
- Contract Hire

There are also products mainly designed to meet short-to medium-term demands. These go under various names such as 'flexi-lease', 'start-up lease' or 'interim lease'. In the majority of cases these are more akin to long-term rental than leasing, in that the period of use can be indeterminate; and there are usually no penalties for terminating the agreement and returning the vehicle.

For personal travel only, typically by motor car, there is a further option for the provision of business mobility:

- Grey fleet – where employees provide their own cars (seldom vans or other types; but could include motorcycles)

Each of these main forms has many derivatives, often with quite subtle differences in payment terms and risk position. It is important that any funding solution being considered is evaluated in detail by both internal financial expertise and the funding provider(s). Involvement of accounting experts is essential. A summary table of the main features of each of the main funding options is set out in section 7 of the Annex.

More detailed information about each of these methods is given below.

The funding options fall into 2 families – purchase-based (which focuses on ownership) and leasing-based (where use without ownership is provided)

The Purchase Family

1 Outright Purchase

This appears to be the simplest method of all, but is not necessarily the cheapest or the most efficient. In basic terms it means selecting the vehicle(s) you want and acquiring the vehicle together with all rights and responsibilities. Funds will come from either cash reserves, bank overdraft facility, or fixed loan. All other aspects of operation (disposal, maintenance, VED, administration) are YOUR responsibility. (But see also 'Fleet Management' below.)

For many years, this was the funding method of choice for most public sector organisations. However, it requires ready availability of the full capital sums of the purchase price, and puts the vehicle on the 'balance sheet' of the authority, as an asset. In recent years, the extreme pressure on capital expenditure has made this a less useful option.

Pros:

The advantages are based on full ownership rights. The vehicle can be used as required and sold at the discretion of the owner into the relevant used-vehicle market when no longer required. It may be possible to accommodate an upswing in residual values, where these occur from time to time. All the disposal proceeds come back to the authority as owner. Assuming the capital is available, there are no further funding costs (although local accounting policies may require an allowance for an opportunity cost of the money now tied up in the vehicle).

Cons:

The disadvantages are also based on the fact of full ownership rights – with full ownership responsibilities. These include overall depreciation, total management and administration, VED and retention of all the risks (residual value, reliability, maintenance).

Key indicators

The Outright Purchase route may be appropriate for larger fleets where there may be a viable capital budget, together with fully operational in-house workshops. These would normally be within the domain of an experienced professional Transport Manager who can identify and manage the risks and the costs in an efficient manner.

It may also be the only commercially-suitable method for very expensive/specialised/unusual vehicle types where external supplier expertise is very limited. The risk premium demanded by external funders may be a prohibitive element of cost.

Contra-indicators

Any public sector organisations where capital is limited; smaller authorities where there is no experienced transport resource to manage the fleet in-house.

2 Hire Purchase/Conditional Sale

The popularity for this method of fleet funding has varied considerably over the years due to concerns over VAT and balance sheet considerations. The overall principles are identical to outright purchase, but payments against the capital cost are made monthly/quarterly to the Finance-House lender, to repay an amount of the capital cost and interest, which is normally quoted at a fixed, flat rate.

As this is essentially only a cash-flow variation on outright purchase the pros/cons. Indicators are the same. However, there is an additional disadvantage in that early disposal of the vehicle before the end of the agreement period may incur a termination cost.

3 Lease Purchase

(also called Contract Purchase; Balloon HP etc.)

This is essentially a development of option 2) above, but here the full capital cost is not paid off during the period of operation. At the start, recognition is made of the likelihood of a material residual value to be achieved when the vehicle is sold, so that payments only cover the anticipated depreciation and funding charges. This brings reduced outlay and better cash flow. The greater 'borrowed balance' throughout, means higher interest charges for any given interest rate.

The anticipated residual value can be dealt with in either of two ways. A final 'balloon' payment (set broadly to equate with the expected disposal value at the end of the fleet life) can be built into the calculations, with the risk of the actual residual value staying with the LA. Ownership/title is passed to the client with the final payment, who may retain the vehicle, or dispose of it at, or hopefully over the 'balloon' value. Any shortfall must be made up by the client. Conversely any surplus is retained by the LA, essentially reducing the overall cost of depreciation.

Alternatively, the residual value can be guaranteed by an external body - typically a dealership or specialist fleet supplier. This transfers the RV risk from the LA to the supplier

Pros and cons

Despite the name this is a modified version of the Hire Purchase option, so the same basket of pros/cons/indicators apply.

Using an external guarantor for the residual value for 'standard' vehicle types (mostly cars and smaller vans), there is the possibility of using the supplier to carry the residual value risk, which may be useful in some smaller authorities.

This method may also offer advantages where vehicles are required for relatively short fleet lives. The benefit of the residual value risk transfer is much higher for vehicles sold relatively young.

However, there remains the issue of availability of capital budget. It is also necessary to ensure by careful checking that any residual value risk transfer is to a commercial entity that is likely to be able to honour its obligations, possibly some years down the line.

The Leasing Family

A lease is any arrangement for a client to use an asset over a material part (or all) of its useful working life in exchange for a periodic rental. Unlike any form in the purchase family, title in the asset never passes to the user: it must always remain with the funder.

There are several different types available.

4 Finance (Full Amortisation) Leasing

This is analogous to Hire Purchase but title in the vehicles can never be passed to the user ('Lessee'). The owner ('Lessor') claims such corporation tax allowances as are available, and (in theory at least), uses them to 'subsidise' the funding costs. At the end of the agreed period, the vehicle is sold by the Lessee through any of the normal channels, at a 'fair market price'. The sales value should go to the Lessor as the 'owner', but most (typically 95%) of the disposal proceeds are then returned to the Lessee as a rebate of rentals.

'Peppercorn' rental extensions are also available, to permit the continued use of the vehicle after the end of the original Agreement term for a nominal annual rental.

Pros

Provides access to the use of the vehicles and the associated funding, but with maximum flexibility for the client. Essentially similar to Hire Purchase but using revenue budgets rather than capital.

Cons:

The disadvantages reflect the impact of flexibility for the client who retains full ownership responsibilities. These include overall depreciation, total management and administration, VED and retention of all the risks (residual value, reliability, maintenance). If the lease is terminated, there will normally be a penalty to recover a large proportion of the outstanding finance and profit elements of the lease.

Key indicators

This method may be very suitable where there is a relatively large established fleet with an existing infrastructure including workshops and transport expertise. The absence of a need for capital funding provides flexibility to tailor the fleet to requirement

Contra-indicators

This is a form of simple funding and the vehicle operator retains all the responsibilities. So while it provides access to revenue-based funding, smaller fleets and/or those without specific transport expertise still need to arrange the management resource to monitor and control costs.

5 Finance (Part-Amortisation/Closed End) Leasing

Just as basic hire purchase schemes have been developed to include recognition of the residual value common to most vehicles, so the same principles have been applied to the full amortisation lease. Recognition of the residual value can take basically two forms: at Lessee risk, or at Lessor risk.

When the Lessee carries the risk, the arrangement is usually called balloon leasing. The agreement contains a note of the anticipated residual value for the vehicle, and the rental payments are based on the difference between the invoice price and this anticipated residual value, plus funding and other charges. At the end of the agreed term, the Lessee is responsible for selling the vehicle as with full amortisation leasing, but in this case the actual disposal proceeds have to be compared with the anticipated residual value. A surplus is credited (either wholly or at the 95% level) to the Lessee as a rebate of rentals, while any deficit has to be made up in the form of an additional rental.

A closed end lease with the residual value at the Lessor's risk is normally limited to the provision of funding services. In some cases this is called contract hire without maintenance. Where the funder is a bank or finance house, the service is normally limited to the provision of use only. Commonly, a funder closely

related to the vehicle supplier might offer additional services such as sourcing the vehicle at favourable prices, providing Vehicle Excise Duty for the duration of the Agreement and possibly additional services (such as maintenance) as well.

Pros and cons

With the significant exception of the switch to revenue rather than capital expenditure, this is an analogue of the Lease Purchase option, so a similar basket of pros/cons/indicators apply.

Using an external guarantor for the residual value for 'standard' vehicle types (mostly cars and smaller vans), there is the possibility of using the supplier to carry the residual value risk, which may be useful in some smaller Authorities.

This method may also offer advantages where vehicles are required for relatively short fleet lives. The benefit of the residual value risk transfer is much higher for vehicles sold relatively young.

However, it is necessary to ensure by careful checking that any residual value risk transfer is to a commercial entity that is likely to be able to honour its obligations, possibly some years down the line.

6 Contract Hire With Maintenance

This is a highly specialised lease, now the most common form of supply in the overall UK fleet market. The product was originally developed by the dealership side of the industry as a sales aid to help individual customers. Since the mid-80s it has been increasingly dominated by banks and other funders, with much more sophistication in the content of the service and the impact on the rental calculations.

In general the method includes the Lessor sourcing and providing the vehicles (of any kind) from his own supply network, together with funding, administration, VED, and tailor-made system for maintaining the vehicles. All costs go to the Lessor, who also recovers the vehicles for disposal at Lessor's risk at end of period.

Normally, no in-house maintenance, workshop or specialist staff provision is required.

In the UK the Lessor population is substantial and dominated by bank-owned subsidiaries. Their fleet sizes range from over 250,000 to under 1,000 units. Most of the larger Lessors concentrate on cars. Commercial-vehicle lessors tend to be smaller (reflecting the market share) and may focus on specific

areas of the market (waste management/cleansing; parks/agricultural; tippers; blue-light fleets) although there are a few organisations which cover the full spectrum of vehicle types and applications.

The scale of operations extends to economies of scale on vehicle discounts and lower-cost funding (often through a parent bank). Most have well-developed large-scale IT resources with specialist applications to collect asset and operational data and report this as management information.

Many of these lessors also offer additional fleet management services. These can include:

- Accident management
- Fuel/fuel card management
- Grey fleet management
- Driver authorisation/licence-checking services

Pros

Contract Hire provides a highly outsourced solution to vehicle provision, with a high level of fixed costing and risk transfer to an external supplier. The supplier's economies of scale reduce their costs. Most are large enough to absorb realistic levels of risk transfer across all cost types.

