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Final Report

Aurora Energy

Fleet Management Review

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Background

Aurora Energy has over 260,000 installed customers across Tasmania and sells over 10,000 million kWh of electricity per year. There are more than 1000 staff based in four major resource centres and 10 response centres across the State.

By 2010 Aurora Energy intends to be recognised as the company that contributes the most to Tasmania's economic value and improved standard of living. - Aurora Energy Annual report 2006/2007

To provide customers with the correct level of service requires Aurora Energy to have available a fleet of vehicles, trucks and equipment, currently numbering over 900 units. A team in Aurora Energy manages the owned fleet from acquisition to disposal and all operational matters.

An effective, reliable, safe and low cost fleet is an important enabler of the service delivery model for Aurora Energy.

It is intended to review the current arrangements for providing the fleet to determine the optimum fleet management arrangements and to position the fleet to support future business needs. Cost savings will be identified where possible.

It is proposed to engage an independent consultant to develop the options for Aurora Energy regarding future fleet provision and management

Project Aim and Objectives

- Project Aim
  - To make recommendations to Aurora Energy on the best option regarding future fleet management arrangements.
- Objectives
  - Fleet management.
    - Assess the effectiveness of the current fleet management policies and practices and compare to best practice.
    - Recommend a strategy that will deliver enhanced fleet management services to support current and future business needs particularly for the major users of the fleet.
    - Ensure that if an outsourcing option is identified that it is supported by an adequate service level agreement with the necessary reporting and analysis.
    - Identify opportunities that may enable Aurora Energy to reduce risk and costs without reducing operational effectiveness.
    - Identify opportunities to improve the environmental performance of the fleet.
    - Set a target reduction in total fleet costs of 5% per year.
  - Adding Value.
    - Transfer skills and knowledge to Aurora Energy staff where possible.

Executive Summary

- **Current situation**
  - There is no overall fleet management strategy to provide the necessary framework for service delivery, review and improvement.
  - The fleet staff are aware of the need to improve the management of the fleet, to provide better cost controls and to achieve greater value for Aurora Energy but they are frustrated with the lack of a suitable fleet management system. They are focussed on transaction processing and the acquisition of fleet assets.
  - There is no comprehensive “whole of fleet” reporting capability to enable the identification of problems and opportunities. The lack of any comprehensive reporting is partly due to the inadequate fleet management system including inconsistent data management. During this review, it has not been possible to obtain all of the necessary data to enable a complete analysis of the current fleet nor are there any reports available to assist the fleet staff to review the performance of the fleet.
  - There is an absence of consolidated fleet budgets and targets to enable regular review of performance nor is there a long term CAPEX plan. The total cost of owning and operating the fleet in FY07/08 is expected to exceed $11.4 million. There are opportunities to reduce this cost without affecting operational effectiveness and service delivery.
  - Vehicles represent a small component of the Aurora Energy asset base and a small % of the total operating costs but in most cases the fleet assets are a critical component of the service delivery model. It is not easy in Tasmania to readily source alternative fleet assets that are suitable for the tasks and therefore professional fleet management is essential.
  - There are replacement parameters for fleet classes but they are not followed for a range of reasons. There is an element of inflexibility in replacement timing which is not delivering best value. The inconsistent replacement planning is resulting in higher levels of downtime and maintenance
  - There is a contract for maintenance but there is inadequate information available to the staff to properly manage this contract and the costs involved. The contractor, Webster, does not have any incentive to reduce maintenance costs as they are paid proportionally to the volume of work they undertake. The fleet staff do not do any analysis of the maintenance activities or costs, primarily as a result of the quality of data and reports and their workload.

Executive Summary (cont)

- Aurora Energy owns its fleet assets. The current fleet of over 900 units has a replacement value of $44 million and a written down value of $25.5million.
- There is no fit for purpose evaluation undertaken before acquisition of vehicles nor are there any operational risk assessments undertaken.
- The number of vehicle accidents and the costs are higher than best practice with a high % of damage resulting from reversing. This may be due to the layout of the Depot yards, the off road conditions and the types of some of the vehicles in use.
- Aurora Energy does not currently have an environmental policy for vehicles but is keen to adopt suitable guidelines.

- **Best practice.**
  - The assessment starting on **Slide 12** shows the current status of fleet management at Aurora Energy compared to a best practice model. It also identifies the opportunities for improvement. The key issues have been included in the recommendations.
  - There are many aspects where the standard of fleet management at Aurora Energy is well below best practice. The overall assessment suggests that Aurora Energy is not getting good value from its fleet investment. The lack of good planning, adequate systems, comprehensive reporting and cost control are of concern.

- **Recommendations.**
  - The recommendations are summarised in the following three slides. If adopted, they offer a cost effective solution to the current problems and can in most cases be implemented quickly without adverse impacts on operations.
  - The key decision is whether to outsource the fleet management task to an experienced provider or to perform the function in house with a new fleet management system. Outsourcing is recommended.
  - Improved planning supported by good reporting will lead to improved asset acquisition decisions.
  - The maintenance function can be improved.
  - There are opportunities to improve the environmental performance of the fleet while reducing operating costs without impacting on service delivery standards.
  - The fleet management staff will not be able to deliver any guaranteed level of service if the current system and practices do not change.
  - If the fleet is acknowledged to be a key component of the business model it needs to receive the necessary resources to function effectively and deliver good value.
  - **Savings of over $750,000 per year are achievable. Refer Slide 8.**

Estimated Costs, Savings and Benefits

- **Adopt revised replacement parameters;**
  - **Saving $260,000 per year**
  - This will reduce the annual CAPEX requirement, reduce the number of acquisitions, changeovers and disposals and lead to lower life cycle costs. It will not adversely impact operational capability.
- **Outsource fleet management services;**
  - **Nett cost $17,000 per year**
  - It is a better option than operating a fleet management system in house. There are no requirements to run and update software, most of the data is managed by the provider and the suite of reports from the major providers is comprehensive and able to be benchmarked.
- **Improve fleet maintenance practices;**
  - **Based on estimated 07/08 maintenance cost of $2.44m per year**
    - **Saving target of 5% = $120,000 per year**
    - Using a fleet manager with an extensive repair authorisation capability will enable much greater control and transparency of maintenance transactions. It also enables benchmarking of costs.
    - This introduces an independant and experienced view of maintenance activity not able to be achieved with an in house system.
- **Adopt environmental/downsizing targets;**
  - **Fuel.**
    - **Saving $380,000 per year**
  - **Greenhouse gas emissions.**
    - **Saving 690 tonnes per year**
  - **FBT.**
    - **Saving dependant on acquiring lower cost vehicles for statutory method and lower operating costs for operating cost method.**
    - **Saving target 10% = $30,000 per year**
  - There is a growing need for organisations, particularly in the energy industry to be able demonstrate a leadership role in energy conservation and greenhouse gas reductions. Adopting these measures will reduce energy and operating costs while reducing greenhouse gas emissions from the fleet.
  - Controlling the commuter use of vehicles will also deliver savings.
- **Savings target $773,000 per year.**

Summary of Recommendations

1. **Fleet Management Strategy.**

   Adopt a fleet management strategy based on business needs, life cycle costing, fit for purpose evaluation, environmental performance and regular review.

2. **Organisational Structure and Resources.**

   Continue to oversee the management of the Aurora Energy fleet assets with a single corporate team.

3. **Fleet Management System and Procedures.**

   Discontinue the use of Fleetwatch. Adopt option 3 and best practice procedures where possible.

4. **Fleet Management Services.**

   Outsource the fleet management services to a recognised service provider using a Service Level Agreement to monitor performance.

5. **Fleet Asset Lease vs. Own.**

   Continue to own all fleet assets unless there is a business case to lease.

6. **Replacement Parameters and Costing.**

   Adopt the recommended replacement parameters and use life cycle costing to evaluate options.

7. **Fleet Acquisition and Disposal.**

   Continue to utilise Tasmanian Government contracts and contracts with remarketers to obtain best value.

8. **Fleet Specifications and Fit For Purpose Evaluation.**

   Use a fit for purpose evaluation process to develop all fleet specifications.

Summary of Recommendations

9. **Fleet Utilisation.**
   Monitor fleet utilisation to identify opportunities for fleet rotation and rationalisation.
10. **Planning and Budgets.**
    Use a business planning approach to develop operating and CAPEX budgets to manage the fleet effectively.
11. **Risk Management.**
    Assess all key fleet business decisions and operations procedures using a risk evaluation methodology.
12. **Motor Vehicle Accidents.**
    Monitor all vehicle accidents and develop an appropriate driver awareness program.
13. **Reporting and Analysis.**
    Develop the necessary reports and KPI's to enable the proper analysis of fleet performance.
14. **Human Resources.**
    Develop a fleet workforce plan to include succession and training.
15. **Motor Vehicle Policy.**
    Develop a comprehensive Motor Vehicle Policy to enhance staff accountability.

Summary of Recommendations

17. **Environmental Impact.**
    Implement vehicle selection and fleet operations practices to reduce the environmental impact of the fleet without adversely affecting operational effectiveness or imposing unnecessary costs.
18. **Communication.**
    Develop a regular communication channel for Aurora Energy staff.
19. **Driver's Licenses**
    Record driver's license details and update regularly.
20. **Fleet Numbering.**
    Adopt a simpler fleet numbering system.
21. **Depreciation Method.**
    Adopt a revised depreciation method for fleet assets.
22. **Fleet Downsizing.**
    Reduce the size of vehicles where possible including reducing the use of all wheel drive vehicles.

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24. **Overheads.**
    Revise the way corporate overheads for fleet are allocated.

Fleet Management Component Analysis

Component	Aurora Energy	Best Practice	Opportunity
Business planning	Little evidence of a strategic approach to fleet planning. Most activity has a one year focus. The Logistics Strategic Plan has useful objectives, strategies, actions and measures that could be enhanced for fleet.	An integrated business plan based on market knowledge, customer needs and trends. Plans underpin all decisions & actions. They Include suppliers of vehicles, leases and services. A rolling 5 year fleet asset plan for vehicles is maintained and regularly reviewed. Specialised fleet assets have a 10 year plan.	Three year business plan supporting corporate and logistics strategic objectives. Outsourced fleet management based on a standard planning methodology with Aurora Energy control of all contracts. The Fleet Co-coordinator will monitor and report on fleet performance and policy application.
Information systems	There is no fleet management system with a number of inadequate EXCEL spreadsheets in use. Most data is captured but there is a lack of analysis to support fleet related decisions.	Corporately integrated, cost effective systems with reliable and simplified data capture. Data is readily available for analysis and all users have the necessary online tools.	A new corporate fleet management system or fleet management services provider together with simplified data capture. Centralised overview of all data requirements and management.
Organisational structure and roles	The current structure is not working well due to the vacant Support Services Manager position. There are resoucing issues partly because of the inadequate fleet management system and the need to assess the workload for the three fleet roles.	Fleet management structure designed to meet whole of organisation needs. Flexibility, skill levels, succession planning and the proper allocation of resources support the structure.	Outsourcing the high transaction fleet management functions such as fuel cards will enable the fleet staff to concentrate on achieving the lowest life cycle costs and optimum service delivery.
Policy and procedures	There is no comprehensive motor vehicle policy and few procedures. There is no apparent attempt to measure process efficiency.	Motor vehicle policy is practical, it reflects current trends and is consistently applied across the organisation. All procedures are developed to ensure efficient delivery of outcomes and are supported by systems and training.	Develop a Motor Vehicle Policy based on a comprehensive risk basis. To include all key aspects of vehicle operation and responsibility.
Customer relationship management	No evidence of the regular use of customer feedback to improve performance. Customer service is a priority but not measured. Customer satisfaction is variable.	Fleet business model is based on agreed customer service standards. Regular customer feedback is used to review plans. It is one of the KPI's.	Develop and monitor agreed service standards and communicate to all customers and relevant staff. Implement a quarterly newsletter.

Fleet Management Component Analysis

Component	Aurora Energy	Best Practice	Opportunity
Financial management	Limited financial planning with budgets based on past performance rather than a zero base. Little analysis of available data on key cost elements with no evidence of forecasting tools in use for fleet management.	All costs are monitored against budgets. Controls are established to meet audit requirements and used as part of the monthly check by managers of performance. Forecasting is an important feature together with modeling. Budgets are built from a zero base.	Develop comprehensive budgets from a zero base and report monthly including trend analysis and forecasts. Implement controls that meet audit requirements.
Life cycle costing and hire/lease rates	Life cycle costing is not used to evaluate selection options. Purchased vehicles not subjected to a formal review of residual risk. Depreciation schedules do not reflect actual use of the assets.	Life cycle costing used as the basis for vehicle selection after completing a fit for purpose evaluation. Residual values are set based on sound market knowledge. Understanding of market conditions, seeking expert industry advice and use of commercially available forecasting tools. Upside sharing with lease providers. Hire rates are calculated on the life cycle cost plus any required profit and risk margin.	Use a life cycle costing approach for all economic analysis and vehicle selection. Use all relevant information sources to set residual values. The depreciation method should reflect actual asset use. Calculate hire rates on a full cost recovery basis.
Fleet asset selection.	Vehicle selection usually without formal fit for purpose evaluation. Some specifications are based on business needs.	Fit for purpose evaluation to meet, operational, environmental & safety needs. Customer consultation is a key part of the process.	Each class of vehicle will be assessed on a fit for purpose basis using operational requirements, safety, environment and duty cycle.
Risk management	No formal method of assessing risk. Significant exposure because of the lack of a risk management approach. There is a database to monitor driver performance but it is not used consistently.	All key activities are formally assessed for risk using the Australian Standard method where necessary. A risk register is maintained. Risk management is a key part of the business planning process. All drivers of company vehicles sign a statement of responsibility. Drivers with repeated traffic infringements and accidents are monitored and remedial action taken when required.	Establish a risk register for key fleet activities. Ensure risk is considered in all aspects of fleet management. Require all drivers to sign a statement of responsibility and monitor driver performance.

