



Hamilton

# INFORMATION REPORT

<b>TO:</b>	Mayor and Members General Issues Committee
<b>COMMITTEE DATE:</b>	March 21, 2018
<b>SUBJECT/REPORT NO:</b>	Public Works Fleet Service Review Update (PW18022) (City Wide) (Outstanding Business List Item)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Jack Sheen (905) 546-2424, Extension 4593
<b>SUBMITTED BY:</b>	Rom D'Angelo, C.E.T.;CFM Director of Energy, Fleet and Facilities Management Public Works Department
<b>SIGNATURE:</b>	

## Council Direction:

The report titled Corporate Service Delivery Review – Selection of Opportunities for Service Improvement (CM11009(c)/FCS11056(c)) (City Wide), directed that Fleet Management related opportunities be reviewed for potential savings or efficiencies and implementation requirements. Further, staff was directed to report back to the General Issues Committee with the findings and recommendations as outlined in the KPMG “Fleet Services Review” attached to this report as Appendix A.

## Information:

The 2012 Service Delivery Review identified several opportunities for continuous improvements and efficiencies as it relates to Fleet Services Management. With limited remaining funds available for KPMG to do some additional work it was determined that Fleet Services would be an appropriate area to investigate further. In 2013, KPMG undertook additional work (refer to Appendix A) and outlined 15 recommendations that address the following five categories:

1. Fleet Replacement Reserve Sustainability:  
Recommendations 1 to 5 deal with the most important challenge Fleet Services faces, and the biggest opportunity for improvement. Buying vehicles at the right time will reduce the total cost of vehicle ownership and improve the efficiency and effectiveness of the operating departments. A debt financing model will facilitate this, and free capital for other city priorities.

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**SUBJECT: Public Works Fleet Service Update (PW18022) (City Wide)  
(Outstanding Business List) ~ Page 2 of 8**

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2. Making Fleet Services a competitive service provider:  
Recommendations 6 and 7 will make Fleet Services more responsive to its customers.
3. Reviewing maintenance services provided in-house and outsourced:  
Recommendations 8 to 11 outline In-House vs. Outsourced Services-The City outsources many vehicle repairs now. Fleet Services needs to analyse the cheapest approach regularly, and can improve how it outsources when it does.
4. Outsourcing Parts Management:  
Recommendations 12 to 14 outline a process for measuring the current performance and determining if outsourcing should be pursued.
5. Rightsizing the Fleet:  
A number of “low use” vehicles were identified and recommendation 15 identifies this opportunity.

The full review from KPMG is attached to this report as Appendix A.

Of the 15 KPMG Recommendations, two (1 & 2) are under discussion with finance, eight (3, 4, 6, 7, 8, 9, 10, 12) have elements that are completed or a process is ongoing, and three (5, 11, 15) are scheduled for additional work throughout 2018. Recommendation 13 (Outsource of parts) was not warranted based on the experience in Ottawa. Two components pointed out by the Office of the Auditor General (OAG) regarding the vendor contract where the payment of an annual fee for the overall administration of the program as well as a 10% mark-up fee charged for the purchase of parts which has averaged out to be an extensive cost over the past three years. The OAG’s audit in Ottawa also highlighted several performance problems with the Fleet Parts Program in terms of timelines and the accuracy of information. Finally, Fleet Services will continue to follow the cities procurement policies (lowest cost); effectively negating Recommendation 14.

Summary:

1. Fleet Replacement Reserve Sustainability

At the time of the KPMG review in 2012, Capital Reserve contributions for the Hamilton Water Division and the Building Division was at and remains at the current rate of 100%, however in all other groups within the organization, the contribution rate was 54%. From 2015 to 2017 there were incremental increases during this period, which has elevated the contribution rate to 65% in 2018. Additional information is in Appendix B, items 1 and 2 outline the actions to date and the next steps.

2. Making Fleet Services a competitive service provider

The KPMG report offered that users should be allowed to find their own repair mechanism in order to force a more competitive edge from the Fleet Services maintenance team. There is notable risk associated with this methodology in that every

**SUBJECT: Public Works Fleet Service Update (PW18022) (City Wide)  
(Outstanding Business List) ~ Page 3 of 8**

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person has their own opinion of fleet maintenance and acceptable levels of disrepair and budget pressure may force an incorrect decision on repairing critical systems. The MTO has a very specific expectation of vehicle and equipment service levels, and where there is no consistent application of policy there is larger opportunity for failure and infraction within our CVOR safety rating. An out of service decision by the MTO could result in vehicle impoundment and at minimum a negative record noted on the cities profile.

