



Government
of South Australia

TRS19D1382

Hon Stephen Mullighan MP
Member for Lee
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Dear Mr. Mullighan

APPLICATION UNDER THE FREEDOM OF INFORMATION ACT 1991

I refer to your application made under the *Freedom of Information Act 1991* (FOI Act), dated 22 May 2019.

Your application seeks access to:

"All minutes, briefings and correspondence titled 'Fleet Management Model' as described on the Objective document management system, between 12 July 2018 and 22 May 2019."

The legislative prescribed timeframe to determine this application has expired and is now deemed to have refused you access to all documents relevant to your application. I refer to my letter dated 26 May 2019 where I sought additional time to make my determination.

The purpose of this letter is to advise you of my determination. An extensive search was conducted within this office. A total of 1 document was identified as answering the terms of your application.

I refuse you access in part to 1 document; a copy of which is enclosed.

Document Refused in Part

This document is released in part as the information contained in the mentioned table was provided by the Fleet Management Business Improvement peer group under a confidentiality agreement.

Under clause 5 of Schedule 1 to the Act, information is exempt from disclosure if it contains matter the disclosure of which could reasonably be expected to cause damage to intergovernmental relations; or would divulge information from a confidential intergovernmental communication.

I therefore determine this information exempt pursuant to clause 5(1)(a)(ii).

Exemptions

Clause 5 – Documents affecting inter-governmental or local governmental relations

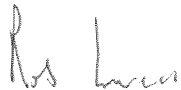
- (1) *A document is an exempt document if it contains matter—*
- (a) *the disclosure of which—*
 - (i) *could reasonably be expected to cause damage to intergovernmental relations; or*
 - (ii) *would divulge information from a confidential intergovernmental communication; and*
 - (b) *the disclosure of which would, on balance, be contrary to the public interest.*

As I am determining this application as Principal Officer, Section 29(6) of the Act does not provide for an internal review. If you are dissatisfied with my determination you are entitled to exercise your rights of external review with the Ombudsman.

Alternatively, you can apply to the South Australian Civil and Administrative Tribunal. If you wish to seek a review, Section 39(3) of the Act states you must do so within 30 calendar days of receiving the determination.

If you require any further information, please contact Vicky Cathro on 8226 9769.

Yours sincerely



Hon Rob Lucas MLC
Principal Officer

30 November 2019

RELEASE IN PART

MINUTE

2/08/2018
 T18/028
 T.R.S18.D1.445



Government of South Australia
 Department of Treasury and Finance

MINUTES forming ENCLOSURE

File SAF18/0011
 Doc No A901984

To The Treasurer

FLEET MANAGEMENT MODEL

Timing: Routine — For Noting

Recommendations/Issues: It is recommended that you

- Note the briefing on the current fleet management model for the SA Government passenger and light commercial motor vehicle fleet.
- Note the discussion on lease versus buy for the fleet.
- Note the contracts for the current fleet management and vehicle disposal management services expire in July 2019 and a new procurement process for those services has commenced.

1. Provide copy of 'benchmark' comparison with other states

2. Detail of what has been done over last 9 months of 'former procurement process'.

3. Do any of the 'extensive credits' referred to various benefits of current system to alternative options.

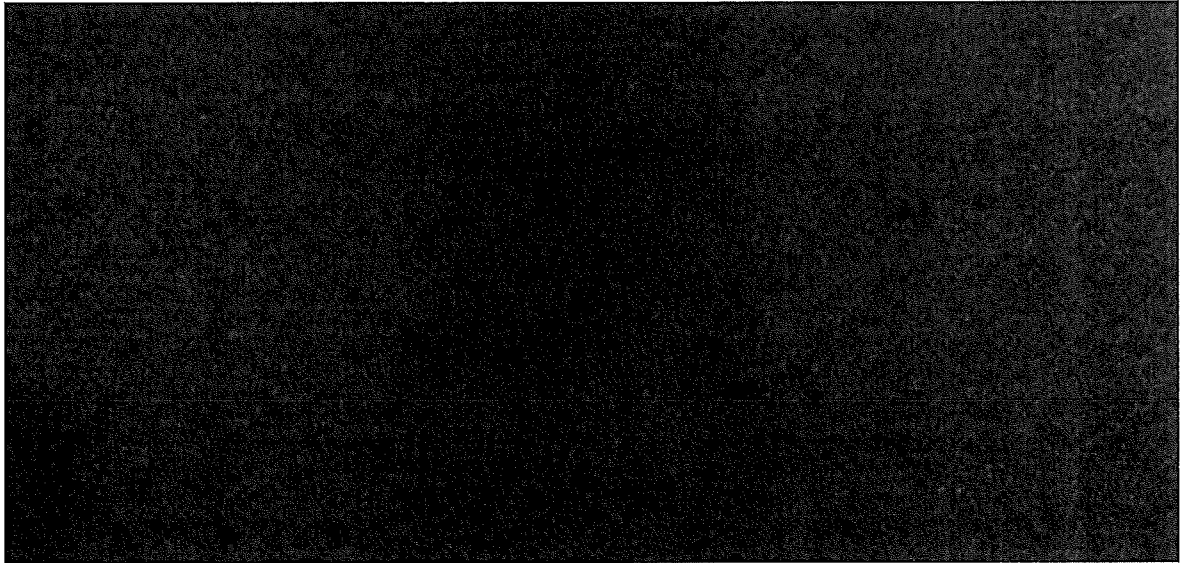
Noted
 Hon Rob Lucas MLC
 Treasurer
 19/8/2018