Fleet Management Component Analysis

Component	Aurora Energy	Best Practice	Opportunity
Performance measurement and KPI's	Limited regular performance measurement with no consistent use of KPIs. Major external contracts are not adequately measured for performance. The performance of the fleet is not adequately monitored using KPI's.	A balanced scorecard approach is used with relevant corporate outcomes included. Fleet performance and service delivery by all suppliers is measured using KPI's to identify improvement opportunities. Inadequate performance is addressed quickly.	When reviewing the organisational structure and roles, include an emphasis on outcomes and performance. measurement. Develop agreed KPI's with regular reporting and benchmarking. KPI's could be extended to customers.
Sourcing and supplier relationship management.	Relationships vary in quality, ranging from a high level of satisfaction to problematic. There is some effort to build effective relationships beyond price considerations. The quality and price of services is not well reported and managed.	Supply & demand are aligned with business needs. Partnering and shared improvement programs supported by effective communications are a feature. Long term arrangements are established that deliver benefits to all parties with some degree of risk and profit sharing. Financial performance of suppliers is closely monitored. Strategic sourcing is the basis of all key procurement activities.	Develop formal arrangements with key suppliers to include service level agreements. Regular reviews of all supply arrangements and pricing to identify issues and opportunities for improvement. Ensure all fleet sourcing is aligned with corporate practices.
Organisational culture	There is a willingness to deliver satisfactory service but the inadequate systems are delivering varying performance standards and a degree of frustration. The staff are working hard but not seeing the necessary improvements. Fleet is not regarded by some as core business.	A high level of corporate wide collaboration with all decisions based on facts and plans. Staff are well motivated to achieve the agreed outcomes and openly share success and information. Teamwork is a key factor.	Facilitate communication across fleet management staff and key users including a regular forum to exchange information. Include fleet KPI's in individual performance plans where appropriate.
Environmental performance	There is an awareness to improve the environmental performance of the fleet but no strategy is in place. There is a tendency to acquire larger, less fuel efficient fleet assets than in some cases are required for business needs.	The fleet environmental policy is developed and supported across the organisation. Proactive in the use of renewable and low emission fuels where practical, low fuel consumption vehicles and alternative powertrains. Recognised as a leader by peer organisations.	Develop a fleet acquisition program that meets business needs including government targets for environmental performance. Select more fuel efficient vehicles where practical and consider alternative fuel options such as LPG.

Fleet Management Component Analysis

Component	Aurora Energy	Best Practice	Opportunity
Innovation within the organisation.	A level of crisis management is evident because of the lack of planning, systems and reporting. There is little evidence of an improvement focus and there are no tools or support available to progress innovation effectively.	There is a strong organisation focus and support for innovation and improvement. Benchmarking is used regularly to identify opportunities. Staff are encouraged to use innovation techniques with success widely celebrated.	Once systems and plans are in place, provide basic innovation training and enable the capture and assessment of ideas. Celebrate success regularly.
Employee development	Limited fleet related and business training partly due to workload. Attendances at conferences and seminars is supported.	Cross functional skills auditing and gap analysis is used extensively. Training is seen as critical to business success and staff retention. There is a focus on skills required in the current position as well as career development integrated with succession planning.	Conduct a skills audit and gap analysis to develop a long term development plan for all fleet management staff. Succession planning for key roles.
On line processes and technology	Some application of corporate web based solutions but no comprehensive fleet management capability. Communication with suppliers is not web based.	Integrated web based strategy and deployment. Real time availability of data and systems to deliver effective outcomes across the organisation. Supplier and customer communication is web based.	The new system or services solution will be web based. Ensure all communications with key suppliers are web based where possible.
Corporate governance	There is some inconsistency in fleet decision making partly due to the lack of clarity in the responsibility of each of the three current roles. The performance in each of the roles is variable in quality and timeliness.	Business plans and data form the basis of all decisions which are aligned to agreed outcomes. Where necessary ,decisions are reviewed to identify improvement opportunities.	Key decisions will be documented and subject to review for quality, risk and value to the organisation.
Business performance review.	No formal fleet business review based on budgets, performance and KPI's. Some processes are subject to external audit.	Industry accepted model for conducting fleet reviews is used regularly. Fully documented process. Supported by benchmarking data and market analysis. Regarded as an essential improvement tool.	Conduct a desktop review of the fleet each year and a major fleet review every three years. Include key fleet processes in the corporate audit plan.

Fleet Management Component Analysis

Component	Aurora Energy	Best Practice	Opportunity
Administration and key activity costs	No assessment of the actual cost of key activities.	**Activity costs are determined by full ABC analysis (including actual measurement) segmented by activity, fleet class and customer .Results are used as input to determine the fleet strategy and transfer or commercial pricing structure and lease rates. Able to meet fair industry competitive rates.** **Overhead costs are minimised to achieve competitive lease/fleet administration costs.**	**Fully cost all key fleet management functions and benchmark them externally for competitiveness and quality.**
Servicing, maintenance and roadside assistance	**There is no independent repair authorisation system but a contract with a supplier for all maintenance services. There is some reporting but no adequate analysis of maintenance effectiveness or costs. There is some scheduled servicing but a lack of total maintenance control exposes the organisation to safety and cost risks.**	**Low maintenance cost per km. Formal repair authorisation process. Complete data capture & reporting. Full recovery of warranty items.** **Central strategy, de-centralised delivery. Approved panel of suppliers with quality reviews. Proactive maintenance advice from manufacturers and suppliers. Web access for drivers to monitor maintenance.**	**Spilt the specialised fleet from the general fleet and introduce an independent repair authorisation and monitoring process with comprehensive reporting and scheduling.**
Remarketing and disposal	**There is a contract in place aimed at delivering best value and highest resale prices. The remarketer provides advice on setting reserves.**	**Maximum resale prices at minimum cost. High clearance rates to maximise cash flow and short time to sale. Consistently achieve (+/- 3% of target) residual value setting with owned vehicles. Minimum rectification cost due to standard of vehicle maintenance in service. Vehicles moved to best market on advice from auction provider.** **Minimum penalties on the return of leased vehicles.** **Close monitoring of residual value performance to assist future planning and vehicle selection.**	**Owned vehicles will continue to be disposed of through a recognised disposal channel / remarketer with regular reviews of sale prices and market trends.** **Rectification costs will be monitored to ensure best return.**

Fleet Management Component Analysis

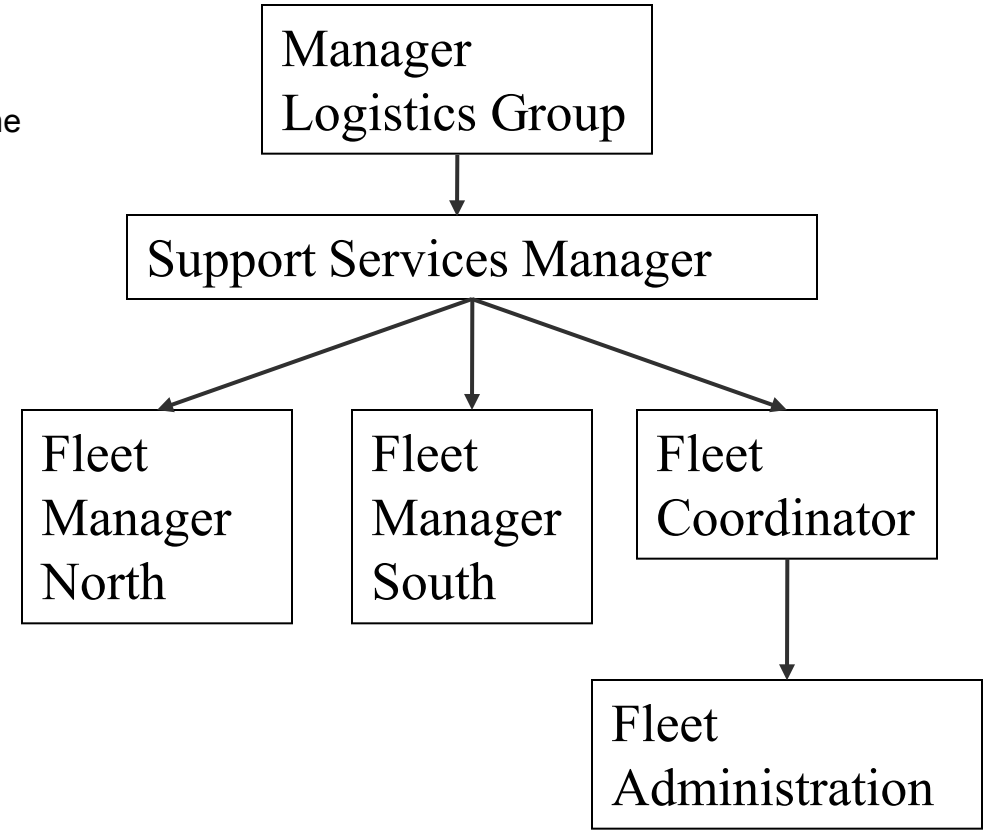
Component	Aurora Energy	Best Practice	Opportunity
Acquisition & change-over	Manual process with little web based reporting. No regular monitoring of CAPEX program or delivery status. Specialist fleet assets are usually behind schedule with some long delays in replacing assets.	Web based acquisition & change over management, driven by formal planning. Proactive exception management & reporting. Customer has access to delivery information. KPIs of on-time, cost of non conformance with specification understood. Dealers responsible for pre-delivery check and vehicle inductions.	Vehicles will be ordered on line. The changeover process will be optimised to reduce delays, costs and disruption to operations. Dealers will carry out inductions for all vehicles.
Rectification	Guidelines for rectification are not established and costs are not assessed against auction returns.	Easily understood guidelines for assessing excess wear. Drivers monitored for excess wear above reasonable levels. Cost centre allocation of costs. Particularly important for leased assets.	Control and reporting of all excess wear by vehicle to enable costs to be reduced.
Fleet utilisation	Some monitoring of vehicle utilisation .	Comprehensive vehicle monitoring and booking system with reporting at vehicle level of utilisation. Simplified data capture with high accuracy.	Vehicle utilisation will be monitored particularly the level of commuter use.
Tyre management	No proactive approach to managing the cost of tyres	Low cost, high outcome (safety/risks). Policies established for tyre management. Reasons for tyre replacement analysed and used as input to future supply arrangements. Drivers informed on ways to reduce tyre wear and improve safety.	Tyre management will form part of the fleet management repair authorisation process.

Fleet Management Component Analysis

Component	Aurora Energy	Best Practice	Opportunity
Registration	Re-registration process is satisfactory	Common due date registration. Effective planning to reduce the cost and time to distribute labels. Close relationship with registration authority to validate fleet data. All new labels delivered on time and no label returns. Re -registration is part of the stock take process.	Integrate the re-registration process with stocktaking.
Insurance and accidents management	Reliance on the Broker and the Insurer to manage insurance claims. No regular comprehensive reporting of accident and damage statistics for benchmarking.	Low cost insurance premium. Full recovery of all accident, insurance and excess costs. Regular management reporting against agreed targets. Link reporting to driver training and vehicle selection and use to reduce incidents, injuries and costs. Repairs carried out within agreed time and quality standards with minimal disruption to work programs.	Accidents will be managed and reported with analysis to enable corporate and Aurora Energy performance to be benchmarked internally and externally. Apply a commercial insurance premium to each asset and introduce a $1500 deductible for each claim.
Fleet operations	There is some variability in fleet operations due to the reliance on individual knowledge and the absence of work procedures.	Fleet operations have well documented work procedures and adequate systems, suitable resources and a 24X7 response capability which may be provided by a third party.	Develop, review and update operational procedures. Provide training where necessary.
Fuel management.	The cost of fuel is passed through. There is no incentive to reduce the amount of fuel used particularly with the large number of vehicles taken home at night.	Procedures established for fuel management and comprehensive exception reporting in place. Drivers are informed on ways to reduce fuel use and high specific fuel consumption is addressed promptly. Fuel use is linked to environmental performance.	Implement regular exception reporting of fuel use and link to environmental performance reporting.

Current Situation

- **Fleet management organisation.**
  - The management of the Aurora Energy fleet is undertaken by three staff currently reporting to the Logistics Manager. In future the three will report to the Support Services Manager when recruiting has been completed. There is also an administrative trainee supporting the fleet coordinator.
  - They are expected to undertake a range of tasks which include:
    1. Manage the CAPEX budget
    2. Acquisition and disposal activities.
    3. Provide fleet administration services.
    4. Budget preparation and monitoring.
    5. Manage the fleet management systems and databases.
    6. Allocation and spare fleet management.
    7. Maintenance contract management.
    8. Registration renewal.
    9. Insurance and accident management.
    10. Supplier management.
    11. Fuel management.
    12. Fleet specifications.
    13. Reporting and analysis.
    14. Liaison with internal fleet customers to procure fleet and resolve problems.
    15. Optimise fleet safety.
    16. Improve the environmental performance (recently added)



There has been some sharing of duties with the Fleet Manager North assuming responsibility for the acquisition of specialised fleet assets and the Fleet Manager South assuming responsibility for the primary management of the maintenance contract with Webster.

The administrative trainee has been recently appointed and with the extensive training that will be required, her contribution for some time will be limited.

Current Situation (cont)

- **Organisational effectiveness.**
  - Discussions with the fleet staff indicate a strong desire to improve the overall performance of the fleet management task but a high degree of frustration with the lack of suitable systems and reporting capability. They have been wanting a dedicated fleet management system for some time but are currently using a series of spreadsheets and corporate databases. The systems will be discussed in the next section.
  - Of the 16 primary tasks or areas of responsibility the fleet management team is only performing registrations and fleet allocations effectively. The remaining tasks require varying degrees of improvement.
  - The FY07/08 CAPEX program appears that it will be completed but not all assets delivered and put into service. The program for FY08/09 has not yet been prepared. The practice of paying for assets not delivered is not common industry practice.
  - Registration renewals are being managed effectively.
  - Accident claims are being processed but no analysis of trends or types.
  - Fuel cards are being obtained and distributed with few errors but there is no regular analysis of consumption.
  - Fleet specifications for specialist assets appear to be adequate and the specifications for vehicles are basic but do not address all fit for purpose and environmental requirements.
  - The maintenance services being provided under the contract with Webster are generally meeting the needs of the organisation although there is no analysis of costs at asset level other than a high level comparison with agreed budgets in the form of KPI's. The maintenance arrangements are discussed later in the report.
  - Fleet reporting is currently ineffective as a management tool and there is a lack of integrated fleet data for any form of value or risk based analysis. As an example, new asset data is loaded into three unrelated systems and fleet data supplied for this review is inconsistent and in some cases out of date.
- **Human resources.**
  - The fleet staff have a combination of knowledge and experience that is satisfactory but they do not currently have a good working knowledge of contemporary fleet management principles and practices. While it is difficult to readily access specific fleet management training, it is necessary to provide ongoing opportunities for as many fleet staff as possible to be exposed to current issues through appropriate attendance at forums and conferences. They are encouraged to attend .
  - A Position Description is currently available for one of the fleet roles but it may need to be amended depending on the outcome of this review. The other roles need to be reviewed to clarify the responsibilities of each position as there seems to be some overlap in duties, particularly in procurement.
  - Succession planning is not evident and the lack of good systems and well documented procedures creates a risk for Aurora Energy in needing to rely on the existing staff to retain corporate knowledge. The loss of any of the current staff would be a serious issue for Aurora Energy.
  - The working environment is satisfactory and the Aurora Energy corporate culture fosters the delivery of results and reward for effort in a supportive way. Morale in the fleet section is good but there is concern about their future and the lack of tools to be able do their job effectively.

Current Situation (cont)

- **Motor vehicle policy.**
  - There is no comprehensive motor vehicle policy. For Aurora Energy. There is a policy statement for the Commuter and Private Use of Operational Vehicles but it is inadequate regarding the detail needed to be provided to ensure staff do use the vehicles correctly. e.g. Correct use of fuel cards, vehicle maintenance and accident reporting. A suggested outline for a motor vehicle policy is shown in **Slide 49**
  - An important element of a motor vehicle policy is the requirement for all drivers of company vehicles and trucks to sign a statement of responsibility in which they acknowledge that they will comply with the policy. It is a sound risk management strategy.
  - The policy should reference all other policies and procedures that are related to the use of fleet assets.
  - In preparing the policy it is necessary to consult the key stakeholders particularly those who may be affected through a perceived loss of benefit or who may feel uncomfortable with a higher level of accountability and reporting.
- **Occupational Health & Safety.**
  - Aurora Energy has a comprehensive OHS system but there does not appear to have been any risk assessments related to fleets assets and their use.
  - There is no regular recording of the licenses of vehicle drivers other than those staff who undertake particular training programs. It is now a common risk management practice to record the license details of all staff who may drive a company vehicle or truck and carry out an annual check to ensure that the details are current.
  - Aurora Energy has a good system of accident and incident notification called IRIS. The data contained in Fleetwatch is comprehensive but it is not being reviewed regularly. The last Crashfree report was produced in June 2007 and there is a view that it has lost its original impact as a fleet communication tool.
  - It would be better to produce a general fleet newsletter every 3 months containing a range of useful information including general fleet ,safety and environmental issues. Each issue could coincide with changes in driving conditions such as a Winter addition around May advising of the particular challenges facing drivers in the colder months. A November issue could mention the upcoming holiday season and advice on preparing private vehicles for longer distance journeys. The warmer months will usually trigger any new cooling system problems.
  - The fleet staff need to work closely with the OHS team particularly when specifications are being prepared to ensure that any ergonomic, access, hazardous substance, electrical, visibility, noise and skills issues are addressed correctly.
  - Some fleets have adopted a policy that requires a particular ANCAP rating for all passenger vehicles and desirable features for all light commercial vehicles. A minimum 4 star rating would exclude some vehicles but there would be sufficient makes and models to meet Aurora Energy needs. The motor vehicle policy would specify the minimum safety rating and features for the vehicle fleet. The fit for purpose evaluation would also address this issue. The policy could also exclude the fitting of some accessories such as window tinting.

Current Situation (cont)

- The specifications for vehicles are designed to provide a safe, practical and cost effective transport solution and should be coupled with environmental considerations.
- For passenger vehicles the following could be specified as a minimum;
  - ANCAP crash rating of 4.
  - Anti lock brakes.
  - Electronic stability control.
  - Dual front and side airbags.
  - Curtain airbags where available.
  - Cruise control.
  - Fixed cargo barrier in all wagons.
  - Reversing sensors.
  - Air conditioning.
  - Automatic transmission.
- For light commercial vehicles the following could be specified as a minimum;
  - ANCAP crash rating of 3.
  - Anti lock brakes.
  - Electronic stability control. Where available.
  - Dual front airbags.
  - Fixed cargo barrier in all wagons.
  - Reversing sensors.
  - Air conditioning.
  - Manual transmission.
  - Hazard warning lights.
  - First aid kits in designated vehicles.
  - Fire extinguishers in designated vehicles.
- The following accessories would not be fitted;
  - Window tinting.
  - Mud flaps.
  - Headlight protectors.
- The following accessories would only be fitted if there was a demonstrated business need and a fit for purpose evaluation plus training provided to all drivers where necessary in the correct use;
  - Bull bars and winches.
  - Tow bars.
- The analysis of vehicle accidents identified a number of incidents involving trailers and reversing.

Current Situation (cont)

- **Fleet management system and reporting.**
  - The staff are using a fleet management system called Fleetwatch that has been developed in house. Data is loaded from the financial system, the fuel invoice, IRIS reports and the Webster invoice. It does not provide the full range of functionality expected of a good fleet management system. There is too much reliance on manual data loads and as at the time of the review the system was not current and not functioning reliably.
  - The reporting capability is not adequate because it does not generate easy to use reports with an emphasis on exception reporting and KPI's. There is a good deal of enthusiasm to deliver a high standard of service but there is a high level of frustration with the systems, the time required to manage data, the difficulty of accessing data and the lack of useful reporting. Replacing this system will be discussed later in the report as will reporting and analysis.
  - To add to the problem, new fleet asset data is loaded into three systems and valuable description data from the purchase requisition about the asset cannot be recorded and searched in the financial asset database.
  - Maintenance data has to be loaded from the Webster invoice and it contains only minimal information on the repairs and servicing that have been carried out making it very difficult to do any meaningful analysis.
  - The Fleetwatch system does not contain some of the fleet asset costs such as registration, insurance, depreciation, finance charge therefore making it extremely difficult to determine the total life cycle cost of any single or group of like assets.
  - Because of the absence of meaningful fleet reports the overall management of the Aurora Energy fleet is unsatisfactory. Benchmarking is not carried out.

- **Cost management.**
  - There is no comprehensive fleet budget available to the fleet staff for ongoing management and reporting. There are no KPI's other than a monthly report of total maintenance costs compared to estimates in the Webster report. The absence of an available fleet budget means there is no way to report and monitor fleet costs against targets on a monthly basis. The usual activities of fleet staff involve transaction processing including acquisition and disposal with little time available to review and report on fleet performance.
  - With appropriate KPI's it is possible to benchmark the performance of the fleet against similar fleets therefore identifying improvement opportunities.
  - During this review it has not been possible to easily gather all of the data on each fleet asset due to deficiencies in recording and the lack of a single fleet database. There is an absence of whole of life data for many assets. Without such data it is not possible to monitor life cycle costs and determine the optimum retention period for assets.
  - For a fleet of this size and value it is important to have a reporting regime that is accurate, timely and enables the production of exception type reports with an emphasis on KPI analysis. This will improve the forward planning capability and identify trends early.
  - Some organisations use a month end checklist to verify that all accounting functions and all data processing has been completed correctly. This gives a high degree of assurance that subsequent reports are accurate plus it is a useful tool for audit purposes. **See Slide 44**

Current Situation (cont)

- **Fleet specifications.**
  - There has not been any comprehensive and consistent fit for purpose evaluation of vehicles and trucks although safety issues have been addressed. For specialist equipment the fleet staff do consult other electricity companies but it is not extensive. There may be an opportunity for wider consultation to reduce the amount of in house design work and specification preparation. E.g. consult Ergon, Energex, ETSA.
  - A fit for purpose outline is provided in **Slide 51 to 55** It is important to analyse the needs of each category of operations or group of tasks to ensure that the most cost effective, safe and environmentally friendly vehicle is selected. The evaluation need only be done once for each group of tasks unless there is a significant change to the operations. Once the type of vehicle has been determined it is suggested that several suitable vehicles are nominated to maximise the possibility of being able to take advantage of competitive pricing and rebates.
  - There have been some instances where the assets have not fully met the operational needs of the users. There appears to an issue regarding fleet staff adequately consulting the end user in all cases. Some users report that they are told what vehicles that they will have when they are sometimes not suited to the task or are larger than needed. This leads to unnecessary costs and higher greenhouse gas emissions. E.g. one user said that a small vehicle such as a Hyundai Getz would be suitable rather than an RTV Falcon utility. Another user said he was required to have a RAV4 all wheel drive when he never does any off road work. While it is desirable to standardise the fleet where possible , over specifying assets is undesirable. Reducing the environmental impact of the fleet is discussed in **Slide 41**
  - There have been ongoing problems with Falcon utility differential failures (up to 3 per vehicle). It is possible that the vehicle is not suitable for the loads and duty cycle.
  - There is a primary safety feature which is becoming more readily available – **Electronic Stability Control** (also has several other industry descriptors). This feature has been shown to reduce the number of single vehicle crashes for passenger vehicles by **32%** and for single 4WD vehicles by **68%**.
  - There is a pattern of purchasing all wheel drive vehicles such as RAV4 and XTrail because of the perceived need for an off road capability. These vehicles have a higher total cost than smaller passenger vehicles and do not offer good off road capability for many of the situations that Aurora Energy staff experience. There is the added risk of using petrol vehicles off road where there is the likelihood of driving in long grass. The catalytic converters are known to cause the grass to ignite in certain circumstances with resultant fires and the likely loss of the vehicle and danger to staff. Ergon Energy has experienced this problem and is understood to be only using diesel vehicles in off road situations as these vehicles do not have the same problem. If load carrying is a requirement then a small station wagon with an approved cargo barrier is generally suitable.
  - The purchase of high performance vehicles brings risks of higher operating costs, greenhouse gas emissions and insurance costs. There is the issue of company image to consider balanced against the challenge of attracting and retaining staff in Tasmania. Many organisations require executives to enter a novated leasing arrangement where the risks are transferred to the employee. The private /business use mix can be accommodated and novated leasing removes the risk of legacy vehicles.

Current Situation (cont)

- **Fleet utilisation.**
  - The current utilisation appears to be relatively high. The extent of commuter use which is of a benefit and not work related is not considered to be high. From the FBT return for 07/08 it is estimated that the private use of those vehicles that used a log book was 23%. There are other commercial vehicles that are understood to be taken home that do not utilise a log book for FBT purposes.
  - The utilisation of the trucks is understandably low using km only as a measure because most of them are fitted with EWP's and borers which often need to spend considerable parts of the working day stationary on a work site while the equipment is being used. This type of use can result in additional maintenance costs for the engine and power take off.
  - There are a number of small and large trucks that have very low utilisation and these should be individually assessed with the users to ensure that there is an operational need for them to remain in service. There are 20 trucks with average use less than 15,000 km per year but the accuracy of the odometer readings may be affecting some of these readings.
  - The variation in utilisation of vehicles and trucks offers opportunities for rotation and more uniform utilisation. This would improve the fleet replacement planning. There are a number of fleet assets currently overdue for replacement based on reasonable economic lives.
  - It is not practical in every situation to rotate fleet assets but with a high level of specification standardisation some these variations can be reduced but there may be geographic and operational issues that would limit effective fleet rotation.
  - Passenger vehicles range from **10,200 to 58,711km** per year with an average of 25,930km.
  - Light commercials range from **6,024 to 87,708km** per year with an average of 27,995km.
  - Executive vehicles range from **5,316 to 64,962km** per year with an average of 29,800km
  - Small wagons 4X4 range from **8,700 to 60,712km** per year with an average of 35,369km.
  - Small trucks range from **9,645 to 40,383km** with an average of 24,643km.
  - Large trucks range from **2372 to 37,159km** per year with an average of 19,361km.
  - **There are no spare fleet assets and considering the low utilisation of some assets it may be possible to reduce the size of the fleet.**
- **Business growth.**
  - There is not expected to be significant business growth in the next 5 to 10 years and any growth in the fleet would require additional CAPEX funding or the use of leased vehicles.
- **Fleet sourcing & disposal.**
  - Aurora Energy uses the State Government contract for vehicle purchasing and individual contracts for trucks and special equipment. The organisation has good sourcing practices but there may be an opportunity to access rebates from vehicle suppliers in some cases particularly as the current new vehicle market is slowing and likely to be more competitive.
  - For the disposal of vehicles Aurora Energy has a contract with Pickles Auctions who are located in Moonah. Trucks and specialised equipment is sold through Manheim Fowles located near Bridgewater. The Pickles site at Moonah location is very convenient.

Current Situation (cont)

- The fees charged by Pickles are within the expected industry range ;

Commission	$170.00
Detail	$87.00
Live on Line	$4.00

- Pickles charge the buyer a premium of $385 per vehicle which includes an administration fee. This is a little higher than mainland buyers premiums as is the commission rate. The detailing fee is as expected.
- If the contract were to be put out to tender it is possible that Manheim Fowles would offer a transport arrangement to negate the difficulty of delivering vehicles to their site. Their commission rates are competitive with Pickles.
- Both remarketers have good on line bidding systems and Australia wide databases to assist Aurora Energy in setting reserves. On line sales now account for at least 15% of sales at mainland auctions and it is expected to rise to over 25%. It is common for vehicles in Melbourne and Darwin to be shipped to WA because of the local resource industry activity. The Tasmanian market may be different because of the cost of transporting vehicles interstate.
- From the data provided it appears that Aurora Energy is achieving acceptable prices for vehicles but the absence of servicing history on many vehicles is an issue that needs to be addressed.
- There is no reference to the written down book value when setting reserves and there could be more input from fleet staff in negotiating sales that have not reached the reserve. The incentive for the remarketer is to achieve high clearance rates and they need to be regularly encouraged to achieve maximum prices for the client. They can provide benchmark sales data.

- **Best Practice Review.**
  - The practices at Aurora Energy have been benchmarked against a best practice model starting in **Slide 12.**
  - **The key areas where there are opportunities for improvement are;**
    - Risk management.
    - Cost control and reporting.
    - Maintenance management.
    - Strategic, operational and CAPEX planning.
    - Systems and data management.
    - Training, succession planning.
    - Insurance and accident management.
    - Internal communication.
    - Fleet role clarification.
    - Fleet related policies and procedures.
    - Life cycle costing and hire rates.
    - Asset selection and fit for purpose evaluation.
    - Reporting and analysis.
    - Environmental performance.
  - The staff are aware of some of the opportunities and appear keen to adopt best practice where possible and where it is cost effective for Aurora Energy to do so.
  - Striving to achieve best practice is a worthwhile objective but it needs to be balanced with the organisation's capacity and the overall fleet strategy. Small to medium fleets do not always have all of the necessary resources.