Accepting that a centralized and internal fleet repair program supported by external vendors is in the best interest of the City, Fleet Services is working toward implementing best practices where feasible while focusing on seasonal equipment priorities. Additional information is in Appendix B, item 7 outlines the actions to date and the next steps.

3. Reviewing maintenance services provided in-house and outsourced

Where Fleet Services is competitive the work is done internally, and where it is not staffed or competitive the work is outsourced (i.e. light vehicle oil changes). The client department will continue to drop off the vehicle at Central Fleet and arrangements will be made to have a third party vendor pick up then drop off the light-duty vehicle at a city location of choice. These best practices and relevant review was included in the decision taken regarding the renewal of the light car and medium truck contract in March 2017 and the heavy truck contract awarded in Jan 2018. Additional information is in Appendix B item 8 outlines the actions to date and next steps.

4. Outsourcing Parts Management

KPMG referenced Ottawa and Toronto in their report, and included their projected cost and efficiencies from work they had completed with those cities. During the research into the City of Ottawa's process it was discovered that the Office of the Auditor General (OAG) recommended that the City of Ottawa engage a third party expert to undertake a benchmark review of the parts and services provided by the vendor to ensure the City was receiving fair market value, best customer pricing and maximum savings. The City of Ottawa's Public Works Department agreed with the OAG's recommendation and engaged a Consulting firm to complete a pricing review of the parts provided by the vendor. The Consulting firm found that the City was receiving fair market pricing for parts through the vendor; however, since all of the parts provided through the service model agreement were subject to a 10% mark-up, the City incurred significant annual costs that could have been avoided if the City went directly to the market. It was learned that the project wasn't working and an agreement to discontinue the contract was mutually agreed upon by the City of Ottawa and the vendor.

In addition, the current parts service model has proved to be very challenging and inefficient for both the City of Ottawa and the vendor of choice. The main challenge with the existing model is that no single vendor has the expertise necessary to manage an automotive parts inventory for a fleet as large and diverse as the City of Ottawa's. The

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end result had the City of Ottawa repurchase parts and bring employees back on. Additional information is in Appendix B, items 13 & 14 outline the actions to date and the next steps.

#### 5. Rightsizing the Fleet

KPMG identified 7 sub category action items on recommendation 15, of which some were related to gathering pertinent data, the updating & provision of that data, project review meetings regarding required equipment & delivery planning dates and the prioritization of equipment receipt(s) as operational requirements by department. The role of Fleet Services regarding vehicle and equipment in planning is to provide technical support aimed at following best practices, industry guidelines and legal compliance. Additional information is in Appendix B, item 15 outlines the actions to date and the next steps.

#### Further Changes:

Since the KPMG report of 2013, two of the 10 fleet operation locations have been closed and the fleet support models adjusted. The closure of the Kings Forest golf operation support was completed Q1 2015, and the small inventory of parts at Flamborough removed in 2016. Support for the locations is delivered by alternate methods that include utilization of existing staff and equipment to relocate broken equipment to a repair facility, or a service truck is dispatched to the site. Fleet's customers were consulted prior to the change and we continue to collaborate on any issues. As one example of vehicle rightsizing, the 2016 purchase of some crew vehicles resulted in full size pickups being replaced by smaller medium / light models.

While all 15 of the recommendations have an update in Appendix B, some examples of process changes for efficiency improvement include the adjustments of vehicle plating and renewal being moved from the Material, Fuel and Systems Management team to the Capital Planning and Contract Management team who acquires the vehicles. Other internal process changes include a complete restructure of the Regulatory Compliance team (as noted in detail later in this report), this realignment allows services to be delivered uniformly and consistently across the city while ensuring the CVOR rating is monitored closely and accountability to driver behaviours are addressed in a systematic way.

Additionally, a "kaizen", (also known as continuous improvement, is a long-term approach to work that systematically seeks to achieve small, incremental changes in processes in order to improve efficiency and quality) was completed in November 2017 resulted in existing employees within the Materials and Parts team being relocated to different satellite garages to focus on specific yard(s), equipment, parts processing and prioritization. The end result is improved efficiencies and improved customer / client service.

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**SUBJECT: Public Works Fleet Service Update (PW18022) (City Wide)  
(Outstanding Business List) ~ Page 5 of 8**

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Background:

The Fleet Section (Energy, Fleet & Facilities Management Division) of the Public Works Department provides fleet services for approximately 1,350 vehicles and equipment units through eight City garages and numerous outside contractors.

