

28th August 2007

REPORT BY DIRECTOR OF TECHNICAL SERVICES

FLEET MANAGEMENT TRADING OPERATION

1 Purpose of Report

- 1.1 To update the members of the Trading Operations Sub – Committee of the activities of the Fleet Management trading operation for the period 1ST of April to 30th of June 2007.**

2 Background

- 2.1 Fleet Management DSO is a trading organisation which provides vehicle procurement, fleet management, vehicle maintenance and a repair service for SBc Contracts, and a range of other SBC departments as well as some external private clients.**

3 Business Performance and Update

3.1 Workload:

We have recently made proposals to both Eildon Housing and to Borders College to undertake maintenance on their respective vehicle fleets. In the case of Eildon Housing a fleet of 7 new light commercial vehicles is involved. We currently maintain 3 coaches for Borders college and they are considering extending this to cover an additional 12 minibuses. The volume of additional work is not large but does represent two important local clients with whom we have been trying to develop a working relationship for some time.

However there are now questions marks as to whether or not we will be able to undertake this or any other external work given the reduction in productive capacity we have experienced over the last month, as a result of the loss of six skilled fitters outlined under point 3.5 of this report. The short to medium term commitment on these vehicles is low and the risk of adding to any backlog is minimal as the contract can be terminated by either party with 1 months notice. We would hope to address the workload issues arising under point 3.5 in the near future, in the meantime there is still no firm commitment made by either client to place this work with us.

General workload in the form of Contract and Day-works will continue to be monitored closely on a monthly basis to identify any shortfalls that might arise from current capacity restrictions.

3.2 Budget:

The issues discussed under point 3.5 related to staff retention has budgetary implications for Fleet Management. No budget has been allocated in 2007/08 to pay for a market related wage supplement. A change of this nature would adversely affect the budgeted surplus unless passed on in the form of higher charge-out rates which would also have budgetary consequences for our internal clients. The magnitude of these consequences will be quantified as soon as the level of the premium has been

confirmed and final agreement to implement it given. We would hope to report on this in more detail at the next trading committee meeting.

3.3 **Updated Projections:**

Projections are still under preparation as part of the current budget monitoring round and will be reported in full at the next Trading Committee meeting. The data available for the first quarter of the year indicates that the surplus would be around £2k lower than the budget of £25k.

However, we are concerned that the loss of fitters which has occurred subsequently will lead to budget surplus pressure in the coming months. This pressure could arise from either declining income as a result of restricted capacity or from the future costs involved in finding a solution to the capacity problem. The situation will be monitored closely and reported on further at future Trading Committee meetings.

3.4 **Resources:**

Resources are required to undertake essential depot upgrading work at the Newtown and Duns depots.

The Duns depot is suffering from major drainage and sewage problems in the old facility. The sewage system backs-up on occasions filling the vehicle pits and preventing their use by fitters. The workshops also need major refurbishment to meet health and safety requirements. The underground fuel tanks and pumps need to be replaced to avoid future pollution issues, similar to those recently experienced at the Langlee Re-cycling facility, and to take advantage of new fuel monitoring technology.

The first phase of the Newtown depot upgrade was completed in 2005 which allowed the closure of the Galashiels depot and the transfer of staff to Newtown. Phase 2 has yet to be undertaken. This will involve upgrading the vehicle maintenance and fabrication workshops and the installation of above ground fuel tanks. Phase 2 also incorporates an upgrade to our Workshop stores which are inadequate for a modern operation and for our future needs. Fleet proposes to undertake MOT testing on council light commercial vehicles and it is important to facilitate the introduction of in-house MOT testing with the necessary investments. It is also proposed to investigate the viability of using solar and wind energy systems to heat and light the premises.

These depot resource requirements will be the subject of a forth-coming report to the Capital Management Group which will include a full costing of the requirements.

3.5 **Staffing:**

The issue of retaining skilled workers, which was discussed on several occasions at Trading Committee meetings last year, is again proving to be a major issue. In the past four weeks we have lost 6 skilled fitters who have left our employment. In addition a seventh fitter is ill and we expect this to result in early retirement. This will leave the overall number of fitters employed in our workforce at only 12 against a budgeted establishment of 20. This is a very significant productive capacity shortfall which will impact on the service we can deliver and eventually on our costs and financial performance. This level of in-house capacity reduction will lead to under-recovery of our fixed overhead costs and possible backlogs of work for our clients. Although this can be partially offset in the short-term by higher overtime levels this carries a cost premium which is not budgeted for. Our ability to sub-contract work as a means of avoiding a workload backlog is also quite limited due to a lack of suitable capacity available locally.