Current Situation (cont)

- **Administration cost.**
  - The total cost to manage the fleet is high for a fleet of this size and type. Assuming that all fleet assets attract a similar fee then the average fee per asset is;

    $788,000 divided by the number of assets = 905

    Effective internal fleet management fee

    = $72.50 per month per asset.

    A fee of $50 per month would be considered to be high for a fleet of this type.

    In a commercial arrangement there would be different fees for vehicles, trucks and plant as shown below.

  - An external fleet manager would have a typical annual fee structure as follows;

Vehicles	$18 per month(597)	= $129,000
Trucks	$24 per month(113)	= $33,000
Plant	$6 per month (195)	= $14,000

TOTAL Annual Cost = **$176,000 or an average of $16.20 per month per asset.**

There will always need to be in house staff to manage the interface between Divisions and external fleet suppliers of new assets. There will be a design and commissioning role for trucks and specialised equipment such as EWP's. Assuming that two positions are required at an FTE cost of $83,000 each, the cost to manage the Aurora Energy fleet should be approximately **$340,000 plus ICAM** compared to the current cost of **$788,000**. A significant component of the difference is the high ICAM cost (currently $447,000).

- It is estimated that an outsourced arrangement would save one FTE @ $83,000 plus reduce ICAM by $80,000. Total savings = **$163,000** per year.
- An outsourcing option is discussed later in the report.

Current Situation (cont)

- **Hire rates.**
  - The hire rates are calculated using a model developed several years ago. It uses historical costs plus depreciation and interest . It does not use an NPV calculation.
  - The hire rate system has not been updated with key data for approximately two years and there is the possibility that there may be some cross subsidisation of hire rates. As Network Services is the major user of the fleet, this is not a significant issue. It should be updated annually with actual cost data and current interest rates.
  - A significant issue is the way overhead costs are included. There is an amount for overheads and a second amount called CEO overhead. There does not appear to be any inclusion for fleet labour costs. From the model provided for this review the overhead for one year is;

Overhead	$317,604
CEO overhead	$63,804
TOTAL	$381,408

This compares to the current amounts in the fleet budget provided by Finance;

ICAM overhead	$447,000 (annualised)
Fleet labour	$341,000 (annualised)
TOTAL	$788,000

The hire rate model is not recovering the full cost of operating the fleet.

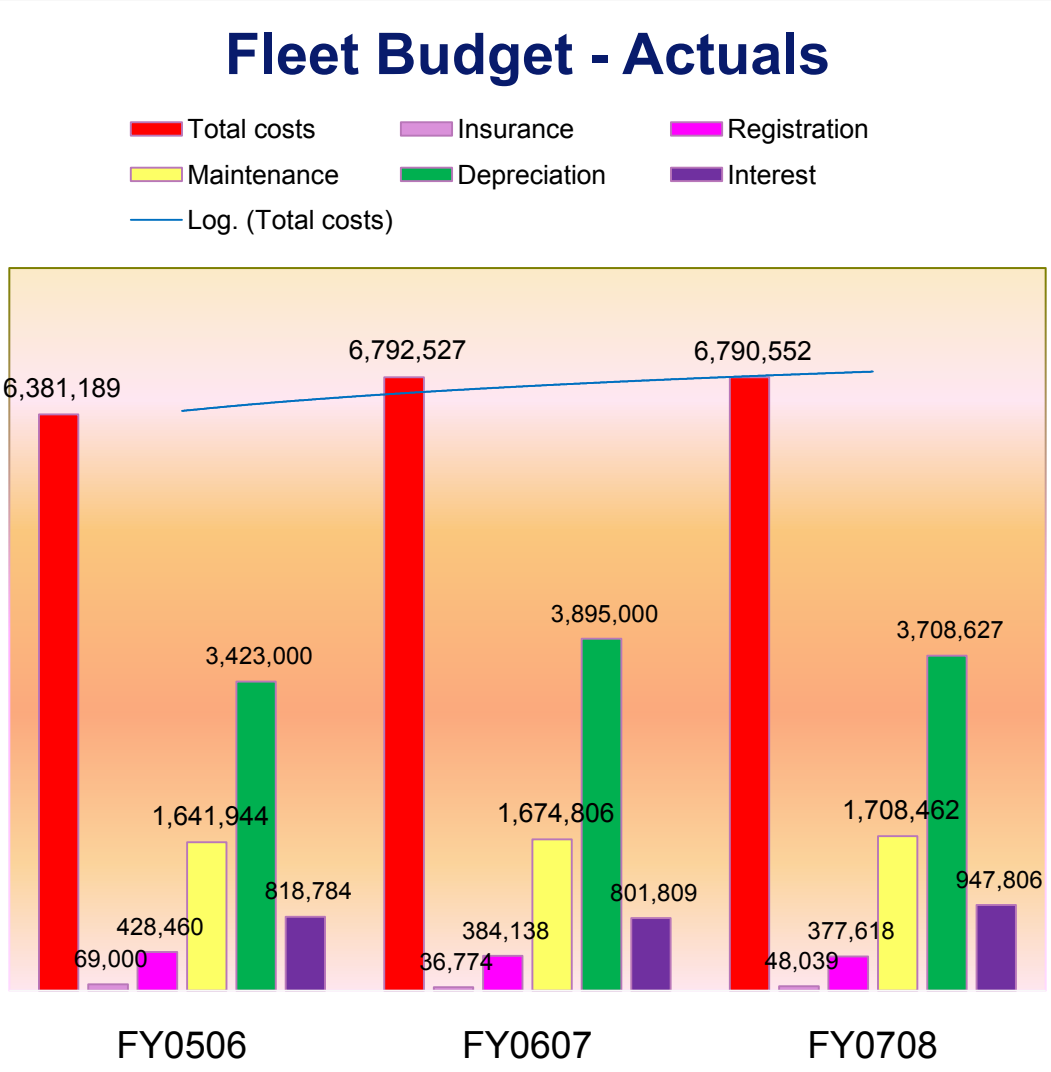
  - There is no benchmarking with external hire rates nor any review of the costs for individual assets vs. the revenue.
  - Hire rates are applied to trucks and attached equipment separately e.g. EWP's and winches so that one truck can have three hire rates. This creates unnecessary transactions and the rates should be combined into a single hire rate for the truck. If an EWP is transferred to another truck then the hire rate is recalculated.
  - The change to a more environmentally sustainable fleet will reduce fuel consumption and costs (**see Slide 42)** plus result in lower hire rates. Using a Hyundai manual Getz as a base model the comparative total operating costs (based on RACQ data) are;

Hyundai Getz	1.0
Toyota Yaris	1.05
Toyota Corolla	1.29
Holden Astra	1.32
Mazda 3	1.37
Toyota Camry	1.63
Toyota RAV4	1.78
Falcon sedan	1.92
Holden Commodore	1.96
Nissan Patrol diesel wagon	2.29

- **Savings.**
  - If the changes recommended in **Slide 43** were adopted the estimated savings for 220 vehicles would be $260,000. This is in addition to the total fuel saving of $380,000 and a nett cost of $17,000 if outsourcing was to be adopted. There will also be expected FBT savings of $30,000 as the cost of the vehicles will be lower plus expected maintenance savings of $120,000.

TOTAL $773,000 per year (7% of total budget)

Current Situation (cont)



- **NOTES**
  - The FY07/08 costs have been annualised based on the first 9 months actuals.
  - The depreciation includes vehicle and allocated corporate asset depreciation.
  - The total costs for FY07/08 do not include ICAM $446,951 and labour $341,000
  - Fleet insurance is for all fleet assets but does not include the actual cost of damage which is a division cost. The total damage cost for FY07/08 is expected to be $484,000.
  - Some maintenance costs are invoiced directly to Depots from Webster and do not appear on the fleet invoice.
  - Fuel including both diesel and unleaded is billed to divisions and for FY07/08 is expected to be $3.367,000.
  - Costs have remained relatively stable over the three years but there was a reduction in the number of fleet assets several years ago.
  - FBT of $322,000 is not included.
  - **The cost including fuel and damage to operate the fleet in FY07/08 is expected to be $11,430,000.**
  - **The fleet revenue is expected to be $7,905,000 to recover the estimated costs of $7,772,000 including labour and ICAM.**

Current Situation (cont)

- **Fleet maintenance – contract.**
  - Aurora Energy has a contract with Webster for the maintenance of all fleet assets for the period 1/9/06 to 31/08/08. The contract has a number of key features;
    - The labour rate is fixed at $75 per hour and includes a $9 component to provide the management service and a $5 component to cover the cost of minor materials and incidentals in the workshops.
    - Materials and parts held in Webster stores as part of their franchise arrangements are charged at retail less a fleet discount. Externally sourced materials and services attract a fee of 16.5% on top of the actual invoice cost to Webster. This fee covers the management of the external providers and payment of invoices.
    - Webster provides the necessary scheduling of some of the servicing, the coordination of all work through their workshop facilities and the management of external service and parts providers.
    - Webster provided a basket of prices for a range of specified services and parts as part of the tender response.
    - Webster uses its own workshop facilities throughout Tasmania and the facilities of specialist providers and vehicle dealerships as required.
    - Webster provides an emergency breakdown and roadside assistance service as part of the contract.
    - The monthly invoice is sent to Aurora Energy with details of all services provided but there are some concerns about the format and detail contained in the invoice which will be discussed later in the report. In addition they send an overdue for service report.
    - Webster does not provide any form of analytical report other than expenditure against budgets for major categories of fleet.
    - Webster provides a single account manager for all Aurora contacts and this position is responsible for the overall maintenance management of the Aurora Energy fleet assets including major rebuilds and some fit outs, commissioning and decommissioning.
    - They will provide out of hours maintenance services if required.
    - The vehicles are not serviced to manufacturers specifications for all items but the major service intervals and components are adhered to.
    - Motors has recently purchased Webster and there are already indications that Motors will try to take a more profit focused attitude to the contract and may well try to increase the hourly labour rate and the on cost rate of 16.5%. There is a risk to Aurora Energy due to the limited availability of specialised equipment maintenance capability in Tasmania. E.g. EWP's
- **Fleet maintenance – management.**
  - Webster staff generally provide good management of the maintenance activities considering the complexity of the fleet, the geographic spread, the range of in-house and external services they manage and the need to meet tight timeframes for the maintenance of specialised fleet assets. It is an advantage to have an Aurora Energy ex employee in the key management role at Webster as is currently the case.

Current Situation (cont)

- The trucks are on a 3 month service schedule and Webster provide an advisory service to ensure that these assets are serviced on time. The vehicles are not subject to any form of proactive scheduling , relying instead on the drivers to manage the servicing. This is not a satisfactory situation as there are understood to be many examples of vehicles going considerably beyond their due service date. One customer indicated that it was not unusual for vehicles to go 20,000 km over the service interval. Webster confirmed that this is a problem but suggested that it was more likely to be 5,000 to 10,000km overdue. There are serious risk implications for Aurora Energy if it continues to allow vehicles to exceed the nominated service interval by up to 10,000km. Webster does not currently receive all of the odometer readings to enable them to properly schedule the vehicle servicing. A mandatory 6 month service could help overcome this problem.
- Wherever possible, trucks are booked in for a service on a Friday to minimise downtime. The availability of parts is a problem resulting in delays in getting trucks back into service, particularly with the older specialised fleet assets. As the older units are replaced it is expected that this problem will reduce. Greater standardisation of the fleet also assists with parts availability.
- Webster provides a range of specialised services that would not be easily sourced elsewhere in Tasmania, particularly the EWP and borer units. They also have a good reputation for truck maintenance. Their experience with the light passenger and commercial vehicles is not as good but their recent acquisition by Motors will overcome some of this deficiency. Aurora Energy does not take into account the maintenance issues when purchasing their light fleet. This is potentially an issue with a small fleet that has many makes and models.

- **Fleet maintenance – maintenance costs.**
  - Data was provided from the Webster invoices for the period 1/07/2007 to 29/02/2008 with the following results which have been annualised to get an estimate of the total costs per year;

Labour	$860,000
Labour hours	11,500
Management fee @$9/hr	**$103,500**
Sublet/external providers	$380,000
16.5% on cost *	**$54,000**
Materials from Webster store	$860,000
TOTAL Maintenance cost	**$2.44m per year**

  * It is not easy to determine how the 16.5% is being applied and this amount is the low estimate.
- **Fleet maintenance – reporting and analysis.**
  - A major weakness in the management of the fleet maintenance is the absence of meaningful analysis of the maintenance data. There is a report that compares the total cost of maintenance to budget but the budgets are not compiled using zero base or benchmark data. There is no review of the costs of individual assets to identify trends and inconsistencies and therefore improvement opportunities.
  - The invoice from Webster is not correctly formatted and does not indicate those parts that receive a fleet discount and those which attract a 16.5% on-cost. While there is no evidence that Aurora is being invoiced for incorrect amounts the absence of any scrutiny of the invoice is of concern. The invoice does not contain sufficient information on each cost to properly asses the nature of the repair and the appropriate cost. Webster will be able to change it.

Current Situation (cont)

- **Fleet maintenance – repair authorisation.**
  - The absence of any external repair authorisation means that Aurora Energy is relying on Webster to authorise each repair and then assess that the cost of the work that it undertook is correct. As Webster is paid proportionally to the number of hours worked and the value of parts and external services used there is no direct incentive for Webster to reduce total maintenance costs. It is common for fleets to pay a fee per fleet asset per month for maintenance management services which include comprehensive data collection and detailed reporting. E.g. vehicles $7 per vehicle per month, trucks $12 per vehicle per month and light plant $5 per vehicle per month.
  - Alternatively comprehensive fleet management services would cost approximately $18 per asset per month and approximately $6 per month for light plant.
  - External fleet management services providers have access to national repair networks and are often managing over 50,000 vehicles with their repair network. This database gives them easy access to standard times and costs and the ability to quickly identify trends and warranty issues, benefits they pass on to their clients through lower maintenance costs. They are also better able to monitor vehicles that are overdue for service or that are incurring higher than average costs perhaps due to driver technique or duty cycle. They are also able to provide benchmark data.
  - Some of the major providers have experience with trucks and EWP's although it would be important for Aurora Energy to maintain a good working relationship with the maintainer of its specialist fleet assets.