Key Points:

- The South Australian Government Financing Authority (SAFA) owns and finances the government passenger and light commercial motor vehicle fleet.
- In 2009, the Fleet Division was transitioned from the Department of Treasury and Finance into SAFA.
- The 2010-11 Budget Measures Statement included three savings initiatives for the motor vehicle fleet. These were:
 - Motor vehicle fleet – increase utilisation (\$14.9m over three years);
 - Motor vehicle fleet – improvements to fleet mix (\$13.3m over three years); and
 - Fleet management – alternative arrangements (\$3.5m over three years).



- All budget savings targets were achieved, and the total savings over the three years was \$31.7 million. The saving benefits have continued past the 2013-14 financial year.
- The fleet management alternative arrangements initiative involved SAFA ceasing to manage internally the fleet.
- In 2010, SAFA approached the open market with a Request for Proposal that was subsequently approved by Cabinet to appoint LeasePlan Australia Ltd as Fleet Manager and Pickles Auctions Pty Ltd as Vehicle Disposal Manager for a period of three years with two options of two years to extend for a total term of seven (7) years. Both contracts have had their extension options exercised and expire in July 2019.
- In addition to the saving targets, the Fleet Operations unit and Government Auction facility located at Netley were closed. The number of public servants was reduced from 54 to 18.
 - Four FTE were retained for the short term hire pool, parking and executive vehicle management.
 - Five FTE were retained for crash management (SAFA self insures).
 - Nine FTE were retained for contract management, including fleet management, vehicle disposal management, rectification, finance, business analysis, planning, policy setting, accounting and reporting.
- The Police fleet is owned by SAFA; and Police have retained most aspects of fleet management internally.
- In 2010, the fleet contained 8,770 vehicles. As at 30 June 2018, the active fleet size has reduced to 6,960 vehicles including 1,070 Police vehicles.
 - There are approximately 300 vehicles held for sale at Pickles at any point in time.
 - There are approximately 1,200 vehicles on order at any point in time, reflecting a six month replacement order bank.
- In summary, under the current model for the passenger and light commercial motor vehicle fleet, SAFA has essentially outsourced the operational aspects of the fleet and has retained responsibility for the following functions:
 - Strategic management of the fleet;
 - Financing;
 - Setting lease rates including residual values; and
 - Accident management.
- The current status of fleet management for State, Territory and Commonwealth government jurisdictions around Australia is shown in the following table.



Lease versus Buy

- Currently the motor vehicle fleet sits on SAFA's balance sheet in the Public Finance Corporation Sector and vehicles are leased to government agencies by SAFA.
- The question has been raised as to whether the government should lease the fleet from the private sector, noting that the operational management aspects of the fleet have already been outsourced to the private sector.
- The new accounting standard AASB 16 will come into effect from 1 July 2019. The new accounting standard will result in the vehicles being recorded on leasing agencies balance sheets, regardless of who owns the assets. Hence, transferring ownership of the fleet to the private sector will have no impact on the state's overall balance sheet.
- Under the current model where the fleet is owned by SAFA and leased to agencies, the major benefit is lower lease rates and therefore lower cost overall to manage the fleet. This is mainly driven by the following factors:
 - Lower financing costs as no industry fleet manager or bank can offer interest rates as competitive as SAFA;
 - Closer management of the residual value setting process – the difference between the purchase price and sale price of the vehicle (ie residual value) is the major cost associated with a vehicle;
 - A fleet manager who owns the fleet will include a profit margin in the lease rates, along with a buffer in the interest rates and a safety margin in the residual value setting process; and
 - Any profit made by SAFA on the fleet is returned to government through SAFA's tax equivalent and dividend payments.
- Some of the other benefits of owning the fleet include:
 - Centralised management, control and reporting:
 - Control over fleet mix, optimisation, utilisation, and retention periods;
 - Control over the size of the fleet, avoiding fleet creep;
 - Control over minimum vehicle safety specifications;
 - Control over standards of rectification and cost at end of lease; and
 - Control over vehicle registration and insurance costs.
 - Ability to implement across government initiatives associated with the fleet;

- Contract and performance management of vehicle manufacturers;
 - Support for local state wide dealership network;
 - Ability to ensure the spend is retained in South Australia;
 - Ability to run pilot programs, trials and new technology;
 - Ability to better manage Police security requirements;
 - Ability to better manage centralised programs – driver training, car share, environmental targets, Work Health and Safety; and
 - Maintain goodwill in the brand at sale.
- Owning rather than leasing the fleet provides more flexibility for government. It is acknowledged that some of the controls identified above could be written into a contract, and managed by service level agreements.
 - The major benefit of leasing is freeing up capital for use elsewhere in government. With the changes to the accounting standards for leasing, leases will now be recorded as a liability on the balance sheet.
 - The other major benefit of leasing is to transfer fleet management responsibilities to an industry expert, to enable an organisation to focus on its core activities. This has already been achieved in the South Australian model through outsourcing of fleet management and vehicle disposal management services.

Assessment of the Current Model

- The current model operating for the government fleet involving owning the fleet but outsourcing operational aspects of the fleet is working well.
- Significant cost savings were delivered through outsourcing operational management of the fleet and close management of outsourcing contracts and a central management focus on the fleet has ensured fleet costs have not crept up over time.
- Fleet SA benchmarks key fleet indicators every six months, against all other State and Commonwealth Government jurisdictions, and is performing very well.
- Pickles, our vehicle disposal agent, benchmarks sales information across Australia. Fleet SA is a price leader for vehicle model by model comparison of prices achieved at auction.
- We are aware of issues in NSW with creep in the size of the fleet since they have moved to external leasing, and removed centralised control. The NSW state fleet has increased by over 300 vehicles from March 2017 to March 2018, against a normal trend of reducing vehicles.
- The current model operating in South Australia involving retaining ownership and using industry experts to manage the fleet and vehicle disposal, is used by the Commonwealth, Western Australia and Tasmanian governments.

Current Procurement Process

- The current Fleet Management and Vehicle Disposal Management Agreements expire in July 2019.
- Due to the complex nature, high value, and requirement for the Crown Solicitor's Office input, the formal procurement process to approach the open market commenced approximately nine months ago. That process is nearing completion and SAFA is

targeting the DTF Accredited Purchasing Unit and the State Procurement Board for approval in the near future.

- The current fleet management and vehicle disposal management model has worked very well for SAFA and the current procurement process proposes that the current fleet management model will continue. The procurement process will allow for further innovative solutions for management of the fleet.
- Both fleet management and vehicle disposal management arrangements have been extensively audited by the Auditor General's Department, Ernst and Young, Price Waterhouse Coopers and SAFA's internal compliance auditors throughout the life of the contracts and no significant issues have been identified.
- Market research over the past eight years has revealed a robust and very competitive fleet management supply chain that attracts international and Australian companies. The vehicle disposal management is predominately one or two strong suppliers.
- Given the success of the current fleet model, SAFA is proposing to enter into a longer term contractual arrangement ie contracts for a period of five (5) years with two (2) options of five (5) years for a total term of 15 years (each contract). To provide flexibility, the contracts will include provision for SAFA to terminate without cause by providing six months' notice.
- The recommendation for a longer term in future arrangements, is based on the sound knowledge that the processes and procedures currently in place are robust and transparent and additionally the supply chain market research revealed a longer term would be favourable to the market and would reduce the significant procurement effort for suppliers and government.
- The new procurement process has included extensive consultation with stakeholders across government. Eighteen agency representatives including Directors and senior managers, who are responsible for the management of motor vehicles, were interviewed.
- The overall response from the agencies was positive to the current arrangements with minimal requirements to change the fleet management or vehicle disposal management model.
- The estimated value of the new Fleet Management arrangement, based on 6,860 vehicles in the fleet over 15 years, is \$18.1 million (inc GST).
- The estimated value of the new Vehicle Disposal Management arrangement, based on 2,151 vehicle sales per annum over 15 years, is \$16.3 million (inc GST).
- It is possible to test the open market for a full lease option in the procurement process. However, this will require the current process to be put on hold and the existing contracts extended for a further 12 months.
- Separate briefing on the environmental target for the fleet including composition of the fleet and the Executive Vehicle Scheme are being prepared for your consideration.



Kevin Cantley
GENERAL MANAGER, SAFA

2 August 2018

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