We are making immediate efforts to try and fill these vacancies but past experience suggest that this will not be easy in the current marketplace where our rates of pay are seen by qualified fitters as lower than those attainable in the private sector and elsewhere. We have therefore urgently sought agreement with HR to pay a market wage supplement in an effort to stem the loss of fitters and improve the prospects of recruiting and retaining staff. We have been assured by HR that the interim premium

being sought does not breach the expected wage that will be awarded to this group as part of the job families restructuring. The premium being sought to rectify the staff retention problem will however have adverse implications for this year's Fleet Management surplus target. As mentioned under 3.2, if additional costs were passed on to our clients by charging higher rates this would have adverse budgetary consequences elsewhere within the council. This will be fully quantified when final agreement is reached and reported on at the next trading committee meeting.

3.6 **Training:**

Courses are being sought for the fabrication apprentices. Members of Fleet management staff will attend procurement training as required by central procurement, and the McClelland Report. Driver awareness and training provided by Fleet management is being reviewed to include advice on driver reversing using video and Power-point presentations.

Our in-house and external fitter training matrix is reviewed annually as part of our PPDPP and evaluated by BSI and Internal Audit.

3.7 **Health & Safety:**

A number of issues with regard to depot safety remain outstanding and can only be addressed by appropriate capital investments at the Duns, Newtown and depots as outlined under point 3.4. We are aware there are potential Health, Safety and Welfare issues at both these depots which could ultimately lead to HSE prohibition notices that might close down depot activity. Recent HSE policy focusing on vehicle movements within sites, particularly when reversing, indicates a change in emphasis towards this area.

A dangerous goods incident occurred at Galafoot on Monday 30th July where a vehicle fitted with a chemical store was burgled and set on fire. The chemical stored on the vehicle was thrown over the cab by the perpetrator(s), and emergency services issued a warning through the media as the individual(s) involved could have been at risk from the chemical involved. At this time there has been no response from any member of the public to the warning issued. The matter is the subject of an internal Health and safety investigation and in the meantime no chemicals are to be stored on the vehicles.

There are also a number of welfare issues related to the Newtown depot office accommodation. This comprises two rented portacabins which provide basic and cramped accommodation and is remote from the workshop. There are no messing facilities whatsoever for staff who must cross the compound in all weather to the main office block. Toilet and wash room facilities for fitters and apprentices are located 150 metres further away.

Fleet management have been tasked with introducing a method of reducing accidents within SBC. Glasgow Council has a robust accident reduction scheme in place which Fleet management propose to introduce in a revised format for our needs. The introduction is planned for October of this year.

4 **Financial Implications**

4.1 No financial implications arising from first quarter trading. The sudden decline in fitter numbers is threat which will be monitored carefully for any future negative financial implications.

5 **Consultation**

5.1 The Heads of Corporate Finance, Financial Administration, Corporate Administration, and Legal Services *have been consulted and their comments have been incorporated into the report.*

6 Equality

6.1 There are no equality issues directly associated with this report.

7 Environment

7.1 There are no environmental issues directly associated with this report.

8 Risk Commentary

8.1 The staffing issue highlighted under point 3.5 could pose a risk to future financial performance and the service delivered to SBC vehicle users if it is not rectified.

8.2 There are an on-going Health & Safety risks and welfare issues at both the Newtown and Duns depots which can only be addressed by suitable capital investments to rectify the points highlighted under sections 3.4 and 3.7 of this report.

9 Summary

9.1 There has been an alarming and sudden decline in the number of fitters currently employed. This is an issue that needs to be addressed quickly as it poses both financial and service threats for Fleet Management. Recruitment and retention has been an issue for some time and is now becoming acute. A remedial measure under consideration to rectify this problem is the payment of a market rate premium.

10 Recommendations

10.1 I recommend that the Executive:

(a) Agree the contents of this report

Approved by

Name	Designation	Signature
Callum Hay	Director of Technical Services	[insert signature]

Author(s)

Name	Designation

Background Papers:

ADD AS APPROPRIATE

Previous Minute Reference: