Implications of the Spending Review on Fleet Operations

The Government published the long-anticipated findings of its comprehensive Spending Review for the next four years this week.

With the focus on eliminating waste and reforming the public sector for the modern age the country is to undergo the biggest spending cuts since World War II. The four years of cuts were guided, said Chancellor of the Exchequer George Osborne, by the three principles of reform, fairness and growth.

Below we highlight what the Spending Review means for fleet operations and travel policies across the public sector.

Introduction

The Government has revealed plans to save £100 million a year in travel costs as it seeks to implement new standard policy guidance across departments.

Meanwhile, about 490,000 public sector workers are expected to lose their jobs as a result of swingeing spending cuts over the next four years to 2014/15 as announced in the Government’s Comprehensive Spending Review.

State workers across Government departments, county and district councils and health trusts will all be impacted by across-the-board cost-cutting including lower pay, compulsory redundancies, job vacancies left unfilled and recruitment freezes.

The targeting of cash savings in travel in Government departments - across the entire public sector the savings could be much greater - follows the highlighting in separate reports of the sector being a huge area of waste and a gravy train for employees, particularly those who drive their own cars on business trips and claim mileage through their expenses.

Earlier this month (October) a damning portrait of Government inefficiency and money wasting was painted in a review of spending by businessman Sir Philip Green with car hire singled out as one of the clearest examples of poor practice.

Sir Philip’s report concluded: “We have examined central Government, but the whole public sector should be able to take advantage of better procurement by the centre.”

Meanwhile, a string of evidence from the Office of Government and Commerce and the Energy Saving Trust reveals that the public sector spends millions of pounds on reimbursing employees who drive their own cars on business - the so-called ‘grey fleet.

A report by the OGC, now part of the recently established Efficiency and Reform Group within the Cabinet Office, concludes: “Where organisations have taken steps to manage grey fleet travel financial savings have been achieved, both direct and indirect.”

In highlighting that leasing a company car, renting a vehicle or encouraging staff to use public transport are all significantly cheaper alternatives to own vehicle use, the OGC report says: “Based on the experience of the OGC, a 20% reduction in organisational grey fleet mileage of 10 million miles could generate an annual net saving of over £1 million.

“10 million miles at an average speed of 40 mph would take up to 250,000 hours. Assuming an average hourly cost of £15, this would represent £3.8 million of indirect costs, which could be reduced through eliminating unnecessary journeys and using alternative forms of transport like the train.”

But, against that background, employees working in Government departments, local authorities and across the public sector in general will still have to travel.
The Government consistently fails to make the most of its scale, buying power and credit rating, according to the review of Government efficiency by Sir Philip.

While the focus of the review commissioned by Prime Minister David Cameron was focused on Whitehall departments, Sir Philip’s conclusions reach across the entire public sector. The report found that centrally the Government spent £29 million a year on vehicle hire but that there was no standard policy for vehicle rental. A benchmark on a sample of vehicle hire across four Whitehall departments found that daily rates of rental for a category D vehicle (Ford Mondeo1.6 or equivalent) varied between £27 and £119, a difference of 77%.

The report also found that there was no mandate to purchase even basic commodities through a central team. As a result the Government was unable to leverage its buying power, nor follow best practice.

The report added: “Procurement data is shocking - it’s both inconsistent and hard to get at. There is inefficient buying by individual departments, with significant price variations across departments for common items.”

In highlighting the Government’s travel budget as an example, the report said: ‘We were initially advised that the annual travel spend for central Government was £2 billion; the second estimate was £500m; the third estimate was £768m. A thorough review revealed that the actual spend was £551m.

“There is considerably more spent on travel outside central Government but we were unable to confirm actual spend,” said the report.

Sir Philip said: “This report gives a fair reflection of the inefficiency and waste of Government spending, which is due mainly to very poor data and process.

“There is a huge opportunity that has been clearly identified both in central Government and beyond, but without a clear mandate, energy, focus and commitment, this cannot be delivered.

“I am deliberately not going to place a total number on the waste and/or the saving. I think from this report it is clear that the prize for the taxpayer is too big and significant not to chase.”

The report added: “We have examined central Government, but the whole public sector should be able to take advantage of better procurement by the centre.”

Mr Cameron commented: “I think it’s a good report, it will save a lot of money and it’s important we do it.”

While the Spending Review highlighted travel budget savings of £100 million a year, papers accompanying the Chancellor’s announcement did not disclose the actions to be taken.

The report can be read at http://download.cabinetoffice.gov.uk/efficiency/sirphilipgreenreview.pdf

Venson Automotive Solutions’ Comment

Sir Philip’s report highlights the failure to adopt best practice procedures across Government departments and assumes similar policies are adopted across the public sector.