- **Fleet maintenance – issues and opportunities.**
  - One of the common complaints is the lack of feedback by Webster staff to the operational areas on the progress of repairs. For some areas in Aurora Energy the loss of a key fleet asset can result in losses of up to $1600 per day. With good notification they can often hire additional equipment or reschedule work effectively.
  - The location at Cambridge requires additional travel to reach the Webster workshop in Montrose and in some cases new vehicles are delivered to Cambridge then taken back to Moonah to have radios fitted.
  - Webster staff have suggested that in some cases poor regular maintenance practices by Aurora Energy staff have resulted in additional maintenance costs .e.g. repairs due to poor attention to lubrication.
  - Several areas suggested that if more maintenance work could be done out of hours there would be productivity improvements. Webster is prepared to try to meet this requirement but the availability of parts and labour resources is a major challenge for them.
  - There is no attempt to manage the maintenance using Reliability Centered Maintenance practices and for the specialised fleet assets this would offer significant opportunities. It is a method that reduces the quantity of breakdown maintenance and relies on more proactive planned maintenance schedules. It is important to replace the older and less reliable assets in the fleet for this to be highly effective.
  - There is an issue with vehicle log books and servicing history not being available when some of the vehicles are being sold. It does usually reduce the sale price .
  - There is no apparent succession planning at Webster for the key Aurora Energy contract management role.

Current Situation (cont)

- **Fringe Benefits Tax.**
  - **Log Books.** A review of a sample of log books was undertaken and the standard was generally satisfactory with respect to the details required and the proper recording of odometer readings. There were several entries that may not comply with the ATO requirements regarding trip explanation and there is inconsistent use of the codes provided. i.e. some use a code without any additional description while others seem to duplicate the information and the code.
  - **FBT calculations.** The calculations for the last three FBT years were analysed and there do not appear to be any deficiencies in the manner in which it is done. The data for 0708 is incomplete with March maintenance costs yet to be included.

FBT Analysis (* 0708 incomplete)			
	FBT YR0506	FBT YR0607	FBT YR0708*
Number of vehicles	216	224	204
Total operating cost	$872,698	$932,908	$826,131
Average operating cost	$4,040	$4,165	$4,050
Average annualised km	29,246	27,157	25,568
Average % private use	25.3%	23.4%	22.7%
Tax payable	$314,319	$320,842	$322,053

FBT analysis - examples of vehicle costs			
	KM travelled	Operating cost less rego & insurance	Cost - cents per km
Corolla Ascent	10,026	$1,203	12
Corolla Ascent	13,026	$5,046	39
Camry Altise	23,610	$2,167	9
Camry Altise	10,136	$2,985	29
Camry Altise	3,300	$4,439	135
Prius	919	$3,035	330
Mitsubishi 380	8,787	$4,563	52
Pajero GLS	13,501	$5,054	37
Falcon BA XT sedan	32,339	$5,770	18
Falcon FPV typhoon	33,738	$5,679	17
Falcon FPV typhoon	16,161	$8,781	54
Falcon XR6 turbo	2,478	$4,343	175
Nissan X trail	35,775	$5,031	14
Nissan X trail	17,439	$4,349	25
Prado VX	26,725	$11,356	42
Nissan Patrol DX	52,074	$9,617	18
Nissan Patrol DX	11,663	$15,219	130

The operating costs do not include depreciation and finance charges.

Current Situation (cont)

- **Fringe Benefits Tax.**
  - **Trends.** There appears to be little change over the last three years in the average maintenance cost per vehicle cost with a small reduction in the average km per year number and the % of private use. The average FBT per vehicle is not unusually high for a fleet of this type.
  - **Employee contribution.** There is no employee contribution in the calculations. This is a way to reduce the amount of FBT tax payable by the amount of any after tax employee contribution. It is understood that the employees with private use do not have the FBT included in the calculated cost of the vehicle against the total remuneration package. This means that the cost of the vehicle to the package is not reflective of the full cost to Aurora Energy. Most organisations providing a company owned vehicle as a benefit would include the FBT amount in the calculation. In these cases for employees not on the highest marginal tax rate, an after tax employee contribution has benefits for the employee and does not increase the cost to the company.
  - **Vehicle costs.** The sample of vehicles shown in the previous slide highlight the problem of significant variances in the cost to Aurora Energy of providing benefit vehicles that may have a similar purchase price but depending on the type of vehicle and the way it is used have different operating costs. There is no review currently of the individual vehicle operating costs and some of the examples indicate a problem exists. The problem is partly related to the lack of any meaningful reporting and analytical tools available to the fleet staff and the high workload related to transaction processing.

    There are many vehicles that appear to have operating costs that would be considered reasonable for their size and type and considering the km travelled. The vehicles that are significantly different to the average need to be investigated. It is likely that the operating costs for the fleet in general show similar variances but it is not easy to get the data for accurate analysis. It reinforces the need to initiate comprehensive exception based fleet reporting , remedial action and benchmarking.

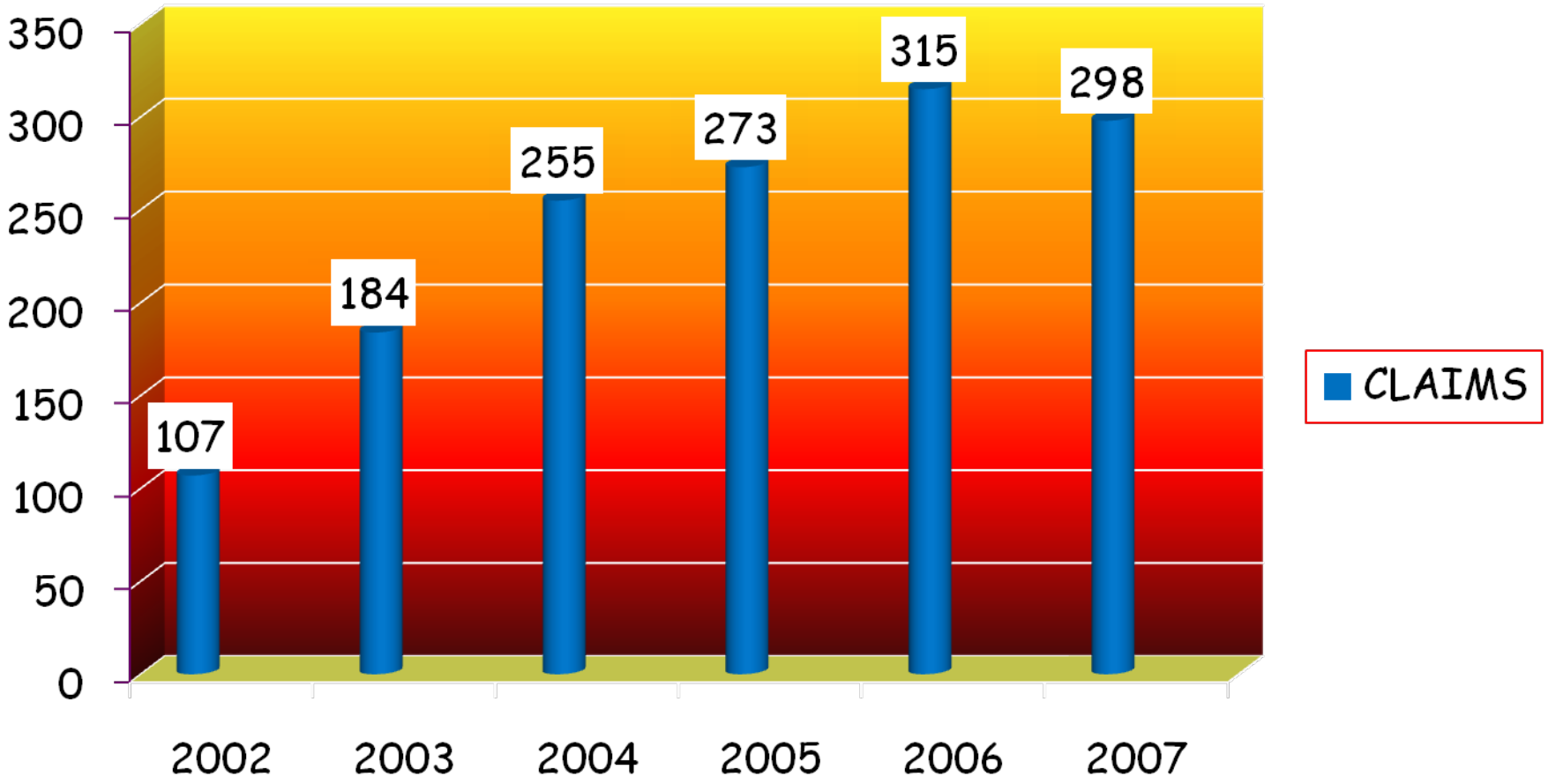
    Parking costs are included for all executive vehicles but there is a potential inequity for those staff who are based outside of the CBD and there is no direct cost to Aurora Energy for parking spaces.
  - **High performance vehicles**. These vehicles can often have higher operating costs due to a number of factors such as;
    - Premium fuel
    - High cost tyres with high wear rates
    - Higher servicing and repair costs
    - Higher fuel consumption based on the driving style and the power of the engine.

Current Situation (cont)

- **Motor vehicle accidents.**
  - There is a procedure for staff to follow in the event of a vehicle accident.
  - Marsh is the Insurance broker.
  - Analysis of the data provided is summarised against industry benchmarks and the claims history detailed in the following slide.
  - There are a number of observations;
    - There has been an increase in the number of claims over 6 years probably the result of more rigorous reporting rather than an increase in the number of incidents.
    - The accidents per 1,000,000 km is higher than best practice and could be reduced.
    - Reversing and manoeuvring damage is higher than the industry average possibly due to the layout and visibility in the depots, the types of vehicles as well as the difficult conditions in some field locations. The fitting of reversing sensors should be mandatory on all vehicles where practical.
    - There is a lack of third party details in the Fleetwatch data which may be a problem with the way the data is transferred from the incident forms.
    - There is some inconsistent use of incident type descriptions which makes analysis difficult. Similar incidents are described in a number of ways. E.g. a potentially serious incident involved a vehicle rolling into a house causing over $10,000 damage was described as **miscellaneous**. It was likely to be lack of attention by the driver or a faulty parking brake. Some drivers may be trying to understate the seriousness of the incident.
  - Phone car kits are being fitted to Aurora Energy vehicles but some organisations ban the use of mobile phones or two way radios while the vehicle is in motion.
  - There are 10 drivers with more than 8 incident reports in 6 years with the highest having 15. There may be an opportunity to consider some individual training for drivers with high rates of reported incidents.
  - **Industry direct cost multiplier ranges from 3 to over 20. i.e.. For every $1 of direct damage, there can be as much as $20 of total direct and indirect cost to the company.**
  - The fleet is self insured and all costs are allocated to the area with the asset.
  - **Opportunities :**
    - Reduce reversing/manoeuvring claims
    - Investigate all accidents over $1,500.
    - Identify drivers with multiple accidents
    - Introduce a driver training & awareness program
    - Check all drivers for licence validity and currency
    - Improve the reporting and analysis.
    - Introduce commercial premiums and a $1,500 deductible

Benchmark	Industry	Aurora Energy
Accidents per 1,000,000km traveled	1.7 to 39	14.4
Damage while parked	10%	6%
Reversing/maneuvering damage	15%	22%
Company driver at fault	47%	92%
Average cost per vehicle	$70 to $845	$494

Current Situation (cont)



•Claims includes all incidents in IRIS some of which would not usually be reported as accidents for benchmarking purposes.

•The increase over the 6 years could be partially attributed to the greater emphasis Aurora Energy has placed on reporting rather than a significant increase in incidents and accidents. The last three years are statistically similar.

Fleet Inventory

- The fleet inventory at March 2008 is as follows;
  - **Passenger vehicles. 220**
  - **Light Commercial vehicles. 276**
  - **Trucks – small 12**
  - **Trucks – large 101**
  - **EWP,borer,compressor,winch 101**
  - **Small plant, trailers 195**
  - **TOTAL 905**
  - **TOTAL acquisition cost * $39.19m**
  - **TOTAL written down value * $25.56m**
  - **Est. current replacement cost $44.05m**
  - **Ratio of WDV to replacement cost 0.58**
  - **Benchmark ratio for similar fleets 0.65**
  - **Est. current CAPEX required/year $6.53m**
  - **Est. current disposal income/year $2.14m**
  - **Nett/year $4.39m**
  - **Est. future CAPEX required/year $5.12m**
  - **Est. future disposal income/year $1.37m**
  - **Nett/year $3.75n**
  - **Expected annual reduction $0.64m**
  - *** From NCA register & includes assets sold.**

- The total number of fleet assets based on the data provided is 905 and is summarised in **Slide 39.**
- The total current replacement cost is $44.05 million and the current estimated market value based on the WDV is $25.56 million or 58%. This is an acceptable ratio for a fleet of this type and mix although slightly below similar fleets with a mix of passenger, light commercial and trucks with specialised equipment fit outs. If the ratio is too low it indicates an ageing fleet and if it is too high it indicates that assets are being replaced too early in their optimum life cycle. It is an indicator that can be used on an annual basis.
- There are some differences in the asset data supplied by Finance and that supplied by Fleet. The number of assets does not match and the capital cost is different where the trucks and special equipment is concerned. The Finance data includes all fit outs against each asset and in some cases the original purchase and fit out is still showing a residual value even though the unit has been refitted several times. E.g.

  Unit 660151 on the Finance asset list was originally purchased in 1979 but is not shown on the Fleet asset list (has been disposed). It has had expenses capitalised against it in 1996,1998,1999, 2000, 2001 and 2002 for a total expenditure of $98,212 with a WDV of $31,895. The original and subsequent expenses are being depreciated over 30 years.
- The depreciation schedules in some cases are not matching the useful life of the asset. There are some assets in the register with zero value that would have some resale value and there are asset WDV's that may be overstated because of the use of 30 year depreciation periods.

Fleet Inventory (cont)

- Most fleet managers would determine the estimated residual value at the end of the economic life and straight line the depreciation over that life to the residual value. If the asset is retained for a longer period it would be re-lifed in the NCA register or if it was refurbished it would probably also be re-lifed. The hire rate would be calculated using an annuity formula with the residual value brought back to current value using the period and discount rate.
- It is possible to include the cost of specialised equipment and fit out in the cost of the truck as a single asset and depreciate it over say 15 years. If the specialised equipment is re-used it is capitalised at the cost of refurbishment and fit out with the cost of the new truck. In the case of equipment that has particular inspection requirements it is better to have it identified as a separate asset but given an economic life that is realistic. E.g. EWP's are often sold at 15 years to coincide with the second rebuild point. There are currently a large number of EWP's that are well over 15 years age but there is a program to align them all to the 15 year cycle. There may have to be an acceleration of the program to address the aging EWP fleet.