Most suppliers offer a range of makes/models. This provides a one-stop solution for most (if not always all) vehicle types required by an LA.

Cons

Can be inflexible in terms of contract terms (periods/mileages) with some rigidity on the range of cycles on which they will offer terms. The inflexibility can also extend to premature terminations where contract cancellations can incur material costs <akin to the aircraft carrier situation in the Defence Review!>.

Also needs care over specification of the period/mileage. A low-mileage contract will be cheaper than a high-mileage one, but excess mileage charges can become expensive – and payable in a lump sum (inconvenient where the vehicle has had several 'departmental owners').

Reliance on one major supplier can be counter-productive on re-tendering: if all data/fleet information are held with the old supplier it may be expensive to transfer to a new supplier: this may impact on the implementation phase of any tender evaluation.

Indicators

The product has evolved so that it has extremely wide applicability. For smaller fleets the potential for fixed costs with minimal internal expertise (NB NOT justifying a total absence of expertise or interest) has significant attraction. Larger fleets can have these same benefits with lower rental costs, based on their higher volumes.

Mixed fleets can use the one-stop shop opportunity offered by many. The additional integration of other services into one IT/MIS system reduces the need for internal resource.

Smaller fleets can expect some technical support (like in-house consultancy) on areas of their transport policies.

Contra-indicators

Very mixed fleets may need several specialist/semi-specialist suppliers to deal with all their needs. LAs undergoing major/long-term changes might face significant costs for vehicle changes and early terminations.

LAs with little contract management resource may find that costs increase/service delivery falls, under normal commercial pressures on a major supplier who realises that they are largely unmonitored. There is an absolute need to include firm Service Level Agreements (SLAs) in any arrangement and to monitor supplier performance against these on a regular basis.

7 Short-Term Rental

Short-term ('daily' or 'spot') rental is not usually suitable as the main method of funding and running a fleet; but as a supplemental or complementary method, it has a valuable place if properly evaluated.

Most LAs recognise that this can be an expensive option for most situations, but for specific applications is highly cost-effective. It is widely available for most classes/types of vehicle (though supply can be limited in less urban areas). As a method of delivering business travel for occasional or temporary situations it provides flexibility and tightly-focused costs.

Rental periods are usually a few days. In some cases part-day hires can suit need to supply exactly. Tariff costs reduce as the period lengthens – but seldom fall to the same cost levels as 'permanent' vehicles of equivalent types.

Pros

Rental offers an easy solution to genuine short-term requirements for either (or both) additional vehicles or to meet a specific and irregular demand. There is generally a wide choice of service providers in most localities, although for specialist vehicles there may be a very limited choice.

Rental vehicles are generally fairly young and well maintained.

Cons

Short-term rental is usually expensive in terms of costs/day so hire periods must be controlled carefully to avoid large charges. One-off hires can sometimes be cumbersome to set up (a pre-existing account helps) especially over the insurance cover aspects.

Indicators

For any one-off or short-term need that cannot be met from existing resources. Tactically useful in conjunction with a lean pool fleet, for situations like a 2 – 3 day journey to a distant site (e.g. sending an employee on a training course), leaving a pool car free for ad hoc use.

Contra-indicators

As anything other than a short-term resource, due to costs. Should generally not be used as a substitute for a pool fleet where there is a regular demand for many short-term journeys.

8 'Flexi-lease'/'Start-up Lease'

These are a cross between long-term contract hire, and short-term rental. For the car market it was originally designed to meet the high demand for cars for new personnel (especially in user-choice fleets) when the economy was booming. For vans and trucks the variable demand is driven by business/contract activity in many industries such as construction.

Contracts are typically 3 to 15 months, but with considerable flexibility.

Pros

These services (short-term rental and Flexi-lease arrangements) offer a cost-effective solution where the requirement is transient and/or infrequent. Examples include relief vehicles when an established vehicle is otherwise unavailable (breakdown, accident, extended servicing etc), or where a specific type of vehicle is needed for a specific purpose. This may extend to a seasonal requirement (a programme to remove vegetation growth from roadside signs; clearing up after a rock concert!).

It may also offer a cost-effective route to prove a concept, prior to full roll-out of an innovative new service/start-up. This limits the financial risk to the trial/evaluation period, and the trial may demonstrate that the broader concept needs to be changed (particularly in the type of vehicle to be used).

Cons

Tend to be expensive (though you only pay for the short-term use). Delivery/collection charges may apply and there may be tight requirements on returning rental vehicles fully topped-up with fuel (often at premium prices). Although most car rentals are now on an unlimited mileage basis, many van/truck rentals may have daily/weekly limits, with expensive over-run costs.

There is a need to monitor use carefully – not only the individual rental charges but also access to the system. This must be tightly controlled with proper authority before any rental is ordered.

Indicators

For any specific temporary/short-term requirement; to fulfil transport delivery for vehicle types not held in the fleet; to meet (seasonal or acute) peaks of demand; to test pilot schemes and innovations from departments/functions.

Contra-indicators

This system should not be used as a permanent/semi-permanent solution for long-term use; or to get round 'establishment' budgets. On larger sites, should not be used as a solution for large numbers of individual journeys when the overall volume is high enough to indicate a permanent allocated or pool vehicle.

9 Public transport

Authority-controlled vehicles are not the only form of transport available for business travel by employees. In many areas and for many journeys public transport can deliver a better solution than use of a car (there is limited applicability where goods or heavy equipment needs to be transported).

Pros

Subject to local conditions and service levels, public transport can be highly cost-effective for many urban journeys and in rural locations with good bus/local train services. It can offer near door-to-door convenience in city centres, with no requirement for parking space or time. There is no driving licence or insurance requirement, so a wider range of employees can be mobile on business.

Use of someone else's transport deflects carbon emissions from 'fleet use' – although a standard metric per mile should still be calculated for the overall LA carbon targets.

Cons

Flexibility can be quite limited by external timetables. Travel costs are linear with number of people travelling together (car-sharing involves almost no further costs over and above the driver). There is often poor out-of-hours availability which may inhibit its value in many cases.

Indicators

Where there is a local public transport able to meet the timing and convenience required from the demand for business travel.

Contra-indicators

Where local public transport services offer a poor match for the LA travel need; by timetabling and/or proximity to starting points and destinations. Requiring long walking distances at either end of the journey may be difficult in inclement weather.

10 Grey Fleet

This Guide concentrates on 'employer-controlled vehicles'. There is however a further alternative transport solution which is widely used in the public sector – the use of employee owned vehicles (usually cars, seldom vans) on employers' business journeys, against some form of allowance and/or mileage claim.

As with the public transport/personal travel options, this is an important factor within the 'vehicle acquisition guide' because employees using their own cars can form a large part of the total business travel for the employer. Grey fleet use has been highlighted in recent years at least partly because of the at-work driving risks associated with employees using their own vehicles. There is undoubtedly a need to control this from the cost and employer's Duty of Care perspective. Clearly, for many organisations it is a useful and important element in the overall business travel strategy.

Public transport, Grey Fleet & personal travel (walking, cycling etc)

Although these methods are not strictly funding or fleet options, they do form part of a travel and transport continuum that must be evaluated within the overall fleet acquisition strategy.

As such they might offer a valid alternative to use of vehicles in some situations. Under some local circumstances (heavily built-up city centres/many short journeys/traffic congestion) these options can be exploited to reduce costs and to reduce carbon emissions. As such they meet government and many LA requirements for travel management.

The direct impact is that subject to local circumstances, and appropriate review of authorised journeys, increased use of these methods may reduce the vehicle requirement overall in terms of inventory and in terms of mileage covered by that inventory over an extended period.

Vehicle Disposal

There is a wide range of treatments of time-expired fleet vehicles in terms of disposal. This is a critical area within the whole cost profile of all vehicles, irrespective of acquisition method.

For any one type of vehicle the residual value will vary with market perception of the make & model; its age and mileage on presentation; and the overall condition in relation 'normal wear and tear'. This is a core function of the demand for that type of unit.

Although fitness for purpose in first fleet life is essential, the detailed specification process for vehicles should consider if minor factors could make a material difference to the eventual disposal performance when the vehicle is de-fleeted. It is the eventual disposal value which finalises the whole-life cost equation for the vehicle. Where contract purchase or contract hire is the acquisition and funding method, it will be expected that the supplier brings their expertise and market knowledge to the specification, to ensure that their interests are best protected – as well as offering the best opportunity to calculate lower rentals!

Where the acquisition route incorporates a residual value guaranteed by the supplier within the agreement, there is normally no significant involvement or interest by the LA in the disposal process. The supplier will recover the vehicle and dispose of it at their own risk. Assuming the vehicle is within contract terms for age and mileage; and is in reasonable condition within the contract definitions, no further charges or credits should arise. Higher than contracted mileage on return; and/or poor condition, will lead to charges from the supplier to compensate for the loss against their projected return.

In some cases agreements can include provision for rebates if the vehicle is lower than contract mileage and/or in above-average condition. These are issues for negotiation within the contracting terms.

In all other cases, the LA must accept responsibility for the disposal process and the need to maximise the residual value (RV). This is a relatively specialised area for all vehicle types, and suitably qualified expertise should be consulted. There are specific limitations on disposal of public-sector assets in the market place.

The disposal route and RV outturn must be considered as neutral in terms of the in-life use of the vehicle. Allowing the unit to deteriorate beyond a fair wear and tear level will always increase costs. For LA-liability units the loss will be in an under-achievement of income from the RV. For externally-guaranteed disposals, the loss will be in terms of refurbishment costs and possible higher charges/rentals for future vehicles: suppliers are sophisticated enough to monitor the 'residual value performance' by client.



Accounting and finance

Although there are many versions of funding schemes for fleet vehicles, there are essentially only two accounting approaches to deal with the correct treatment of the various cost and expenses: one dealing with capital expenditure and the other dealing with revenue expenditure.

The detailed vehicle accounting processes in any one LA will be in line with the general system and policies which cover all classes of assets and costs. It would not normally be appropriate for a fleet or transport function to operate its own accounting system separate from the parent body.

Best practice records all assets and liabilities, costs and income in fine detail. In reality items of similar nature are normally coded together. The expenditure on fleet vehicles falls into several such categories:

- Acquisition and depreciation costs
- Income from disposals
- Funding costs
- Running costs (maintenance, fuel, tyres)
- Taxation

In **owned fleets** (including Hire Purchase/Lease Purchase methods) acquisition or capital cost is placed on the asset register. There will be a standard LA depreciation policy to determine the appropriate rate of depreciation for accounting purposes. This is a method of apportioning the loss in value of the vehicle as it is used and ages.

There are different interpretations for the term 'depreciation'. The true, actual depreciation cost is the total difference between what it costs to acquire less what is received as proceeds of disposal. That is the real 'cost to the business'. However, this normally takes place over a period of several years, during which time it is impossible to determine the depreciation costs in any one year.

To provide a realistic figure for each year's financial accounts, auditors and accountants use a formula to write the vehicle down over its expected life. The formula must be applied consistently to all assets in any one category (e.g. computers, office fittings, vehicles, heavy plant). There is however some flexibility about the exact nature of the formula:

Straight-line over the expected life of the asset; such as '20% pa'. This will reduce the asset register value to zero after 5 (financial) years. Thereafter there is no further depreciation cost charged to the revenue account

Reducing-balance basis over the expected life of the asset; such as '25% pa on the reducing balance'. In the year of acquisition the vehicle is recorded in the asset register at its capital cost. At the end of the financial year 25% of that cost is transferred to the revenue account as 1st-year depreciation. At the start of the next year its book value is therefore 75% of the original cost and 25% of that 75% is taken as depreciation in the second year of its life. This leaves the opening balance for the 3rd year as 56% of the original cost; for the 4th year 42%, and so on. Under this scheme the value of the depreciation charge reduces each year and essentially never stops.

The sums transferred from the asset register to the revenue account represent a consistent depreciation charge across the life of the vehicle.

At the end of that life the vehicle is sold. The proceeds of sale are compared to the current-year value on the asset register. If there is a surplus (actual residual value over book value) then there is a 'profit' (but in reality a reduction in total depreciation charge). If there is a deficit (the book value is greater than the residual value) then there is a book loss and an additional depreciation charge.

Accountants will determine the appropriate charge for funding according to Accounting Standards. This will allocate the right part of any bank overdraft, fixed loan or Hire Purchase instalment to the interest account.

Note: there is a *third* measure of 'depreciation' mostly applicable in the private sector, where corporation tax principles apply. HMRC permits fleet operators to write down the asset at up to 20% of the annual value, on the reducing-balance basis. On disposal the actual proceeds are compared to this written-down value for taxation purposes, to assess for any taxable profit. There is no longer a compensating 'balancing allowance' of tax relief to deal with book losses. This is important as lessors use the tax relief they earn to provide a finer interest charge within their rental calculations.

For leased vehicles the holding costs for the asset – initial cost less projected residual value; funding charges – are wrapped up together and included in the lease rental. Normally these charges are posted to the revenue account.

Under both ownership and leasing conditions, all the other costs (maintenance, tyres, fuel, insurance premiums, Vehicle Excise Duty, relief vehicle rentals) are charged to the revenue account. This includes the 'service' charge included in Contract Hire rentals (most suppliers itemise 'lease rental' and 'service charge' separately on invoices).

Under Best Practice these would be posted to individual account codes but in many cases the authority-wide accounting system groups these costs together for the financial analysis. This can make it difficult to analyse operational performance if, for example, the system cannot report on the costs of tyres separately from the cost of insurance claims.

Accounting for leases – current and proposed

Current arrangements:

Accounting standards require lease agreements to be reviewed to determine whether they are finance leases or operating leases.

Under a finance lease, the agreement is treated as an acquisition (and recorded in the Asset Register) in the same way as direct capital expenditure with a lease liability recorded in the balance sheet equivalent to the fair value of the asset acquired. The revenue account is charged with the day to day running costs of the asset, depreciation charges and the interest element of the lease repayments. A finance lease is a form of borrowing.

For local authorities, the repayment of the lease liability represents a charge on the General Fund with depreciation charges (debited to the Comprehensive Income and Expenditure Account) reversed out in the Movement in Reserves Statement.

Under an operating lease, the lease charges are a direct charge to revenue initially spread equally over the life of the primary period of the lease agreement.

Proposed developments:

The introduction of International Financial Reporting Standards (IFRS) has extended the accounting tests which determine whether a lease or any agreement for procuring the use of an asset (including contract hire) is in substance a finance lease or operating lease. IFRS places emphasis on the extent of control the lessee has over the asset procured and the benefits the agreement bestows on the lessee including ultimate ownership, option to purchase at less than market value and period of use. An indication of a finance lease would be where the present value of lease payments exceed 80% of the fair value of the asset.

Organisations will have their own procedures for evaluating lease agreements including having their own de minimis policies setting out the criteria below which they would deem all lease agreements to be operating. This would also include the circumstances under which a lease would need to be subsequently reviewed should there be a material change to the terms of the original agreement i.e. extensions to the initial lease period.

This is a complex area, and before decisions are made about leasing arrangements, advice should be sought from the relevant Finance Team in your authority.

Specification/what you're acquiring



Intelligent acquisition must start with a clear idea of what needs to be acquired.

Understanding the Demand for Travel

The most important aspect of the form and magnitude of the legitimate, sustainable and **justifiable demand for business travel** that has to be met.

Business travel is a function of the core business (in reviewing the whole area of vehicle acquisition is not about vehicle specification. Instead, it is the need to understand whatever form that may apply in the organisation). Any authority-controlled or private vehicles used in the business are – or should be – simply a channel to deliver against the demand for business travel – and the whole fleet structure must be ‘fit for purpose’ to meet that demand.

It is inevitable that the overall magnitude and nature of the demand will change in response to the Spending Review <October 2010>. Many LA functions undertaken in recent years seem likely to be severely curtailed or eliminated. In addition, fulfilling the on-going demand will have to be done against much tighter budgets.

It is therefore essential that the current size and shape of demand for business travel from service-delivering departments is fully understood, before any significant changes are made to the fleet structure and organisation.

Best practice indicates a central fleet policy, controlled by an identifiable point of authority, for all vehicle-

related matters. The policy should set out the key parameters for vehicle acquisition and use. The main points of the fleet policy – if not the full content – should be widely available to all managers and departments where any form or level of vehicle use is possible.

The fleet policy should be specified in output terms – that is, addressing the useful work done by vehicles and not simply the number of each type. Although the range of tasks and functions with most LAs appears very wide, in practice a relatively narrow set of vehicle types should fulfil the majority of roles. This is particularly the case for cars and vans. Highly specialised vehicles such as waste freighters are generally inflexible and must be controlled separately. There should of course be a clear picture of what vehicles are on establishment, what they are used for; and how they are used. For many large commercial vehicles such as waste freighters that use is clear and well-defined. For vans and cars, the very flexibility they can offer may obscure the picture.

It is good – if not always best – practice for the point of authority to ‘own’ all vehicles and to provide the resource allocation to the demanding centres against agreed criteria. This ensures consistency. Exceptions may be such circumstances as relatively large blocks of specialised vehicles within one Authority due to local circumstances – for example above-average commitments to road maintenance and their trucks.

The perspective of the patterns of demand for business travel across the whole fleet allows prioritisation. Demand by vehicle type may be classified into:

- **Core** – the irreducible minimum number of vehicles required to fulfil the main task of the department on an on-going basis
- **Transient** – the predictable demand due to seasonal or other planned activities
- **Acute** – the vehicles required for short peaks of demand

Across an authority it is likely that transient demand may be complementary across the year, allowing transfer of some vehicles from one department to another. This reduces overall inventory, reduces storage and increases utilisation.

For most types of vehicle, costs are not linear with mileage: a large proportion of the cost profile is largely fixed (Funding, VED, Insurance; the majority of depreciation and maintenance). ‘Sweating’ the assets is therefore a highly effective way to reduce costs.

In many cases it is helpful and highly appropriate for one LA to negotiate with neighbouring authorities to see if there is any opportunity to share – under some formal agreement – some non-core demand vehicles. For example, some parks vehicles might be shared across 2 or more adjacent authorities to work a small number of vehicles hard over a Spring peak, if the timing of the work programmes in each can be coordinated. This approach reduces the total number of vehicles needed and reduces direct costs – and may also reduce indirect costs such as parking/garaging.

Optimising Vehicle Specifications

The most fully specified vehicle, procured under highly advantageous terms after a professional tendering process could still be a major waste of time and resource if it is not fully ‘fit for purpose’. This scales up to the whole operation – vehicles are there to deliver ‘business travel’ and are not in any way an end in themselves. The fact that most LA operations involve a much wider range of vehicle types than most private sector fleets is a further level of challenge to good management.

The overall user requirements and demand profile identifies the key tasks and helps to define the types of vehicles and associated equipment to deliver these tasks. The detailed specification of each type of vehicle can be optimised against their main uses.

For higher-volume cars and vans, standard specifications should be used wherever possible. This will increase availability by reducing the need for factory ordering to a one-off specification. It is highly likely that this will also reduce costs. In most cases it will also increase the potential residual value achieved when the vehicle is sold.

Local demography must be considered. For heavily built-up areas it may be necessary to specify narrow-bodied trucks such as waste freighters, to be able to navigate narrow streets with heavy parking restricting access. In colder/rural/hilly territory, cars and vans with 4-wheel drive may be required to provide year-round service. The types of vehicle used in the recent past forms a useful baseline but it is necessary to investigate newer vehicle types from time to time, to assess their potential to improve service delivery. The

UK vehicle market provides many options: the main issue to achieved real cost reductions, must be to avoid overly and unjustified specification requirements based upon ‘just in case’ views.

This is where the ‘Core/Transient/Acute model is helpful. The fleet should be resourced to deal with all normally expected demands, at the core level. Arrangements to hire special vehicles (or equipment) for special purposes, as required should be in place for infrequent special demands.

The Core/Transient/Acute model suggests that the priority is to have the majority of the vehicles in any group at the core, lowest level in numbers and specification, with the ability to draft in more specialised units under either transient or – more probably acute – terms.

Obviously the need for contingency cover for emergencies (extreme weather, floods) must be considered too.

Where non-standard equipment needs to be fitted, as much harmonisation and standardisation, utilising the core product, across the fleet should be targeted. As an illustration, fleet operators are increasingly looking to telematics to provide more information about in-service use, fuel consumption, vehicle disposition and route review. There are different levels of real-time and consolidated data available to meet different requirements: these should be considered at a fleet-wide level as well as at specific function level, to optimise the total package from the outset. An overview of telematics current capabilities in the Annex.

It is certainly best practice to involve users in refining these type definitions. With only a little compromise the number of types that will undertake 80+% of all normal tasks across an LA can be identified. This supports better interchangeability across user departments – and between cooperating authorities – and therefore increases flexibility. The best makes and models to fulfil each task type can be determined from the market-place at intervals, so that the most up-to-date technologies can be considered.

Other specification factors



The diversity of roles and users/clients within most LAs demands the ability to meet a particularly wide range of business travel needs. Some of these require special consideration at the vehicle acquisition stage. Most of these issues refer to commercial vehicles although the principles can also apply to cars or light vans.

The main threshold is the Gross Vehicle Mass (GVM), with a particular change at 7.5 tonnes. There are complex rules for the requirement for an Operator's Licence and for mandatory fitment of Tachograph.

Similarly, where Public Carrying Vehicles (PCVs) are being considered, there is a need to engage professional expertise to ensure that all licensing and permits are properly in place.

In all such cases best practice demands extensive research of all the options, with advantages and disadvantages studied in conjunction with appropriate 'experts'. It is necessary to evaluate both the cost and non-cost issues (practicality; user-friendliness; convenience of servicing locations, parts-holding etc.).

Recent government recommendations include the need to regionalise some activities – including fleet operations. It is therefore appropriate to consult adjacent LAs on the potential for harmonisation of vehicle specifications, to maximise procurement leverage and to enhance flexibility.

Some of the main examples of such factors are:

Fuel Types

There is a powerful role for public sector fleets to innovate in the 'green fleet' area, both to meet the stringent emissions targets set by government and to be exemplars of best practice. There are many different technologies currently vying to win a place in mainstream fleet use in the different classes:

- Compressed Natural Gas (CNG)
- Liquefied Petroleum Gas (LPG)
- Low Sulphur Diesel Fuel
- B25 & B30 Bio fuels
- Petrol/battery electric hybrids (diesel hybrids are about to emerge)
- Plug-in hybrids (as petrol/battery but with additional charging from mains to extend range)
- Full electric (no on-board internal combustion engine)
- Hydrogen
- Hydrogen Fuel Cell

Most of these technologies must still be considered both embryonic and high-risk. The numbers of models

on sale is very limited and sales volumes are in most cases very small. For some fuels the refuelling infrastructure is underdeveloped.

All of these factors must be considered in addition to the general issues for 'normal' vehicle types.

From the acquisition perspective there are additional challenges. Even where supported by government (or other) grant these vehicles tend to be more expensive. Reliable projections for residual value are sparse. Some of the technologies might never make the breakthrough to critical mass and fade away (cassette vs 8-track; Betamax vs VHS).

For these reasons some of the funding options may not be available. Lessors may not be prepared to underwrite a residual value to provide functional contract hire. Similarly maintenance and repair work might not be underwritten. In these cases the authority will be required to assume all of the major cost risks for such vehicles.

In most such cases any vehicles acquired as a pilot test may need to be acquired on the basis of life-time use: to ignore any potential for residual value within the normal life-cycle framework; and to assume that the vehicle must be kept for an extended period – essentially until scrapped. Such radically different use should apply only to a pilot project: one key indicator if the pilot is successful is the transition into 'normal' life-cycles.

Standard or Bespoke

Wherever possible vehicles should be specified to a manufacturer's standard specification. For larger vans and trucks there is often the choice between a standard and a bespoke vehicle. Experience has shown that the bespoke vehicle body-building or conversion industries are not particularly resilient to downturns in the market, and even sub-markets such as major ambulance manufacturers have gone out of business with the resulting problems through lack of warranty and the sourcing of spare parts.

It may be possible to utilise bespoke vehicles where these are built in reasonable volumes to a national standard, and purchased by a large number of authorities but as with the ambulance manufacturers extreme care should be taken prior to following this path.

Conversions

In many cases it may be appropriate to take a vehicle built to a standard manufacturer's specification and then have necessary changes made to the body and/or chassis to meet local requirements without a major additional risk in supplier failure or of lack of parts.

Chassis/body combinations

In a number of cases local or operational requirements may prevent a single chassis/body combination being purchased from a single source and in this case it will be necessary to purchase each item from separate manufacturers. Care must be taken to ensure that the specifications of both halves of the combination actually match prior to each half being purchased and that clear line of responsibility are established should problems be encountered. Officers are advised to include areas of responsibility for each manufacturer in regards to operational problems or reliability arising and to try to obtain conformity and approval certificates between all parties involved..

One-off/special purpose/unique vehicles

Unless there is a defined and fully costed need for this type of vehicle users are strongly advised to look at alternative types of vehicle before selecting this option. As detailed in the bespoke section these can cause operational difficulties. There are some case where one-off innovations are fully justified but they should offer a long life with reliability and able to meet the necessary levels of utilisation.

Lines of responsibility

When the vehicle(s) under consideration fall into one (or more) of these categories it is essential to review and research extensively. Full allowance must be made for the probable additional risk, especially in terms of any meaningful residual value.

If several units are required it is recommended to commission only one as a pilot, to test the model.

When the complete vehicle comprises major input from two or more parts of the supply chain (eg a chassis with separately-sourced body) it is preferable to seek to acquire the complete unit from just one: this minimises the responsibility gap which may otherwise arise, with any operational problem always being 'the other party's fault'. This may also support more flexibility from funders/lessors, who will generally prefer to deal with one asset rather than separate parts.

Drivers



Users and drivers

It is essential to ensure that the vehicles made available are fully fit for purpose. They must be fully capable of meeting the defined forms of demand for which they have been acquired. User departments and drivers must be consulted about the vehicle types and specifications. (See 6a case study in Annex)

The vehicles must be comfortable for use in the terms of employment. LA employees who drive for long periods must have adequate seating, visibility and ventilation. Full consideration must be applied to driver aids such as power steering (where not standard), loading heights and access. For small vans the issue of side-loading doors should be resolved to provide a standard format across all units of that type.

It is good practice to facilitate consultation and evaluation among the relevant users. While the initial business case might eventually prevail, the addition of local knowledge of the tasks on the ground, and in the specific driving circumstances, is invaluable. It is good HR practice to ensure that users and drivers have genuine and early input into the vehicle specification, including accessories and fittings, before commitment.

Single or multi-driver

Local circumstances, location and staffing levels will determine how many employees should operate a vehicle. It is often the case that a vehicle used by a single driver tends to be better looked-after than one that is allocated on a day-by-day basis. This is fine in theory but in practice vehicle utilisation must have priority and this may require more than one driver to each vehicle. Wherever practical the opportunity to keep designated drivers with designated vehicles makes the responsibility for maintaining the vehicle and reporting its condition and operational performance much clearer.

Special needs

In most cases there are no special needs for drivers as vehicles are designed to meet the best ergonomic designs but, purchasers should be aware of any restrictions that certain vehicles place on drivers. For instance in some commercial vehicles with a rear bulkhead there is insufficient room for the driver to move the seat fully to the rear. Some tall drivers may therefore be unable to adopt a comfortable seating position. This is a potential Health and Safety problem.

Similarly it cannot be assumed that all employees can drive all vehicles. Some may only be licensed to drive a vehicle with automatic transmission. Younger drivers who passed their driving tests after January 1997 do not have automatic rights to tow any form of trailer.

Minibuses drivers require to meet a complex set of regulations, with entitlements based on driver age and experience, number of passenger seats of the minibus and its overall weight. Large Goods Vehicles drivers may also require similar entitlements. Consideration of the occupational licence types required for heavier and specialist vehicles must be explored, with Transport Officers and DVLA.

Bearing in mind the need for all vehicles to have appropriately qualified drivers to provide any form of useful work or output, there must be full consideration of any limitations on employees. In some cases the preferred vehicle solution may not be practical if suitably-qualified staff are not available to drive them.

Driver responsibilities

Employees driving LA controlled vehicles must of course observe all aspects of road traffic law. Within the fleet policy there should be a system to cooperate with the process to check driving licences and entitlements at regular intervals as part of the at-work

driving safety strategy. This should include a requirement on all drivers on LA business to report any change in licence status.

They must also accept responsibility for reporting on the vehicle condition and levels of use. The range and formats of data reporting are many and varied across different parts of the organisation and with different types of vehicle. However best practice requires a systematic approach so that the relevant data is provided at the required intervals.

These may include daily mileages (odometer reading at end less odometer reading at start of shift), fuel added, mechanical issues, confirmation of daily/weekly checks and the like.

Guidance in the legal responsibilities of employers and employees has been issued by the Health and Safety Executive. The principal document is 'Driving at Work – managing work related road safety' which should be essential early reading for anyone involved in managing employees who use the roads.

Under the various Health and Safety at Work regulations there are similar controls and obligations on employers and employees for non-road situations – in site yards, loading bays and workshops.

System

Two fundamental principles are involved in effective performance measurements:

- **First, you cannot improve a process unless you can measure and visualise it**
- **The second is that measurement alone is insufficient to make improvements**

The measurement must be synthesized into actionable intelligence that makes it appropriate for decision-making.

All fleet activity should be monitored, measured and recorded. The levels of cost and the impact on the parent business require regular justification based on analysis of reliable data. The systems can be in any sustainable format and may be combinations of the full LA (mainframe) system, a specialist Fleet Management software package and locally-devised reports and lists.