The highlighting of the £119 charge for the hire of a Ford Mondeo beggars belief that it could be sanctioned - but then the manager responsible perhaps had no knowledge of the real world price of rental or fleet best practice.

It is essential that the entire public sector puts its transport operation - fleet and own vehicle use - on a professional footing.

Typically, fleet expenditure will be the second largest employer cost after staff so budgets, in most cases, will be huge.

Utilising the knowledge and experience of professional vehicle funding and fleet management specialists will help to identify where cost savings can be made and where best practice is not being followed.

In our experience very few organisations have an absolute handle on the true real-world costs of their fleet operation; their travel expenditure; or mileage expenses. Therefore, a major exercise in data gathering is the first step.

Our experts will help you gather data, analyse your current operating policies, procedures and costs and will then make a series of recommendations that will enable you to save money by operating along best practice lines.

A root and branch review of all fleet and travel costs is essential. But, public sector managers should resist wielding the cost-cutting axe immediately as, long-term, such instantaneous moves may well prove counter productive and send costs soaring.

But, as the private sector has found a well developed travel strategy based on best practice will deliver improved efficiencies and cash savings for the long term.
The ‘Grey’ Fleet Issue

The Office of Government Commerce, an independent office of HM Treasury, has called on public sector organisations to review ‘grey’ fleet use - staff driving their own cars on business trips and claiming mileage.

In the public sector, evidence indicates that ‘grey’ fleet use makes up around 57% of total road mileage. Across the whole of the sector, this could add up to as much as 1.4 billion miles every year, according to the OGC, at a colossal cost in taxpayers’ money.

The management of ‘grey’ fleet travel plays an important part in supporting three key policy areas - health and safety, environmental sustainability and financial efficiency.

Therefore, effectively managing ‘grey’ fleet use is about removing unnecessary mileage and transferring travel to more environmentally efficient and cost effective alternatives like lease or hire cars, public transport and tele/video conferencing, as well as minimising the risk where employees do drive their own car for work purposes.

With a wide disparity in mileage rates paid by local authorities, concerns over whether employee-owned vehicles meet at-work driving health and safety standards and the age of those vehicles prompting concerns that they are not as environmentally-friendly as newer vehicles, the OGC highlights the array of ‘better’ alternatives.

There is no doubt that mileage rates can be an incentive for staff using their own cars on business to clock up mileage so improved journey management controls need to be introduced.

As a result, making use of modern, environmentally-friendly pool cars, daily rental or ‘company’ cars may be more cost-effective than paying mileage rates.

Data from the Energy Saving Trust suggests that:

- Employers place no age restriction on non-company cars with the average privately-owned car in the public sector being almost seven years old; while the average company car is around two years old
- Almost all employers ignore CO₂ emissions of private cars that employees use for business but they admit around 10% more CO₂ than the average company car.

But, for many organisations the complexity of building up an accurate picture of how many ‘grey’ fleet vehicles are in use and their age; how many miles are being clocked up; and how much those journeys are costing is a daunting task.

Duty of Care

Meanwhile, employers allowing their staff to drive their own cars on company business are fueling a health and safety timebomb. In the eyes of the law, employers are responsible for the health and safety of their at-work drivers irrespective of who owns the car.

Therefore, the same occupational road risk management policies that govern company car and van fleets apply to ‘grey’ fleets. Yet, anecdotal evidence suggests that many public sector organisations do not have the same policies, procedures and robust document checking processes in place in relation to employee own car use as they do with ‘company’ vehicles.

Conclusion

That is not to say that allowing employees to use their own cars on business trips is bad policy. While the ‘grey’ fleet is not the most cost effective method of transport available to an employee, it may be preferred for a range of reasons, including:

- Employees may not be aware of the other, more cost-effective, alternative methods of transport that are available
- Effective journey planning may not be being undertaken - ‘grey’ fleet is easy
- In some cases, the mileage rates offered by departments may be preferred for a range of reasons, including:

But, without appropriate demand management measures, ‘grey’ fleet use can lead to rising mileage in employee-owned cars, as well as rising mileage costs while doing little to help the public sector reduce its carbon footprint or improve its risk management.

Environment

400,000 tons of CO₂ are emitted, on average, from ‘grey’ fleet cars over 1.4 billion public sector miles. That is an annual carbon profile that would take 550,000 UK trees their whole lifetimes to offset.

With an average of 57% of public sector road mileage travelled in the ‘grey’ fleet, the reduction of emissions from employee-owned vehicles is key to achieving Government targets for sustainable operations.

This in turn requires the gathering of solid management information on ‘grey’ fleet travel, as well as the implementation of policy changes to reduce ‘grey’ fleet mileage, or transfer it to lower emitting forms of travel.

Financial Cost

Employers are able to reimburse up to 40p per mile for the first 10,000 miles per annum and 25p per mile thereafter without any benefit-in-kind tax implications for the employee or Class 1A National Insurance implications for the employer.

An organisation travelling 10 million ‘grey’ fleet miles a year will be spending £2.5 to £4 million per year - or more where annual cash alternative payments are made to ‘grey’ fleet drivers.

Most central civil government departments pay mileage at 40p per mile higher rate and 25p/mile public transport rate, though there are examples of organisations paying 81p/mile and higher, according to the OGC.

Meanwhile, the Energy Saving Trust calculates that employers should consider that for journeys above about 80 miles in a day it might be cheaper to use a daily rental car rather than requesting employees use their own vehicle.
Venson Automotive Solutions’ Comment

To minimise the impacts of ‘grey’ fleet travel, policies should highlight the requirements for employees to use the most economic and efficient method of travel, taking into account the cost of travel, environmental impact and timing factors.

This may include setting required methods of transport for certain journeys and restricting the use of the ‘grey’ fleet to journeys below a certain distance.

Communication with staff is vital if new policies and procedures are to work successfully. It is essential that employees understand what is being asked of them and why and to firmly establish the aim of the new measures.

Policies should be reviewed on a regular basis - at least annually - to ensure that they are kept up-to-date and current thinking and best practice with all risks fully controlled.

Small, simple improvements in ‘grey’ fleet management can collectively make big differences.

The OGC says:
• Organisations should adopt ways to eliminate unnecessary travel
• Transfer existing mileage to alternative forms of travel that are safer and more sustainable

So how can Venson Automotive Solutions help the public sector implement best practice policies and procedures that deliver savings whether it is in vehicle provision, ‘grey’ fleet use, journey planning, fuel management, vehicle choice etc?

There is no doubt that many public sector organisations struggle to effectively manage ‘grey’ fleet use, on grounds of resource, expertise and the greater difficulty in monitoring vehicles not directly owned or managed by the organisation.

With thousands of jobs across the sector scheduled to be lost that task will not get any easier.

Using our expertise we will analyse your organisation’s current operating policies, procedures and costs and make a series of recommendations that will deliver financial savings without compromising on operational efficiency.

The financial savings generated can then be used to maintain frontline public sector services to the benefit of the community at large. Investing in knowledge and expertise will deliver cost benefits.

Workshop Management

Many public sector fleets have historically owned their own workshops which undertake the service, maintenance and repair of a wide cross section of vehicles and plant.

However, in recent years the trend among some organisations has been for them to outsource management of the workshops as they are deemed a non-core activity.

For the last almost two decades the focus of the private sector has been on divesting themselves of any services that are not core.

With that same cost management focus now at work in the public sector, many organisations should now consider the financial savings that can be made by handing over management of workshops to the private sector.

The benefits to the organisation would be that costs could be driven down, workshop utilisation could be increased and improved efficiency would result.

Venson Automotive Solutions’ Comment

We have the specialist knowledge in delivering not only day-to-day fleet management and administration but the capability to run public sector workshops.

As examples, Venson Automotive Solutions already has in place long-standing contracts with both Nottinghamshire Police and Hertfordshire County Council to manage workshop provision in addition to fleet vehicles.

Lucas Ortega, Head of Procurement, Nottinghamshire Police: “Our vehicles need to meet exacting health and safety standards and be back on the road as quickly as possible after repair or maintenance - we can’t afford to take chances or run a fleet at less than full capacity. Our Nottingham City review helped us realise that efficient fleet management is vital to the delivery of our public commitment. We quickly became aware that we would be much more likely to achieve Best Value by outsourcing our fleet management to a specialist provider.”

“Our decision to outsource our fleet to Venson was definitely the right move. We are now able to offer our police drivers good service, much better availability and the assurance that their vehicles should always be fit for purpose. Working with a specialist fleet management provider has moved us much closer to our best value targets.”

It is difficult to think of another vehicle leasing and fleet management specialist that has the capability of taking on workshop management in addition to funding, supplying and managing vehicles through their lifecycle.

With our workshop management experience and a track record that reflects improved utilisation and a reduction in costs, we believe that outsourcing workshop management is another key area where financial savings can be achieved across the public sector.
To find out more about the financial benefits and operational advantages that working with Venson can deliver to your organisation, contact us on 08444 99 1402 or email: sales@venson.com