- **Fleet numbering.**
  - The current numbering system is too complex and makes analysis difficult. There are too many classes with small numbers of fleet assets and there is no maintenance or fleet management reason to have so many classes. A fleet renumbering program is a major activity but it could be phased in as new assets are acquired.

- **Examples of fleet classes:**
  - **Passenger vehicle – small**
  - **Passenger vehicle – medium**
  - **Passenger vehicle - large**
  - **Utility – 2WD**
  - **Utility – 4WD**
  - **Other commercial vehicle incl 4WD**
  - **Van**
  - **Truck – small 2 ton capacity**
  - **Truck – medium up to 8 ton capacity**
  - **Truck large – over 8 ton capacity**
  - **EWP**
  - **Truck mounted crane**
  - **Borer**
  - **Winch**
  - **Trailer**
  - **Forklift truck**

It will important to link the appropriate fleet assets in the system such as EWP's to their respective truck for fleet management purposes.

Fleet Inventory (cont)

- **Replacement planning.**
  - The replacement planning is done on an annual basis with no long term projections. The absence of a long term fleet replacement strategy and plan leads to short term and often suboptimal replacement decisions. It is usual for this type of fleet to maintain a rolling 10 year fleet CAPEX plan with detailed replacement scheduling for the next 5 years. This approach enables the organisation to understand the importance of maintaining a satisfactory age profile and fleet mix to minimise total fleet operating costs and to achieve consistency over the years in replacement activity and budgets. The fleet staff are trying to complete the CAPEX program each year but their one year planning focus is not ideal for Aurora Energy and will lead to sub optimal replacement decisions.

    The fleet age profile indicates that there are assets that are overdue for replacement and with the average age in some classes over the midpoint it suggests that there may be a peak in CAPEX requirements in the next few years unless the retention parameters are extended. The published replacement parameters are not always being followed. E.g. Most passenger and commercial vehicles are 4 years and 200,000 but most are replaced at approximately 150,000. Based on the current averages new retention parameters will be recommended. There will always need to be flexibility to replace assets outside of the agreed parameters due to changes in work practices.

    There is an intention to upgrade all EWP's to a 15 year cycle but there has not been any attempt to prepare the replacement schedule and required funding to achieve this in a reasonable period.
  - The borers are overdue for replacement and are experiencing increased maintenance costs and downtime. Some replacements are underway.
- **Current average ages by class are;**

Small sedan	4 years
Large sedan	2.8 years
Executive vehicles	2.4 years
Station wagon small 4WD	2.3 years
Utility 2WD	3.2 years
Utility 4WD	2.9 years
Large truck	8.5 years
EWP	15.2 years
Small plant	18.7 years

- **Replacement Parameters.**
  - Examples of replacement parameters proposed based on the average current use and optimum life cycle costs. **Refer Slide 40**
  - Passenger vehicles. (non executive)
    - 5 years or 150,000 km
  - Small Trucks.
    - 8 years or 150,000 km
  - Large Trucks.
    - 15 years or 300,000 km
  - Light commercial vehicles.
    - 5 years or 250,000 km
  - Forklift trucks.
    - 12 years or 10,000 hours

Fleet Inventory (cont)

Description	Total	Average age - years	Average km per year	Total estimated replacemnt cost	Current Replacement years	Current Annual CAPEX	Estimated resale	Proposed Replacement years	Proposed annual CAPEX	Estimated resale
Sedan small	15	4.0	23,103	$314,798	4	$78,699	$31,480	5	$62,960	$22,036
Sedan medium	11	2.2	28,162	$263,891	4	$65,973	$26,389	5	$52,778	$18,472
Sedan large	52	2.8	29,957	$1,449,285	4	$362,321	$144,929	5	$289,857	$101,450
Executive vehicle	19	2.4	24,464	$891,604	3	$297,201	$133,741	4	$222,901	$89,160
Station wagon medium	2	3.7	10,572	$47,909	4	$11,977	$4,791	5	$9,582	$3,354
Station wagon large	13	2.5	36,051	$372,851	4	$93,213	$37,285	5	$74,570	$26,100
Station wagon 4X4 small	76	2.3	35,369	$2,191,723	4	$547,931	$219,172	5	$438,345	$153,421
Executive vehicle	32	1.5	27,042	$1,376,961	3	$458,987	$206,544	4	$344,240	$137,696
Utility 4X2 1 tonne	125	3.2	26,652	$3,780,282	4	$945,071	$330,775	5	$756,056	$189,014
Van forward control	19	3.6	19,727	$652,176	4	$163,044	$40,761	6	$108,696	$21,739
Utility 4X4 1 tonne	127	2.9	30,360	$5,100,623	4	$1,275,156	$446,304	5	$1,020,125	$306,037
Bus	1	4.7	16,459	$51,145	4	$12,786	$3,836	5	$10,229	$2,046
Station wagon 4X4 large	4	1.8	34,111	$199,117	4	$49,779	$19,912	5	$39,823	$13,938
Truck small	12	5.4	24,643	$734,788	5	$146,958	$44,087	8	$91,849	$18,370
Truck 6X4 borer	7	10.6	26,523	$1,430,974	8	$178,872	$44,718	12	$119,248	$17,887
Truck	94	8.5	19,361	$10,643,813	10	$1,064,381	$266,095	15	$709,588	$106,438
EWP unit	69	15.2		$9,064,809	20	$453,240	$90,648	20	$453,240	$90,648
Crane, borer, compressor unit	32	14.4		$2,787,408	15	$185,827	$37,165	15	$185,827	$37,165
Small plant	195	18.7		$2,695,198	20	$134,760	$13,476	20	$134,760	$13,476
TOTALS	**905**			**$44,049,355**		$6,526,177	$2,142,108		$5,124,674	$1,368,448

Environmental Performance

- **Current situation.**
  - There is no environmental policy for the fleet. This is a common situation in Australia for many organisations as they address the issue of greenhouse gas emissions from their operations and the overall challenge of reducing their carbon footprint. There are two ways to deal with the problem;
    - Reduce the amount of fuel consumed through a range of measures such as vehicle selection, fuel type, improved trip scheduling , trip avoidance , driver training, vehicle loading, body design, maintenance practices and general staff awareness.
    - Undertake offset programs through the purchase of green energy, tree planting and in future, carbon trading.

  The first group of measures delivers real reductions in emissions and can often be easily introduced without affecting operational effectiveness or service delivery and can also deliver reductions in the total operating cost of the fleet due to reduced depreciation and finance costs, lower fuel and maintenance costs and reduced accident damage. There is also the indirect benefit that staff and the public will see the organisation making a positive contribution to the greenhouse gas problem. For Aurora Energy there are several policy changes that would have immediate and long term benefits and can be introduced within the current budget constraints. Operational savings will accrue over time.

- **Policy initiative 1.** The following changes are achievable.

  Require all passenger and light commercial vehicles to have a minimum Greenhouse Rating of 5.5. out of a maximum of 10.0 based on the Australian Government Green Vehicle Guide . Green Vehicle Guide

  This is a measure of the greenhouse gases produced by the vehicle and is calculated using the fuel consumption and the type of fuel. It does not take into account the other atmospheric pollutants such as oxides of nitrogen and particulate matter. A score of 5.5 equates to a maximum emission of 240 grams of CO2 per km travelled. This level is being introduced into a number of fleets in Australia rather than take the 4 or 6 cylinder approach. Diesel engines generally perform well against this rating because of their lower fuel consumption.

  The range of vehicles available to Aurora Energy using this level would enable all of the current operations to have a suitable vehicle. There is a wide selection of readily available and popular makes and models of both passenger and light commercial vehicles that will meet a score of at least 5.5. Some of the vehicles that would not meet this score would be Falcon and Holden sedans and utilities which have a score of 5.0 or less. Some of the high performance vehicles have scores below 3.0 . E.g. Ford Falcon GT= 2.5

  Many of the new diesel powered vehicles available also have particulate filters which almost eliminates one of the key pollutants. The quality of diesel fuel in Australia is also improving and by 2009 the level of sulphur allowable will reduce from the current 50ppm to 10ppm further improving diesel engine emissions.

Environmental Performance (cont)

- **Policy initiative 2. Improve operating practices**;
  - Develop a broad training and information package to provide all employees with the skills, knowledge and understanding of the importance of reducing greenhouse gas emissions both at work and at home. The package needs to address such issues as;
    - Reducing all unnecessary vehicle use and substituting where practical video conferencing, phone conferencing, work from home arrangements and delegation to other employees who may not need to travel as far.
    - Educating drivers about the practical ways to reduce fuel consumption through improved driving techniques (changing driver behaviour can reduce fuel consumption in some vehicles by over 20%) proper vehicle maintenance such as correct tyre pressures, reducing unnecessary loads in the vehicle, regular vehicle mechanical servicing, removing unnecessary roof racks, removing unnecessary vehicle accessories that add weight to the vehicle (for an average passenger or light commercial vehicle an additional 100kg of weight can add 3% to the fuel consumption)
    - When designing bodies to be fitted to vehicles consider the affect of wind and resultant drag on the structure.
    - Plan trips to avoid traffic congestion peaks in urban areas.
    - Approve ride sharing /pooling in Aurora Energy vehicles provided the deviations from the normal route are not excessive.
    - Develop a car pool register for employee vehicles.

- **Policy initiative 3. Carbon offset programs**.

  There are a number of programs available that include tree planting and establishing alternative energy schemes such as wind power. They require a financial commitment and in return the Company is credited with carbon offsets which can be used to totally offset the residual emissions of the fleet. There is some debate at the moment about the timing of the benefits and the accuracy of the measurement process.

- **Current emissions.**. The following data was provided on Aurora Energy fuel use for a typical **month**;
  - Total km travelled 1,392,000 km
  - Total fuel used (petrol & diesel) 200,270 litres
  - Total cost excl GST $259,300
  - Est. greenhouse gas emissions 500 tonnes
- **Potential savings;**
  - Reduce fuel consumption by replacing 75% of the 472 vehicles with a vehicle achieving a 20% reduction in fuel consumption ;

    Approximately 200,000 litres

    Approximately 500 tonnes greenhouse gases
  - Improve operating practices to achieve 3 % improvement in fuel use;

    Approximately 70,000 litres

    Approximately 190 tonnes greenhouse gases

Fuel cost saving $380,000 and greenhouse gas reduction of 690 tonnes per year.

Environmental Performance (cont)

- **Vehicle ratings. (Green Vehicle Guide)**

Toyota Prius petrol auto	8.5
Peugeot 308 diesel manual	8.0
Honda Jazz petrol auto	8.0
Toyota Yaris petrol manual	7.5
Holden Astra diesel manual	7.5
Hyundai Getz petrol auto	7.0
Hyundai Accent petrol auto	7.0
Toyota Corolla petrol auto	7.0
Holden Astra diesel auto	6.5
Holden Epica petrol auto	6.0
Holden Captiva diesel auto	5.5
Holden Rodeo diesel manual	5.5
Ford Mondeo diesel auto	6.5
Toyota Hilux 4X4 dual cab diesel manual	6.0
Toyota RAV4 petrol auto	5.5
Toyota Aurion petrol auto	5.5
Mitsubishi Outlander petrol auto	5.5
Mitsubishi Triton 2WD diesel utility	5.5
Mazda BT 50 single cab diesel manual	6.0
Nissan XTrail petrol auto	5.5
Subaru Liberty wagon petrol auto	6.0

- **Fleet replacement options.** The changes could be implemented as the vehicles become due for replacement. Alternative vehicles could be approved where there is a demonstrated business case;
  - Replace the 28 small, medium sedans and wagons with auto vehicles that have at least a 6.5 rating.
  - Replace the 65 large sedans and wagons with auto vehicles that have at least a 5.5 rating.
  - Replace the 252 2WD and 4WD utilities with diesel vehicles that have a minimum rating of 5.5. Only select auto transmission where there is a demonstrated business need.
  - Replace the 76 small 4WD wagons with auto sedans that have a minimum rating of 6.0.
  - Replace the 51executive vehicles with vehicles that have a minimum rating of 5.5 or offer novated leasing in lieu.
  - Purchase Euro 4 trucks now and Euro 5 as they become available through to 2011.
  - Select LPG dual fuel vehicles where appropriate and cost effective.

Selecting smaller vehicles has other benefits;

- When a vehicle is manufactured there is an embodied greenhouse gas component and over the typical life of the vehicle choosing a smaller vehicle can save the equivalent of between 1.2 and 2.8 tonnes per year depending on the size of the vehicle. Smaller vehicle will often have lower rates of reversing accident damage which is a problem for Aurora Energy. Refer to Slide **34**
- **There are reductions in the cost of tyres and maintenance as well as lower depreciation and finance charges.**

Fleet Reporting

- **Reporting and analysis.**
  - To generate suitable reports for analysis it is important to ensure that all of the relevant data has been captured accurately in the systems and the necessary reviews carried out. In an outsourced arrangement the reporting function is provided. It is useful to have a month end checklist for this purpose.
- **Month end checklist**

A month end checklist would ensure that the necessary controls are in place. It would be completed by the Fleet Coordinator and should include the following;

- Performance against KPI's reviewed.
- Assets sold recorded.
- Assets purchased recorded.
- Vehicles due for replacement in the next 6 months identified together with their estimated replacement cost compared to budget.
- Maintenance costs reviewed.
- Costs allocated correctly.
- Auction proceeds and costs processed.
- Fuel consumption per vehicle and variances reviewed.
- Insurance reports reviewed
- Credit card purchases for fleet reviewed.
- Accident report reviewed.

The month end checklist would be an appendix to the monthly report.

For a fleet of this size it would be feasible to move to quarterly reporting provided the monthly checklist is completed and reviewed by the relevant senior Manager.

- **Quarterly report**.