Ideally any system should record every event on every vehicle, in ways to permit multi-dimensional analysis by vehicle, by vehicle type, by user-department and by location.

Asset control

This will record the inventory by unique ID (often the registration mark), key dates (new/first on fleet/scheduled retirement), owner (LA or finance source), contractual details etc.

Running costs control

Recording of all key events and costs, including servicing, MOT, VED, tyres; by date and by cost. Should contain, or cross-refer to accident repair costs.

Fuel cost control

Records all fuel added with date, volume, cost and odometer reading. This provides a full record of fuel efficiency to identify vehicles requiring mechanical attention; drivers who may need to be re-trained, or to detect abuse. The record of fuel actually used is also a key part of the environmental monitoring and reporting of the fleet. Using standard factors the CO₂ mass produced by the fuel use can easily be identified.

Reporting & Feedback

An essential part of the fleet system is the process to extract meaningful Management Information (MI) from the data held within it. Standard reports will include high-level inventory and performance summaries along various axes and groupings. The systems should provide reports to list the full life history to single-vehicle level. It is useful to have a report-writer tool to produce individual reports for specific cases: if these prove useful they may be consolidated into the general reporting suite.

Best practice requires that the data and MI collected is then used positively to assess on-going performance. Time and management resource must be provided to study the reports and the trends arising. This is essential for good management on a routine basis; and to consider what changes might be made and opportunities taken when major vehicle acquisition programmes are being considered. This is particularly relevant for fuel use and costs, to identify the main types where developments in fuels and engine technologies may offer significant cost and environmental benefits in new vehicle acquisitions.

There should be a clear policy of report generation and circulation to relevant management levels at regular intervals, with action-points and responsibilities to be discussed at periodic review meetings.

Levels of acquisition

In most cases vehicle acquisition will fall under EU Procurement rules with the need to issue tenders for supply. This will apply irrespective of method of funding and acquisition.

Larger LAs may undertake the process on their own account. Increasingly groups of LAs (often on a regional basis) have formed joint committees or buying consortia to bring procurement leverage. These may streamline the tendering/evaluation process.

There have been many attempts to optimise the significant purchasing level of public sector procurement, in almost all areas of the business world. There are national, regional and more local arrangements to bring together groupings of public sector bodies to coordinate and improve procurement terms. In some cases these groupings have a formal entity structure as consortia; in other cases the collaboration is less formally organised.

For vehicle types where public sector is the main (or only) client type, it is also common to have coordinated specifications, again to seek to drive down costs by limiting the complexity of manufacture. This has been particularly true in areas such as waste freighters and fire tenders.

The development of these procurement bodies has been a dynamic area with much recent re-organisation and restructuring of the various bodies in response to higher-level political decisions and changes. It is therefore necessary to check, as an early part of any vehicle procurement project, what benefits and 'shortcuts' are available, and from which bodies, at that point.

The choice to use any particular arrangement or purchasing consortium will depend on the LA itself and any arrangements or agreements already in place. Different consortia have different advantages and disadvantages, and varying ranges of services on offer. Where vehicle-specific expertise and resources are included this will be more suitable than a body which is more generalised in its range. This is especially valid for the environmental impact assessment of different vehicles to undertake any given task.

The formats of standardised specifications (for at least the common types of cars and vans; short-term rentals and other high-volume needs), Terms & Conditions, template service level agreements and PQQ/RFQ tender documentation vary, as does the 'price' charged for the service. The service level offered, with implications for the resource requirement of the client LA, also varies.

Not all external groups offer high levels of control and automation. While most offer web-enabled services such as e-tendering and e-auctions, some do not. These facilities may be required to meet the client LA commitments to e-commerce generally. However, in many cases vehicle-related procurement may not be best suited to these techniques due to the many permutations from the market.

Irrespective of the detailed method used to seek competitive supply, any project to acquire vehicles must be fully supported by a business case in the form required by the LA's own rules and regulations. This must include budgetary cover and management sign-off at the appropriate levels.

Under the current economic climate, it is particularly important that any procurement of vehicles is carefully considered before issue of a tender or a Purchase Order. Vehicles acquisition should only be considered where there is no real doubt about the longer-term requirement by the using department; and where the option to extend the lives of existing vehicles and/or transfer 'surplus' units from other functions have been considered in detail.

Glossary – fleet funding

Special terms used in fleet and accounting

This document briefly explains the meaning behind a number of commonly used jargon/phrases within the fleet management industry, including contract hire and leasing. The explanations relate to their most commonly understood meanings.

Please note that the list is not necessarily exhaustive; and that few of these terms have 'official' definitions. These notes provide only a basic guide to these terms. Terms in ***bold italics*** have their own definitions within this Glossary.

ACQUISITION – The actual process of acquiring the vehicle in the first instance. This may involve physically identifying and purchasing the appropriate vehicle, or utilising a third party to acquire/supply the vehicle (e.g. ***Leasing*** or ***contract hire***).

ADMINISTRATION – All the clerical or organisational tasks involved in running fleet cars and vans. This includes vehicle and driver listings, ***acquisition*** and ***disposal*** details etc. Some types of lease relieve the user-company (***'lessee'***) of most of this administration - but allocation policies and budgeting are just two of the tasks that must still be done internally.

AGREEMENT – See ***Contract***

AMORTISATION – The scheduled reduction in value of an asset, by pro-rating its cost over a period of years. This is a method of allowing for the market ***depreciation*** when the actual amount cannot be identified, while the asset is still in use.

BALLOON PAYMENTS – This is the final payment due under most ***finance leases***, to liquidate the whole debt. Usually set to match the expected residual value, so rentals reflect actual ***depreciation***. Beware of too-high ***balloons***: they may give low rentals, but will usually leave a financial hole to be filled by you, if the car doesn't make enough on disposal.

CAPITAL – The 'cost' or financial value of an asset, at time of purchase or after periodic ***depreciation*** reductions. Used by prospective lenders (including banks) as a measure of the strength or otherwise of a company's balance sheet. Capital expenditure usually is

more tightly controlled than revenue spending - even though this is sometimes not justified.

CASH FLOW – Leasing can really help match the costs of providing cars, with the income they help to generate. By spreading the costs over the period of use, leasing and other credit schemes can provide much flexibility. Make a whole-cost calculation, to ensure that the effective rate of interest is not too high. Also remember that for fleets of more than about 50, the average cash flows of purchase can be similar to leasing. A smooth cash flow (e.g. £90,000 per month, each month) is usually more desirable than no outlay for 11 months and then a massive cost outlay in a single month – but every organisation has its own requirements.

CONTRACT HIRE – One of the most common types of ***lease***. Usually totally fixed-cost: the ***lessor*** accepts responsibility for virtually all 'normal' costs associated with providing the cars (***depreciation, maintenance, funding, VED, administration***), at his own risk. Details of cover vary widely, so check the agreement. ***Contract hire*** is a service and therefore you do not own the cars. The quality and quantity of the backup and support are key areas, rather than price/***rentals***.

CONTRACT – These are the legally binding documents relating to third party suppliers of vehicles and services. Read them carefully before signing, and check the small print. Consider situations such as ***early termination, excess mileage*** and ***dilapidation penalties*** when considering leasing contracts.

DEPRECIATION – Loss of value of an asset or vehicle as it is used and ages. Different professions have different definitions. Beware the accountant's definition of depreciation, as they use accounting conventions, and therefore their figures may not reflect the vehicle's actual loss in value. The true depreciation of a vehicle is its purchase price less its current market value or sale price

DILAPIDATIONS – Often an area of dispute in leasing scenarios. Can be defined as the repairs and refurbishment needed to bring the car back to a 'reasonable' condition for age and mileage at end of lease. It is unrealistic for ***lessors*** to expect back a fleet car in showroom condition, and hence the industry term of ***'fair wear and tear'***. The British Vehicle Rental

and Leasing Association (BVRLA) publish clear guidelines as to what should be regarded as fair.

DISCOUNTED CASH FLOW (DCF) – a financial analysis tool which provides for the time-value of monies received or paid out during the life of an asset. It is generally understood that any given sum of money 'now' has a higher value than the same sum of money at some point in the future – and the further the period ahead the greater the difference. The financial balance is derived from the inferred interest rate. Usually used to derive a **net present value** of a payments stream in relation to an investment/vehicle.

DISPOSAL – The final sale or defleeting of a vehicle at the end of its life on the fleet. Taken care of by the supplier in **contract hire**, but is the user's responsibility for most other methods. Keep an open mind on any one method - consider and use auctions, traders and part-exchange as appropriate. Sell to staff?

EARLY TERMINATION – If a lease agreement is ended by the lessee before its agreed contract term, then the lessor will usually require an early termination payment. This may be a penal charge, but the many leasing companies often based the charge on the actual losses they incur due to the premature ending of the lease.

EXCESS MILEAGE – Most fixed-cost **leasing** contracts assume a 'contract mileage'. Any mileage over this will incur additional **depreciation** and **maintenance**, which the **lessor** will seek to recover by the **excess mileage** charge. **Pooling** arrangements to aggregate all vehicles returned in a 3- or 6-month period are increasingly common. Watch the actual rates, and keep a check yourself, as they can be penal.

FINANCE LEASE – The simplest form of lease which is only concerned with **funding** the chosen vehicle. Usually involves writing the car off over the period of contract (2-5 years) with the **lessee** doing most of the work, eg finding the car, negotiating discounts, **maintenance**, **residual value**, etc. **Disposal** proceeds go to **lessor** because he is the owner: usually then rebated (95-100 %) to lessee as a 'rebate of rentals'. Rentals are classed as revenue expenditure, not capital, and attract VAT. Most rentals are paid monthly or quarterly. Since the lessee carries the actual risk and cost of depreciation as if he owned it, this type of lease is in fact treated (for the purpose of financial reporting) as if it were **hire purchase**.

FLEET MANAGEMENT SERVICES – A range of technical support functions available from a specialist supplier - can include any of the cost areas such as purchasing, **disposal**, **maintenance** arrangements, **funding**, fuel monitoring, reporting etc. Usually available from **lessors** (because of similarities) but client carries all risks and costs. Fleet management company charges an agreed fee (usually per vehicle) to cover their administration.

FLEET MANAGEMENT SOFTWARE – There are many suppliers of specialist software packages that are computer based systems that, once primed with your fleet's vehicle data, can be used to proactively manage and monitor your fleet and its costs. Many smaller fleets may merely use a standard spreadsheet application, which in many instances is perfectly adequate. Specialist software systems are especially beneficial when dealing with a high level of small transactions from different driver/cars, such as fuel and maintenance costs.

FUNDING – Anything to do with providing the money to acquire fleet cars. Can include bank overdraft, **hire purchase**, conditional sale, block discounts, **lease** or **contract hire**. The choice of method or even mixture of methods depends on the needs of the user - overall cost, **cash flow**. Taxation, balance sheet and risk elements are all factors to be considered. Some care needed to ensure that effective interest rates are not excessive.

HIRE PURCHASE – A simple form of credit funding. Lender provides a fixed cost, fixed period loan (of money) to user, to support purchase. User is effectively the owner but will not have title to car until loan is paid off. Instalments repay the capital and interest. If a **residual value** is built into the calculations, the scheme is usually called **Contract** or **Lease Purchase**.

LEASE – A rental service to provide the 'use' of a vehicle for an agreed monthly/quarterly rental. In a lease there must never be any vehicle ownership by the lessee, hence an employee may be able to purchase a lease car at the end of its time on the fleet, but the company leasing the vehicle cannot.

LEASE PURCHASE – See Hire Purchase

LESSOR – The owner of the asset, who sees ownership as an investment, not as a purpose. Implicitly needs to have financial and administrative strength.

LESSEE – The user of a leased asset, who has unrestricted access to the asset as if he owned it, but who never obtains legal title.

MANAGEMENT – Often seriously underestimated, especially by smaller fleets. Effective management of a fleet of cars can save considerable sums of money, but itself costs money. Can be delegated to external experts - *fleet management* or *contract hire* companies.

MILEAGE POOLING – Can be used to avoid potentially punitive *excess mileage* costs. Mileage Pooling is available in many *leasing* scenarios, where vehicles returned to the *lessor* with mileage exceeding the contract mileage can be pooled with lower mileage vehicle returns, to offset those with high mileage.

NET PRESENT VALUE (NPV) – a notional value of a payments stream as for the purchase or leasing of an asset/vehicle. The total payment pattern across the asset life is given a *discounted value* using discounted cash flow techniques: the NPVs calculated for one asset under different payment patterns (eg *outright purchase* vs *hire purchase*) can be used to indicate the 'true' life-time cost.

OPERATING LEASE – Any lease which leaves most of the risks of ownership with the *lessor*. This is important under accounting conventions as it determines if the assets will appear on the *lessee's* balance sheet. Fixed-cost *contract hire* (with or without maintenance) is clearly an operating lease and hence off balance sheet. Watch out for predicted accountancy changes in 2012/14 that may make all leases and contract hire on balance sheet.

OUTRIGHT PURCHASE – The simplest form of vehicle acquisition, where the company requiring the vehicles buys them from cash reserves or via a business overdraft facility. This provides the most flexibility for the company operationally, but also carries the highest administration levels and potentially the highest risk/reward from *residual value* fluctuations.

RENTALS – Periodic payments (usually monthly/quarterly) by *lessee* (user) to *lessor* (owner) to cover all the cost factors including the lease agreement. Usually they are fixed for the agreement period, and always attract VAT.

REPLACEMENT CYCLES – The period of time a vehicle will remain on a fleet before being replaced with a new or newer vehicle. Decisions should be based on valid criteria whether under ownership or leasing, and

usually is defined as a combination of annual time and mileage eg. 4 years or 80,000 miles. Length of replacement cycle usually based on vehicle type, reliability, cost and employee status.

RESIDUAL VALUE – This is the final value of the vehicle when it comes to the end of its life on the fleet. It reflects the second hand worth of the vehicle in the often volatile used car market. The purchase price of the vehicle less the residual value provides the vehicle's *depreciation* cost, which is typically the largest single operating cost of a vehicle.

SALE AND LEASEBACK – If a decision is made to move into *leasing* from *outright purchase* it is usually best to change as quickly as possible. Sale and leaseback is available from most *lessors* and involves them buying existing vehicle fleets at agreed value (e.g. Glass's Guide/CAP; or similar). Each unit is allocated a 'remaining life' to end of 'normal' replacement cycle, with rentals calculated accordingly. When they are finally deflected new leased vehicles are introduced.

This system provides rapid, easily managed transition into *leasing/contract hire* - usually provides a cash surplus as well, from sale of owned assets. Watch terms for very old or very young units in the deal

SERVICE MAINTENANCE AND REPAIR (SMR) – Blanket term for all the mechanical and technical attention needed by any fleet car. Includes routine servicing, unexpected repairs, replacement tyres etc. Overall is considered as the user's responsibility, especially from a legal/safety viewpoint, but cost and administration can be included in a *lease* or *contract hire* agreement.

TOTAL COST OF OWNERSHIP (TCO) – see Whole Life Costs

VED – Vehicle Excise Duty is more commonly known as the 'tax disk' which must be displayed on the windscreen of all vehicles. It is essentially the road tax that must be paid annually to the Treasury for the use of the country's road network.

WEAR AND TEAR – This is an important point of negotiation with fixed-cost leases and guaranteed buybacks. The standard of condition of a vehicle on return to a *lessor* must be agreed between the parties to avoid aggravation on completion. Wear and tear is notoriously difficult to define, but it should be considered right from the start: some *dilapidations* charges change the economics of leasing completely. The British Vehicle Rental and Leasing Association (BVRLA) and RAC provide fair wear and tear guidelines.

WHOLE LIFE COSTS (WLC) – The most effective way of operating and managing a fleet/allocation policy. Whole Life Cost (WLC) driven allocation lists take into consideration all the actual costs associated with operating the vehicle, including **depreciation**, **SMR**, insurance, fuel, various taxes, insurance etc. Can be shown as a cost per annum, per month, or per mile.

Annexes to the Best Practice Guide on Vehicle Acquisition

Signposts to further information

The following list of bodies and organisations may be helpful as sources of further, specific information and help. It is not intended as a complete cover for all aspects of procurement and operation of vehicles, but features the major topics.

FTA (Freight Transport Association)

Association representing the "own-account" fleets operating larger vehicles

Head Office: also London and South East Region
Hermes House St John's Road Tunbridge Wells
Kent TN4 9UZ

T 01892 526171 F 01892 534989

www.fta.co.uk/contact/

DVLA (Driver and Vehicles Licensing Agency) – vehicles

Government agency – deals with vehicle registration, taxation (Vehicle Excise Duty) and vehicle classes

Based in Swansea – most public functions now accessed via direct.gov portal

Vehicle Customer Services (VCS)

DVLA Swansea

SA99 1AR (To avoid delay with written enquiries it is important to use the correct postcode.)

T 0300 790 6802 F 0300 123 0798

www.dft.gov.uk/dvla/contactus/vehicles_enquiries.aspx

DVLA (Driver and Vehicles Licensing Agency) – drivers

Government agency – deals with driver licensing, entitlements, occupational licences, medical conditions

Based in Swansea – most public functions now accessed via direct.gov portal

Drivers Customer Services (DCS) Correspondence Team

DVLA Swansea

SA6 7JL (To avoid delay with written enquiries it is important to use the correct postcode)

T 0300 790 6801 F 0300 123 0784

www.dft.gov.uk/dvla/contactus/drivers_enquiries.aspx

VOSA (Vehicle & Operator Services Agency)

Government agency – deals with licensing, testing and enforcement services, supporting the independent Traffic Commissioners.

Headquarters

Berkeley House Croydon Street Bristol BS5 0DA

T/F 0300 123 9000

www.dft.gov.uk/vosa/contactus/contactus.htm

VCA (Vehicle Certification Agency)

Government agency – deals with Type Approval of vehicles, both standard and limited-production models

Headquarters

No 1 The Eastgate Office Centre Eastgate Road Bristol BS5 6XX

T 0117 951 5151 F 0117 952 4103

www.vca.gov.uk/contact.asp

Highways Agency

Government agency – deals with managing, maintaining and improving England's motorways and trunk roads

Distributed regional offices: see web-site for details
National enquiry number (all enquiries) 08459 556575

Direct.gov

Main web portal for general access to most government services – includes DVLA, VOSA, VCA information.

Generally intended for public access to services
www.direct.gov.uk

Van Best Practice

(Funding ceases end March, unclear how much material to be left on web-site for subsequent access/download)

Government-backed scheme to develop and share best practice in safety, environmental and cost-efficient areas of operating vans

T 0300 123 1133

www.vanbestpractice.businesslink.gov.uk/cms/

DfT Freight Best Practice

Government-backed scheme to develop and spread best practice in freight operations and enhance efficient and safe use of trucks

Website lists very comprehensive and useful links section

T 0300 123 1250

www.freightbestpractice.org.uk/dft

HSE (Health & Safety Executive)

Government agency responsible for developing guidance and monitoring workplace safety. Also has a role to investigate serious incidents including road traffic situations. Generally takes action in road traffic incidents only where police investigations indicate that there may have been a corporate dimension to the accident.

Correspondence address

HSE Infoline Caerphilly Business Park Caerphilly
CF83 3GG

T 0845 345 0055 F 0845 408 9566

www.hse.gov.uk/roadsafety/

ACFO

Main organisation representing car and van fleet operators; networking and best-practice guides

Regional meetings and presentations
35 Lavant Street Petersfield GU32 3EL

T 01730 260162 F 01730 263937

www.acfo.org

BVRLA

Representative body for contract hire, leasing and rental companies.