A quarterly report should be completed with a summary of the fleet activities for the quarter and any fleet related issues likely to impact on Aurora Energy in the next 3 months plus the following comparisons;

- Fleet costs by category vs. budget and YTD.
- Number of accidents vs. budget and YTD.
- Fuel used (litres & $) vs. budget and YTD.
- Fleet environmental performance vs. target
- Fleet utilisation by class vs. target and YTD.
- Fleet assets by class including number of vehicles purchased and sold.
- % of full year CAPEX budget committed and likely EOY.

- **Annual report**

The annual report would add comments on the past year's performance and future trends and issues likely to impact Aurora Energy in the next 1 to 2 years including the following;

- Legislation.
- Automotive markets.
- Technology.
- Environment.
- Economic factors.
- Fuel supplies.
- Safety.
- Fleet sourcing options.

- It is important that these reports not add unnecessary administrative workload to Aurora Energy but add value in monitoring the performance, cost and safety of the fleet and give guidance for fleet planning.

Fleet Reporting (cont)

- **Fleet reports.**
  - The following monthly reports are recommended as an essential component of fleet management. These reports would be provided by an external fleet manager on line and with the capability to do adhoc reports and daily real time analysis. They should also be available if a new fleet management system were to be acquired. The risk to Aurora Energy with a fleet management system is the effectiveness of the interfaces to the other systems and data files.
    - Service due and overdue
    - Inventory
    - Costs by vehicle and cost centre
    - Vehicles on order
    - Vehicles due for replacement
    - Fuel and kilometre variances
    - Accidents
    - Maintenance
    - FBT (quarterly)
    - Vehicle and driver changes

  It is important to have the following features in any reporting framework;
    - Exception reporting and
    - Benchmarking

  If the reporting is provided externally Aurora Energy will need to determine what data is retained in their systems and what data will be held externally. It is recommended that only key financial and asset data be held by Aurora Energy but that it retains ownership of any externally held data should the contract change.

- **Budgets.**
  - Underpinning the reporting system is the requirement to develop revenue and expense budgets for the fleet. Without budgets for the various fleet cost elements it is not possible to identify trends and take corrective action. It is recommended that it be a zero based budget using individual assets and projected revenue and expenses for each. There is no incentive currently for the fleet staff to drive costs down. The reporting function does not support this approach.
  - The budgets should also include KPI's so that a assessment can be made regularly on the performance of the fleet assets and the management team.
- **KPI's.**
  - It is recommended that the following KPI's be used; .
  - **Finance**
    - **Total cost – total operating cost vs. budget - %**
    - **CAPEX – total committed vs. YTD budget - %**
    - **Maintenance costs – total unplanned maintenance vs. total of all maintenance -%**
  - **Accidents**
    - **Frequency –total number of reported vehicle accidents per 1,000,000 km travelled by the fleet.**
  - **Utilisation**
    - **Passenger and light commercial average km.**
  - **Environment**
    - **Average fleet emissions - grams CO2 per km**

Fleet Management Systems

- **Availability.**
  - There are a number of readily available fleet management systems ranging from small PC based systems to large full leasing package systems capable of being integrated with many finance and HR systems. The smaller systems generally do not have the capability, interfaces and reporting function to meet Aurora Energy needs.
  - Examples of other organisations implementing a fully integrated fleet management system are;
    - Fleet size 13,000 budget $3m
    - Fleet size 25,000 budget $2m+
    - Fleet size 4,500 budget $3M
    - Fleet size 4,500 budget $2m
    - These organisations have already commenced the process or have planned to do so.
  - The cost to implement a comprehensive fleet management and leasing system would exceed $1.5m and take over 12 months from initial sourcing to completion. There would be ongoing system management and maintenance costs for Aurora Energy IT staff. The depreciation expense is generally 1/6th of the cost i.e. $250,000 per year.
  - It is understood that Aurora Energy has been a client of Figtree Systems in the past and that they have recently made unofficial representations regarding the provision of their fleet management system and their accident claims management system.
  - The indicative pricing is approximately $100,000 to purchase the system and approximately $20,000 for ongoing support. Aurora Energy would host the system and provide the necessary system and data backup.
  - Figtree can offer a hosting service for approximately $50,000 per year.

- **Fleet management system overview.** The primary outcome to be achieved is a safe, reliable, efficient and environmentally sustainable fleet. The following functionality is expected of a satisfactory system including implementation;
  - Guidance in optimising vehicle selection including environment and safety ratings
  - Maintenance management including roadside assistance
  - Comprehensive online reporting capability
  - Lease management/ internal hire and novated leases
  - Detailed Fringe Benefits Tax reporting
  - Consideration of OHS issues
  - Fleet acquisition and disposal service that targets prompt changeover and the lowering of total cost of ownership.
  - Accident management
  - Spare vehicle management
  - Tolls management
  - Fuel management
  - Asset management
  - Driver management including licenses.
  - Implementation planning including assistance with the migration and cleansing of data and training.

Ownership vs. Leasing

- **There are several factors to consider when deciding whether to own or lease fleet assets. Short term hire is not a significant part of this issue and should continue to be used to address low volume needs.**
  - Flexibility.
  - Access to capital.
  - Cost of capital.
  - Balance sheet.
  - Business growth.
  - Fleet size and diversity.
  - Organisational fleet management capability.
  - Acquisition costs and remarketing.
  - Capacity to take residual value risk.
  - Taxation.
- **Flexibility.**
  - Operating leases in most cases are established with agreed terms of use for time and distance. The financier will arrange the necessary capital and fix the lease cost for the term of the lease. Any subsequent request to change the lease terms will involve a recalculation of the finance costs and residual value usually resulting in a penalty payment to the lessor. There is some flexibility in terms of distance travelled but it is often as low as 5% of the original term.
  - It is also desirable at times to retain a vehicle in service beyond the original planned retention period due to operational needs and new projects.
  - Having a fleet of leased vehicles makes it more difficult to have the same degree of flexibility without incurring additional penalties .
- **Access to capital for fleet assets.**
  - It is understood that there is ready access to capital funds to acquire fleet assets and no identified need in the medium to long term future to release funds from fleet assets. The revenue able to be generated is linked to the value of assets employed in the business and leasing vehicles would impact on this.
- **Cost of capital.**
  - The cost of capital included in the operating lease needs to be compared to the internal cost or opportunity cost of capital when comparing the total cost of the fleet asset. If the internal cost of capital is lower than the lease component for cost of capital and the other factors are comparable, then it is better to own than lease. It is understood that the internal cost of funds is approximately 7.5% and the typical lease includes funds at over 9%. The additional cost to Aurora Energy on a written down asset base of $25m would be $375,000 per year.
- **Balance Sheet.**
  - An operating lease is regarded as an expense and does not appear on the balance sheet. Owned fleet assets are required to be recorded on the balance sheet and in some cases a Company may wish to restructure the balance sheet by removing some assets. It is understood that there is no imperative to restructure the Aurora Energy balance sheet at this time.
- **Business growth.**
  - Aurora Energy is not currently and is not expecting to experience significant business growth that would require a large number of additional fleet assets.

Ownership vs. Leasing (cont)

- **Fleet size and diversity.**
  - The fleet is not large nor overly diverse with a number of similarly configured fleet assets. This simplifies the asset management function and reduces the risk, particularly as the assets have a ready market when being disposed of. It would be desirable to reduce the number of makes and models in the fleet.
- **Organisational fleet management capability.**
  - The knowledge and skills required to acquire the necessary fleet assets are available in Aurora Energy and there are some procedures in place. There will need to be some enhancement of this capability while adopting a risk management approach based on fit for purpose evaluation.
- **Acquisition costs and remarketing.**
  - From the information provided it appears that Aurora Energy is purchasing fleet assets at competitive rates that would be unlikely to be better through leasing. Aurora Energy has a contract with Pickles for the disposal of fleet assets. They are considered to be one of the leading remarketers of fleet assets in Australia and the prices achieved at auction are unlikely to be less than that achieved by lessors. With greater scrutiny of the disposal process it may be possible to improve on the current returns at auction.
- **Capacity to take residual value risk.**
  - An important consideration when making the decision to own rather than lease fleet assets is the residual value risk. i.e. What will be the market value of the asset at the end of it's planned life in Aurora Energy.
  - Holding fleet assets for longer periods can reduce this risk and acquiring assets that have relatively standard specifications and are commonly used in the general fleet industry whether private or business, also reduces the risk.
  - Aurora Energy has a policy of specifying fleet assets that are generally readily remarketed although the acquisition of less common makes and models makes this more problematic.
- **Taxation.**
  - Leasing and ownership have similar taxation issues.
- **Summary.**
  - There is no significant financial or operational reason why Aurora Energy should not continue to own its fleet assets. There would be increased costs to lease.
  - There will need to be changes to the fleet management systems and practices and a greater emphasis on specifications, risk assessment and reporting and analysis.
  - The fleet asset retention periods need to be standardised based on lowest life cycle costs. This is discussed further in the report.

Motor Vehicle Policy.

- **Motor Vehicle Policy.**

  The ideal policy should address the following issues:

  - **Equity**
  - **Probity**
  - **Accountability**
  - **Flexibility**
  - **Productivity**
  - **Efficiency**
  - **Safety**
  - **Market competitiveness**
  - **Company profile**
  - **Environmental sustainability**
  - **Reward and recognition**

- The Policy should clarify management and employee responsibilities .
- The Policy should specify staff entitlements regarding vehicles including tool of trade, benefit and contract employee vehicles.
- It is important that the Policy clearly outlines Aurora Energy's approach to risk management and environmental performance..
- The Policy should be able to be readily implemented and managed in-house.
- The Policy should be flexible to allow for changing business conditions and needs including growth.
- The Policy should clarify the fleet management function.

Motor Vehicle Policy (cont)

- **Motor Vehicle Policy – suggested table of contents.**
  - PURPOSE
  - SCOPE
  - RELATED GUIDELINES AND POLICIES
  - DEFINITIONS
  - MANAGEMENT RESPONSIBILITIES
  - EMPLOYEE ARRANGEMENTS FOR USE OF MOTOR VEHICLES
    - Executive use
    - Private use
    - Commuter use
    - Tool of Trade use
  - DRIVER RESPONSIBILITIES
    - General responsibilities
    - Occupational Health and Safety
    - Vehicle availability and utilisation
    - Parking and security of vehicles
    - Servicing and repairs
    - Vehicle inspections
    - Parking fees
    - Insurance, accidents, theft and vandalism
    - Vehicle registration
    - Roadside assistance
    - Use by other parties/organisations
    - Alcohol and drugs
    - Traffic infringements
    - Fuel cards and fuel purchases
    - Licenses
    - Environmental contribution
    - Fringe Benefits Tax liability and log books
    - Driver awareness training
    - Written acceptance of responsibility
  - FLEET VEHICLES
    - Fleet mix and retention periods
    - Vehicle selection /fit for purpose
    - Additional equipment and accessories
    - Alternative fuels
    - Environmental rating
    - Vehicle branding and identification
    - Vehicle changeover
  - STATEMENT OF RESPONSIBILITY

Fit for Purpose Evaluation

- **Introduction.** A comprehensive fit for purpose evaluation for each task grouping will deliver significant benefits in operations, cost minimisation and risk reduction.
  - The Australian Standard AS/NZS 4360:2004 provides an excellent framework for assessing risks.
  - Based on extensive consultation the key steps are;
    - Establish the context including objectives, stakeholders, components.
    - Identify the risks – what & how can it happen?
    - Analyse the risks – likelihood, consequences, level of risk.
    - Evaluate the risks – rank the risks in order of importance.
- **Operating Environment**
  - The operating environment has a major impact on the selection of fleet assets. The conditions affect such things as tyre selection, impact protection, corrosion protection, clearances and many accessories.
  - Conditions;
    - Road/pavement/travel surfaces/terrain;
    - Off road.
    - Highway.
    - Wet.
    - Corrosive.
    - Stability/roll over protection.
  - Visibility;
    - Regular night or fog operations.
    - Congested/high traffic volumes.
    - Size & configuration – manoeuvring, parking space, height restrictions.
    - Vehicle colour & markings.
  - Operations;
    - Multi shift & different operators.
    - Critical asset/emergency support.
    - Remote location.
    - Noise, dust, hazardous substances.
    - Electrical safety.
    - Fuel type/refuelling/range.
    - Driving distances/fatigue management.
    - Mitigate the risks – identify options, select the best solution & implement.
- **Loads.**
  - What are the loads and how will they be will be handled and carried?;
  - Loads;
    - Consistent & usually always known in advance e.g. containers, liquid tankers.
    - Inconsistent in quantity, type, shape, size.
    - Hazardous e.g. radioactive material, gas cylinders.
    - Valuable with security implications e.g. cash.
    - Difficult to secure e.g. plant & equipment.
    - Oversize in width or length.
    - Creates dust/projectiles while driving e.g. gravel.
    - Needs to be kept at a constant temperature e.g. asphalt, frozen food
    - Cargo barriers.

Fit for Purpose Evaluation (cont)

- Loading /unloading;
  - What equipment will be used? e.g. forklift, loader, manual handling, crane, conveyor.
- How will the load be secured & protected against the weather & theft?;
  - Refer to the Load Restraint Guide.
  - Use a taughtliner, pantec, load cover, panel van.
- Vehicle capacity;
  - GVM and allowable axle loads.

Trailers.

What is being towed?:

- Trailers & towed equipment;
  - Are the trailers always of the same configuration & mass.
  - Can the load in the trailer vary considerably.
  - Trailer braking system suitable & matched to the towing unit.
  - Ergonomics/ease when connecting/disconnecting the trailer e.g. type of coupling & down force.
  - Lighting/warning system & compatibility with towing unit.
  - Rearward visibility for the driver.
  - Safe parking of the trailer when not required or under maintenance.
  - Road train operation.
  - Tipping trailers including stability when raised e.g.. Tri axle tipping trailers.
- Towing unit
  - Size/ power train/ GCM of unit matched to trailers.
  - Braking system/ABS.
  - Stability control system.
- Driver
  - Training in towing .
- Recovery operations
  - What is being towed and how?;
  - Appropriate attachment points.
  - Recovery vehicle and driver experience.
  - Correct tow equipment.
  - Safety of driver.

Driver & passengers

- Driver.
  - Driver skills & license – manual or auto.
  - Ergonomics – special seating, ease of use of controls.
  - Variety of drivers likely to use the vehicle – training.
  - Vehicle use records – electronic data capture.