Operates well-regarded Code of Conduct for members.
River Lodge Badminton Court Amersham HP7 0DD

T 01494 434747 F 01494 434499

www.bvrla.co.uk

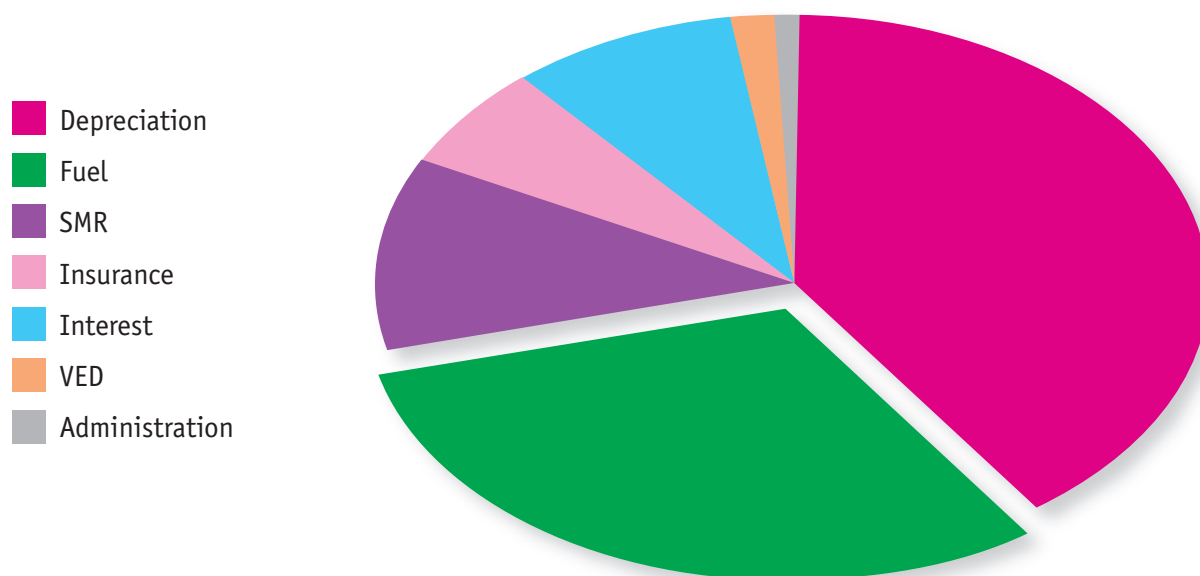
Whole-Life Costing/Total Costs of Ownership

Examples and generic calculations

Typical fleet spending breakdown

Depreciation	40%
Fuel	31%
SMR	11%
Insurance	6%
Interest	9%
Tax	1%

Relationship of vehicle Whole-Life Cost components



Comparisons of funding/acquisition methods

Worked Examples - Funding options

These illustrations indicate the main factors to be compared when considering the best funding option for any one tranche of vehicle acquisitions.

NB **ALL values** are for illustration only. So far as practical they are consistent across the different methods, and represent a fair comparison of terms and rates in the market as at November 2010.

Local circumstances and recent experience for interest rates, maintenance costs etc must be considered within the context.

Example

General use Panel van to 3.5 t GVW eg Transit 350/Sprinter type; MWB/Medium Roofline.

Standard specification - no accessories

Values/costs calculated on quarterly basis

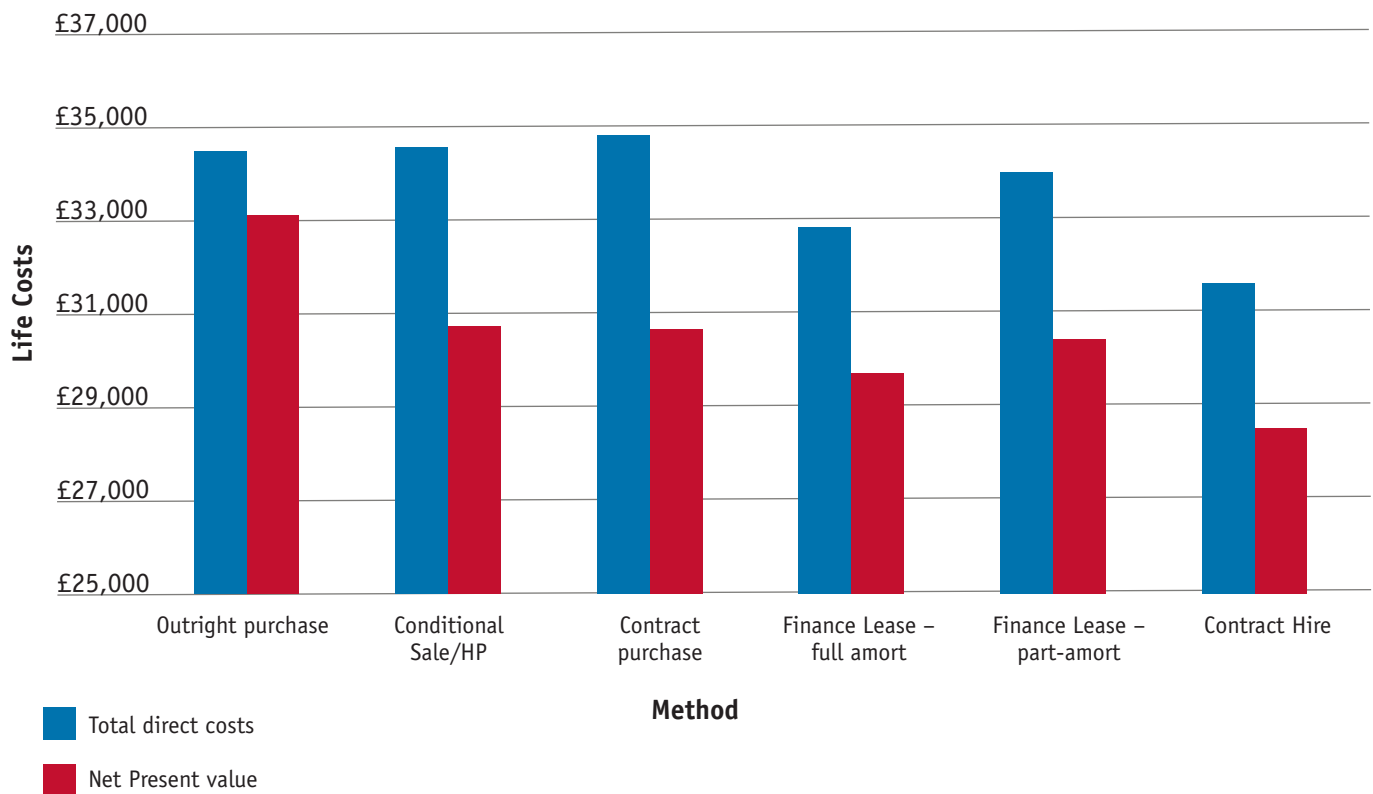
Capital cost (net of discount and VAT)	£25,000
Life cycle (illustration)	48 months/80,000 miles
Projected residual value	(£3,000)
Overall maintenance budget (VAT excl) trended to illustrate higher costs towards later life	£6,000
Fleet Admin charge for in-house management	£100 pa
for contract hire	£80 pa
Bank interest rate	5% pa
DCF rate	6% pa

Fuel and Insurance costs not shown, as common to all options.

Summary of results

Funding Method	Total direct costs	Net Present value
Outright purchase	£34,395	£33,042
Conditional Sale/ HP	£34,523	£30,703
Contract Purchase	£34,761	£30,619
Finance Lease – fully amortised	£32,797	£29,722
Finance Lease – partly amortised	£33,977	£30,457
Contract Hire	£31,620	£28,547

Comparisons of funding examples



Telematics – background

Exploiting Telematics technologies

Telematics is a generic term for the technologies which combine information processing, GPS technology with plug-in, wireless, hand held or in-vehicle messaging systems. These relay operational data back to the primary system located at the fleet office. The transmission can be real-time through GPRS/SMS, or via plug-in connections for periodic transfer.

These new technologies have the potential to improve efficiency and calibre of service across many areas of vehicle utilisation, resulting in greater performance satisfaction. Key areas identified for improvement include fuel consumption, journey times and driver hours all leading towards better customer appreciation. In high-end applications like Ambulance/Police services, the position of individual vehicles can be displayed and used to optimise responses to calls for service.

Vehicle tracking systems can be effective in ensuring load security and driver compliance. In addition, driver monitoring can help to identify drivers with poor driving styles, who can subsequently be provided with training. Often, public sector fleets need to react to problems at short notice, and this is where telematics can be particularly helpful - the ability to divert and reallocate vehicle and driver resources at very short notice can help to deliver improved service levels.

Appropriate implementation of vehicle telematics within a fleet provides not only monitoring of the daily movements, but rapidly builds a picture of the longer-term, on-going patterns of demand. Because this is based on actual vehicle use it provides a firm baseline for improvement strategies across the fleet function. The automation of such data collection significantly improves the quality of the whole dataset – and of course sharply reduces the need for driver/operator reporting.

Real-time fuel consumption performance is supported and improved through reduced dead-time when the individual journey faces traffic trouble spots. The same message can be directed to all LA vehicles in the area. Notice of a cancellation of work can be forwarded immediately to the vehicle in question, allowing the driver to move on to the next job more effectively. In terms of green policies, this greater productivity reduces the fleets' environmental footprint. Where the telematics system is integrated into the vehicle's CAN-bus (the on-board systems management and internal

diagnostic capability for most modern vehicles of all types) the fuel use data will identify any defects within the vehicle: it will of course also identify any extended periods of engine idling. Appropriate action can then be taken to reduce fuel waste.

Telematics Case study

Local Authority Tower Hamlets BC partnered with DigiCore, based in Harrow, Middlesex, to implement and develop a vehicle tracking system. This has been installed with the Council's fleet of around 60 minibuses and coaches to record and optimise efficiency across the service. John Stevens, Transport Manager at Tower Hamlets BC explained. 'The system has now been in place for several years and, initially in analysing the data we found that many vehicles were idling for long periods of time and some vehicles went off route. These issues can now be dealt with through the monitoring of information. This has been enough to alleviate these bad practices. We have also been able to contest a speeding fine and some parking fines where our vehicles were registering a legal speed or were not in the area at the time of the allegation.'

Kettering BC's implementation of telematics has driven internal initiatives to develop existing route efficiencies, optimising reactive vehicle deployment across the Borough and eliminating costly duplicate journeys. The Council has also been able to identify fraudulent insurance claims by proving vehicle locations in relation to alleged incidents being claimed by other road users.