Fit for Purpose Evaluation (cont)

- Passengers
  - How many passengers are carried regularly?
  - What distances are they usually carried? – comfort, space, clothing.
  - Do they have tools or equipment to transport? – tools boxes, computers.
  - Is it possible to combine the passenger transport and use a minibus?
  - Are members of the public transported?- insurance.
  - Are children being carried – child seats & fittings.
- General
  - Do any of the drivers or passengers have a disability? – wheel chair.
  - Occupant safety – airbags, loose objects.
  - Occupant comfort – heating, cooling.
  - No smoking policy in vehicles – dashboard signs.

Maintenance & support

- Skills & training
  - Applies to driver/operator & maintenance staff.
  - Induction for both and refresh regularly.
  - Access to technical support & services.
- Vehicle access & safety
  - Machine guards, props & interlocks – fail safe, permanent signage
  - Working at heights – ladders, steps.
  - Hazardous situations – hot surfaces & fluids, sharp edges.
  - Electrical safety.
  - Noise levels.
  - Exhaust fumes.
  - Lifting points.
  - Emergency stop controls.
- Automatic systems
  - Automatic progressive shutdown.
  - Warning systems – buzzers, lights.
  - Automatic grease lubrication.
  - On board data collection and download for analysis – logs.

Fit out & bodies

- Accessories
  - Ensure all accessories are approved by the manufacturer where possible.
  - Don't allow in house fabricated accessories that have not been designed correctly.
  - Check stability when fitting cranes including stabiliser legs.

Fit for Purpose Evaluation (cont)

- Body design and construction
  - Only use reputable and proven body designers and fabricators.
  - If you prepare the design you may want to protect your IP.
  - Vehicle mass affects fuel consumption and cycle times – optimise your designs and use high strength materials if possible.
- Storage
  - Understand all of the storage needs including security, hazardous substances, weather protection, vibration.
  - Ensure loads are secured correctly – ladders, sheets, gas cylinders.
- Access
  - Physical access for working, loading and unloading – Australian Standard for ladders, steps
  - Kerb side access where possible.
- Durability & re-use
  - If the body is to be re-used, additional strength, quality, corrosion protection may be needed.
  - Design the body to fit a range of chassis widths and configurations where possible.

- **Passive & active safety**
  - Active safety (helps prevent an accident or injury)
    - ABS and EBD.
    - Stability & traction control.
    - Towing stability/anti sway system.
    - Radar systems – night vision.
    - Xenon headlights – with turning capability, washers, load levelling.
    - Headlights on feature.
    - Cruise control & speed limiter.
    - Tyre pressure monitoring.
    - Pedestrian safety – bull bars, winches.
  - Passive safety (if the accident is imminent or commenced)
    - Airbags – front, side, curtain, knee, progressive activation.
    - Seat belt tensioners.
    - Anti submarining seats.
    - Collision readiness – Mercedes Benz.
    - Soft interior fittings.
    - Storage bins – retain loose objects.
    - In car concierge service – Toyota link.
  - Do not fit sharp objects in cabin – fire extinguishers, brackets.

Fit for Purpose Evaluation (cont)

- **Other considerations**
  - Life cycle costing;
    - Don't over specify in case it might be needed – be rigorous in challenging utilisation and business/operational needs. e.g. how often does the driver need a vehicle winch for recovery operations - consider the cost, low residual value and weight of the winch and the alternatives. Some drivers like to have the accessories as a status symbol.
    - Don't under power your vehicles as they will lose power over time and be less productive, particularly heavy fleet assets.
    - Understand the rebuild cycles and include them in your calculations. E.g. engine and transmission rebuilds and body relining.
    - After you have calculated the lease or charge rate ensure your customer agrees..you may need to review the selection with the customer and make changes.
  - Benefit/salary sacrifice vehicles;
    - Comply with the company motor vehicle policy.
    - If the driver is salary sacrificing you may be able to provide advice on such matters as safety, resale values, fuel consumption and towing to assist them.
  - Company branding;
    - The company fleet sends a message to the community and your customers – what do you want them to think?

Novated Leasing Summary

- **Explanation**
  - A novated motor vehicle lease is an arrangement between the employee, Aurora Energy and a financier that enables the employee to lease a car of their choice, and potentially enjoy the concessional tax treatment accorded to a “company car”.
  - Employee contribution method can benefit employees below the top marginal tax rate at no cost to Aurora Energy.
- **Employee benefit**
  - The employee may receive more after-tax income by taking a novated lease than they would have if they were paying costs associated with the car from their after-tax salary.
  - If the employee leaves Aurora Energy they take the vehicle with them. It may be able to be novated with the next employer or with the appropriate insurance, returned to the financier.
  - The employee can negotiate the lease term and residual value of the vehicle with the financier within the guidelines set by the financier and the ATO.
  - The employee has the freedom of choice of vehicle **within Company guidelines.**
  - The employee may have access to a loan vehicle if their vehicle is off the road for repairs.
  - The employee can allocate the amount of their choice towards providing one or two vehicles including second hand vehicles.
  - The employee can purchase the vehicle at the end of the lease for its residual value.
- **Employee disadvantage**
  - The employee is carrying the risk of the residual value of the vehicle in a finance lease based on the market at the time and the condition of the vehicle.
  - The employee usually carries the equivalent FBT liability in their salary package based on the km travelled.
  - If the employee leaves Aurora Energy they have the ongoing responsibility to maintain the lease payments until they can arrange a new novation arrangement. It is possible to insure against this risk.
- **Aurora Energy Benefit**
  - Fleet management burdens and administrative costs overall are outsourced and reduced as most of the communication, including vehicle changeover, accident management, and any dispute resolution, occurs between the external Leasing Manager and the employee.
  - Upon termination of an employee with a novated lease, there are no ongoing commitments from Aurora Energy in regard to lease payments.
  - Aurora Energy is not responsible for the disposal of the vehicle.
  - There is no asset or liability on the balance sheet and there is no capital tied up in vehicles.
  - If the novation amount is defined for each level and includes all costs such as FBT, it makes budgeting easier for Aurora Energy.
  - Aurora Energy would generally only make one deposit per year to a nominated account and the Leasing Manager would make all payments for the vehicle.

Novated Leasing Summary (cont)

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Fleet Management Options

- **Option 1.**
  - **Retain the existing structure and system of spreadsheets.**
    - Benefits
      - No significant additional cost
    - Risks
      - The fleet will continue to be managed in an unsatisfactory manner with inadequate cost control reporting and planning.
- **Option 2.**
  - **Retain the existing structure and acquire a basic fleet management system.**
    - Benefits
      - Improved fleet management capability / reporting.
    - Risks
      - Extensive implementation period, data cleansing, project management, ongoing system support and reliance on fleet staff to manage the system, maintenance and reporting.
      - Retained focus on transaction processing.
      - No access to benchmark data.
      - Significant project management task
    - Costs
      - System cost (Figtree) $100,000
      - Annual system cost (Figtree) $20,000
      - Annual internal support cost $24,000
      - Implementation cost(est.) $50,000
    - NETT **COST/YEAR** = **$74,000** (system life 5 years)
- **Option 3.**
  - **Change the existing structure and outsource the major fleet management function.**
    - Benefits
      - Significantly improved fleet management capability and reporting.
      - Improved cost control.
      - Access to benchmark data
      - Improved maintenance management and repair authorisation.
      - Fleet staff able to move from transaction processing to fleet management.
      - Short implementation period .
    - Risks
      - Data needs to be cleansed and migrated quickly…excl historical data.
      - Implementation needs to be project managed.
      - Some HR impacts and role changes.
    - Costs
      - Outsource fleet management +$176,000(may be less in a tender process)
      - Reduce Aurora Energy staff X 1 and ICAM cost -$163,000
      - Implementation cost (data) $20,000)
    - NETT **COST/YEAR** = **$17,000**

Recommendations

1. **Fleet Management Strategy.**

   Adopt a fleet management strategy based on business needs, life cycle costing, fit for purpose evaluation and regular review. Each proposed fleet acquisition will be evaluated to ensure that it is required, that its intended use has been fully evaluated and that the total cost of operating the asset over its planned life is known. These decisions will be reviewed regularly to enable the evaluation tools to be refined and current market and cost data incorporated. The fleet is a key component of the service delivery model.

2. **Organisational Structure and Resources.**

   Continue to oversee the management of the Aurora Energy fleet assets with a single corporate team. If the fleet management is outsourced there will be the opportunity to reduce fleet staff numbers after full implementation estimated to be 2 FTE's. It is desirable that one person would be located in the North. The Procurement Manager (to be appointed) will be responsible for the management of the Aurora Energy fleet.

3. **Fleet Management System and Procedures.**

   Discontinue the use of Fleetwatch and replace it with an outsourced fleet management services solution. Adopt best practice where possible. Retain acquisition and disposal in house. Develop standard procedures for all key processes including acquisition and disposal and identify opportunities to simplify and improve.

4. **Fleet Management Services.**

   Outsource the fleet management services to a recognised service provider using a Service Level Agreement to monitor performance. Use the fleet management services template that will be provided to request proposals from selected suppliers and after shortlisting, appoint the supplier offering best value considering their experience, product quality, service support in Tasmania and price. Use the SLA template that will be provided to manage the contract.

5. **Fleet Asset Lease vs. Own.**

   Continue to own all fleet assets unless there is a compelling business case to lease. The decision to own fleet assets should be reviewed annually taking into account access to and the cost of capital, business growth plus the ongoing capability of the Aurora Energy fleet staff to manage the acquisition and disposal process and residual risk. Outsourcing fleet management services will assist in owning the fleet.

6. **Replacement Parameters and Costing.**

   Adopt the recommended replacement parameters and use life cycle costing to evaluate options. If the assets are owned then there is flexibility to modify the parameters for particular circumstances. Life cycle costing should be based on Aurora Energy data and benchmarked where possible. Savings can be invested in modernising the heavy fleet assets.

Recommendations (cont)

7. **Fleet Acquisition and Disposal.**

   Continue to utilise the State Government contract where possible and contracts with remarketers to obtain best value. Continue to use Pickles as the principal remarketer of Aurora Energy vehicles and use their database to monitor vehicle sales and to assist in setting residual values. Consult regularly with Pickles staff to identify trends and opportunities to improve sale prices. Consider testing the market for these services within 12 months.

8. **Fleet Specifications and Fit For Purpose Evaluation.**

   Use a fit for purpose evaluation process to develop all fleet specifications. Take into account all operational and Occupational Health and Safety and environmental requirements as well as consultation with operations and maintenance staff when preparing fleet specifications. Fit for purpose evaluations should be based on task groups and not specific makes and models.

9. **Fleet Utilisation.**

   Monitor fleet utilisation to identify opportunities for fleet rotation and rationalisation. Target high and low fleet utilisation as well as feedback from Divisions to identify where fleet assets may be able to be better utilised or removed from service. Assess the past utilisation before replacing any asset.

10. **Planning and Budgets.**

    Use a business planning approach to develop operating and CAPEX budgets to manage the fleet effectively. It is important to have agreed budgets for the current FY as well as CAPEX estimates for at least the next five years for vehicles and ten years for heavy fleet. The fleet budget should be prepared at least three months before the start of the FY using current FY data and zero based budgeting where necessary.

11. **Risk Management.**

    Assess all key fleet business decisions and operations procedures using a risk evaluation methodology. The risks in managing a large fleet need to be fully understood and the appropriate mitigation actions implemented. This will include conducting risk assessments on all key fleet operations particularly vehicle loading and off road operations.

12. **Motor Vehicle Accidents.**

    Monitor all vehicle accidents and investigate all vehicle accidents with damage over $1,500. Understand the trends and overall fleet performance against known benchmarks so that a practical and cost effective driver awareness program can be provided. Introduce a commercial premium for all fleet assets and a $1,500 excess per claim. Report performance regularly using the accident rate per 1,000,000km.

Recommendations (cont)

13. **Reporting and Analysis.**

    Develop the range of reports to enable the proper analysis of fleet performance. If the fleet management is outsourced, the supplier will be able to provide all of the necessary reports to Aurora Energy fleet staff who will use a range of KPI's to monitor and report on the operation of the fleet. The supplier should also be able to assist with any analysis and benchmarking.

14. **Human Resources.**

    Develop a fleet workforce plan to include succession and training. The auto industry and the fleet management industry are both very dynamic requiring regular exposure to maintain the necessary standard of knowledge. Outsourcing will assist in this regard as the supplier will be another source of current information. Clarify the roles to ensure consistency with the fleet management strategy and corporate objectives.

15. **Motor Vehicle Policy.**

    Develop a comprehensive Motor Vehicle Policy to enhance staff accountability. The addition of a signed statement of responsibility by each Aurora Energy employee who drives a Company vehicle will reinforce the accountability and reduce the risk to Aurora Energy. The Policy should be developed using the suggested criteria in Slides 48 and 49.

17. **Environmental Impact.**

    Using the guidelines in Slides 40 to 42 to identify opportunities to reduce the environmental impact of the fleet without adversely affecting operational effectiveness or imposing unnecessary costs. Fuel consumption and emissions can be reduced without compromising performance or costs. Establish an emissions target for the fleet using grams of CO_2 per km travelled. Aurora Energy may wish to consider carbon offset programs.

18. **Communication.**

    Develop a regular communication channel such as a quarterly insert in the Aurora News. Provide a means for all Aurora Energy staff to give feedback and suggestions relating to fleet management and operations. Conduct an annual fleet satisfaction survey and six monthly meetings with key senior and operational staff to identify improvement opportunities.

Recommendations (cont)

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19. **Driver's licenses.**

    During staff induction sight and record the driver's license details. On an annual basis request staff to update their details and over a 6 month period obtain the license details of all current staff. Use the current training records database for licenses.

20. **Fleet Numbering.**

    Reduce the current number of fleet classes to those listed in Slide 37. Introduce the new number as assets are replaced and establish cost codes based on the new classes.

21. **Depreciation method.**

    Adopt a depreciation method for fleet assets based on the total capitalised purchase price, the estimated residual value and straight line depreciation over the economic life for the particular class of asset. The parameters for economic life are referred to in recommendation 6.

22. **Fleet downsizing.**

    By adopting the environmental recommendation 17, there will be a reduction in the size and cost of many vehicles. Only use 4WD vehicles where there is a demonstrated need for that capability and in such cases only use diesel engine commercial 4WD vehicles rather than all wheel drive passenger vehicles.

24. **Overheads.**

    Review the level of corporate overheads applied to the fleet and consider allocating the overhead directly as part of the total ICAM allocation.

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