Some systems have the ability to include a personnel monitor (with 'panic button') which may be helpful for lone and/or vulnerable workers.

Vehicle-based telematics is a rapidly developing area of automotive technology and in various levels of complexity and sophistication, is being designed in to all new vehicles. The interfaces between the vehicle systems, GPS modules, telecomms and other more specialised monitors and data collectors are now largely standardised. This allows the telematics service providers to harmonise their communications back to the control systems at the fleet base, so that fleet and operational managers can access a wide range of current and historic data, at vehicle or fleet levels.

Pool Fleets

Pool cars, vans or trucks (vehicles unallocated to any one individual and generally available to employees for short-term, lower mileage requirements) have a valuable role in meeting the overall business travel demand for many organisations. Pool fleets can be populated with smaller, low-value units to a general specification just to do the basic tasks required, or they can be made up of the varying vehicles that are “between users” or “awaiting disposal”. Where there is a fairly steady and high demand, pool cars and vans can be quite efficient. However, there are almost always difficulties in keeping the vehicles in a good roadworthy condition, monitoring service/tyre replacement needs and tracking fuel use.

There is a clear mirror-image relationship between the service of pool vehicles and rental units. Pool units can normally only be cost-justified if there is a high level of utilisation – say at least 4 journeys per week with mileage totalling 100 miles or more (this depends on type of unit and application). Otherwise the unit costs per mile quickly become greater than renting a vehicle for each individual requirement.

Again the underlying demand patterns and justifications need to be understood and considered carefully to ensure that the best solution for the circumstances is being achieved. This can be challenging. Where a works site is in a rural setting the costs and time involved in getting a rental unit could easily justify retaining a pool car even for relatively infrequent – but still necessary – use.

Effective management of the overall use of pool cars and vans depends on meeting a given level of demand where provision of allocated vehicles cannot be justified. It is essential that the overall volume of demand and its patterns of frequency and range of mileages is well understood, to match supply and demand in the most cost-effective manner.

Case studies

Case Study – Involving Staff in Vehicle Specification: National Blood

In all cases in public sector fleets, vehicles must be specified so they are fully ‘fit for purpose’. This requires an understanding of the needs to be met, and the designs and specifications available. Optimising the specification is a key aspect of achieving fitness for purpose.

Using relatively clinical whole-life costing principles in vehicle specification is a key foundation, but is not the only metric to be considered. In most cases, the interests and requests of your staff need to be heard and integrated if at all practical. There are important HR, morale and of course health & Safety considerations to be met.

When Larry Bannon was appointed National Fleet Manager to the National Blood Service (NBS) in 2001, he found that 15 different makes of vehicle were being used within the fleet, with many diverse models within each group. “We even had American vehicles from the likes of GMC and Dodge to Bluebird Buses! The diversity of the fleet made it impractical and uneconomical.” he said.

One of Larry’s first priorities was to rationalise the fleet but he was keen, from the outset, to involve staff as ‘partners’ in this process. Special vehicle user groups were set up to provide feedback after the fleet management team had developed the initial vehicle specifications.

According to Larry, staff were supportive because of the efforts made to encourage participation and incorporate their views, and their demands were normally pretty modest and quite reasonable. “People really understood what we were trying to do and hardly ever requested anything that wasn’t really fit for purpose. On the whole, people just asked for little things to make their driving more comfortable, like air-conditioning, air bags, cup holders, coat hooks and radios. These are really easy things to build into a specification and it keeps everyone happy - especially the people who use the vehicle all day, every day.”

As well as making the working life of the vehicle more pleasant for operatives, there may well be an additional bonus on disposal, if the vehicle has “attractive” options and specifications. While they are likely to recover only a fraction of their original cost when sold, they might make the sale that much quicker and easier.

Case study – Procurement and Value for Money: Newport City Council

Newport City Council operates a fleet of around 400 vehicles.

Until 2004, the Council’s standing orders dictated that when procuring items or services, the supplier offering the lowest price should be selected. This meant that the procurement process focused on cost rather than quality or value for money. This led to some fleet procurement yielding unsatisfactory results when the vehicle were in use.

It was felt that changes to the Council’s procurement system were required. There was also a need to ensure greater openness and transparency to comply with European Union (EU) procurement directives in 2006.

Amendments to the Council’s standing orders in 2004 allowed change to the procurement process so that cost was not the only factor to consider when evaluating tenders.

The Council has now developed a scoring matrix which it uses to evaluate tenders and quotes to ensure value for money is obtained. The matrix is used for all procurement decisions including fleet

The matrix is a spreadsheet which considers factors including price, quality, delivery, after sales support and whether the product or service is fit for purpose. The framework matrix is modified to meet the specific needs of the assets being acquired, to reflect the nature and working life of the asset type. The matrix is built as part of each tender project, so staff have a clear understanding of the weightings. This was found to help draft more appropriate ITTs.

Details of all the tender bids received are entered into the spreadsheet. Weightings formulas assign a detailed score to each supplier. The scoring formula is such that it is weighted 60 per cent in favour of cost and 40 per cent in favour of quality.

The matrix ranks the suppliers with the highest scoring supplier being recommended for approval. If there are circumstances that suggest the highest scoring supplier would not provide the best value for money, then the relevant Head of service must provide the Cabinet or appropriate Cabinet member with a written report justifying this decision.

The matrix has contributed to the Council complying with changes to EU procurement directives. It has also provided a clear process that is now used across all of the Council's services.

This process now focuses on value for money rather than just cost. Another benefit of the matrix is that each supplier is assigned a detailed score. This allows unsuccessful suppliers to be given feedback on where they could improve their tenders should they wish to take part in future tender processes.

A recent Internal Audit report concluded that purchasing arrangements within the Council are now robust.

Case study – Vehicle Procurement & Funding

Operator: Property Care Vehicle Fleet Procurement Options; Stafford

Property Care is a leading home care and repair contractor, providing Responsive repairs, Planned works programmes, Mobile caretaking and Disabled adaptations to a large number of homes in and around Staffordshire and the Midlands. The organisation looks after more than 6,000 homes and completes 20,000 tasks pa for a growing number of housing providers throughout the Midlands.

To deliver the range of services the business has a mixed fleet of vehicles, including around 60 commercial vehicles. Vehicles are normally bought outright and managed in-house, with maintenance through a non-franchise vehicle repairer.

By mid 2009 the fleet replacement programme has slipped, with no vehicles replaced for over 2 years. A strategic review of the fleet identified a number of actions, including a project to defleet a number of the existing vehicles and replace some of them with new models to increase reliability and bring the overall fleet specifications into line with current demand.

A project was developed to undertake the work. From a detailed fleet requirement study the vehicle needed for the workload and operative mix as currently existed was determined.

Over one-third (22) of the units were identified for disposal, with a future procurement requirement for only 14 units. This would bring the full fleet into line with demand. The project included an options appraisal of procurement methods.

Financing Appraisal

The types of vehicle most commonly required were identified from previous experience of the range of tasks and current vehicle specifications. Exploratory quotations were sought from local dealer groups to provide an initial capital cost. Using historic records and trade data, projected depreciation and maintenance values were identified. This provided the whole-life cost profile for an ownership option.

Using the same basic data costs of leasing were obtained from a range of major leasing companies. The operating parameters for the leases were as close as possible to the ownership assumptions.

In conjunction with Finance the overall cost patterns were studied. Life-time costs for the 14 vehicles required were:

	Lease	Direct Purchase	Differential
	(using best quotes)	(using best quotes)	
14 x T280's	£278,089.14	£200,687.20	£77,401.94

During the investigation an interim solution was also considered. Northgate offers unique terms based on a monthly rental with no early termination charges; however they do not offer a 5 year contract and would replace vehicles at year three years, commencing a new lease at this time. Their monthly price was not competitive with the normal lease rentals, is not guaranteed and may fluctuate. It was noted that there is no early termination charge.

Given the size of the differential and the availability of capital from the Budget the decision was made to seek acquisition of the replacement vehicles under an outright purchase route. The on-going demand for the reduced number of vans was considered robust enough to discount the flexibility of the Northgate product.

Tendering

The requirement was set out in a formal tender. A number of dealerships made expressions of interest: not all responded with a bid against the ITT. While most of the vehicles to be replaced were Ford Transits, a Vauxhall dealer provided a very competitive set of prices and service commitments on Vivaro models.

The implications of change were considered as part of the tender evaluation and scoring. The non-franchise vehicle repairer was able to provide appropriate facilities for Vauxhall models. Demonstration models provided met with approval by a cross-section of the operatives using them.

The overall evaluation concluded that the outright purchase, in-house management and external maintenance on the Vauxhalls provided the best value for money.

Contracts were placed on the bid terms and the first tranche of vehicles are already in service.

Features compared – vehicle funding options

The key features of each method are shown as generally understood for the type of funding. In most public sector applications any reference to corporation tax allowances or relief are generally irrelevant. However the use of any suppliers' tax relief to reduce the effective rate of interest remains fully available

Fleet Issue	Outright purchase – own funds	Conditional sale/Hire purchase	Contract Purchase	Finance Lease (Full amort)	Contract Lease	Contract Hire
Minimum initial capital outlay		●	●	●	●	●
Extra credit line		●	●	●	●	●
Interest rate fixed		●	●	●	●	●
Fixed repayments assist cash flow/budgeting		●	●	●	●	●
Vehicle as security (for lender)		●	●	●	●	●
Off balance sheet borrowing			●		●	●
Ownership of vehicle	●	●	●			
Use of own writing down allowances	●	●	●			
Use of other's/suppliers' writing down allowances				●	●	●
Interest only allowable against (corporation) tax	●	●	●			
Rental allowable against (corporation) tax				●		●
Vehicle disposal risks transferred to supplier			●		●	●
Reduced fleet administration			●		●	●
VED included			●			●
Replacement vehicle in case of breakdown			●			●
Fixed maintenance costs			●			●
No depreciation risk		Reduced	●		Reduced	●
VAT on rentals				●	●	●

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