Fleet Services is the source of Fleet solutions in acquisition, repair, maintenance and disposal of assets. The 2016 Tangible Capital Asset report revealed that the current value of the Fleet rolling assets was set at \$97.3M. The life cycle cost of these assets is managed by Fleet Services while the user groups retain responsibility for the daily operating needs, ensuring legislative compliance, accident mitigation and investigation, and developing driver skills. Excluding CVOR compliance; Fleet Services does not provide any support directly for EMS, Police, Fire or Transit vehicles; but we are partners with them in several corporate initiatives and purchasing contracts such as batteries, tires, coveralls, etc.

The unsustainability of the fleet acquisition capital reserve was identified in 2013 as the decision to fund 52% of the replacement cost was used for calculations with Public Works, and subsequent budget containment or reduction processes have compounded the situation. Fleet Services staff has managed the dwindling reserve by prioritizing and managing vehicle and equipment to the most urgent replacements and restricting vehicle acquisition where feasible to remain within council approved spending limits. However in theory an aging inventory will result in increased repairs, a rise in operating costs and increased downtime. Acquisition practices must be considered together with maintenance costs and practices to provide a clear picture of the real costs. The acquisition of fleet with the maintenance package through a competitive service provider is planned for a small inventory of light vehicles in 2018 as a pilot study, whereby newly purchased vehicles (light-duty) would include a turnkey bumper-to-bumper maintenance package, inclusive of wear and tear items such as brake replacements, belts, oil changes etc. The private sector service provider's costs would be measured against similar type and use units managed by Fleet Services.

Fleet Services include but not limited to the following duties and responsibilities:

- Prepare annual vehicle replacement plan including specifications and issue procurement documents for client groups;
- Procure & manage outside service contracts e.g. light duty & heavy duty repair contracts;
- Disposal of surplus and decommissioned equipment;
- Maintenance and repairs to ensure reliability and equipment availability;
- Legislative compliance with Highway Traffic Act and CVOR (commercial vehicle operator's registration) safety rating;
- Driver Safety & Compliance Manual;
- Administration and Expertise - Collison Review Board & CVOR Committee;

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**SUBJECT: Public Works Fleet Service Update (PW18022) (City Wide)  
(Outstanding Business List) ~ Page 6 of 8**

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- Fuel station operations, maintenance, supply & management (21 fuel sites and 1 CNG station);
- Green fleet initiatives as per corporate energy policy;
- Preventative maintenance and compliance;
- Major repairs 8 garages (previously 10);
- Vehicle licensing;
- Administration and tracking of driver licence abstracts (approx. 1,700 quarterly);
- Asset management of vehicles and equipment;
- Records management and vehicle equipment history;
- Life cycle costing and capital budget planning;
- Fleet reserves management;
- Material and Parts management;
- Fleet Maintenance Information System;
- Financial reporting and budgeting;
- Participation in local, provincial and national initiatives e.g. CAMFM;
- Direct CVOR compliance reporting, oversight, and driver training (HPLB, Health Bus, and Police Services);

In support of user group ownership and responsibility in operating the fleet, Fleet Services now (2018) operates in a structure of 4 primary business units with 56.67 FTE (refer to Appendix C, Fleet Org Chart Structure). The Fleet Services Manager is supported by four teams that are funded by a combination of budgeted expense (tax levy), fleet reserve payments, recovered internal hourly rates, or billed service per use.

Fleet provides services to the following internal clients:

<p>Corporate Services</p> <ul style="list-style-type: none"> <li>• Information Technology</li> <li>• City Clerk's Office</li> </ul>	<p>Healthy and Safe Communities</p> <ul style="list-style-type: none"> <li>• Recreation</li> <li>• Helping Hands Public Health</li> <li>• Dental Bus</li> </ul>
<p>Planning &amp; Economic Development</p> <ul style="list-style-type: none"> <li>• Licencing and Bylaw Services</li> <li>• Growth Management</li> <li>• Building Inspection</li> <li>• Tourism and Culture</li> <li>• Economic Development</li> </ul>	<p>Public Works</p> <ul style="list-style-type: none"> <li>• Operations</li> <li>• Environmental Services</li> <li>• Energy, Fleet, and Facilities</li> <li>• Transportation</li> <li>• Engineering Services</li> <li>• Hamilton Water</li> <li>• HSR</li> </ul>
<p>Other</p> <ul style="list-style-type: none"> <li>• The Mayor's Office</li> <li>• Hamilton Public Library Board</li> <li>• Hamilton Police Board</li> </ul>	

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**SUBJECT: Public Works Fleet Service Update (PW18022) (City Wide)  
(Outstanding Business List) ~ Page 7 of 8**

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- Hamilton Fire Department

Fleet Services operates as a support operation to all users who require fleet assets to conduct their business. In addition Fleet Services oversees the driver safety and re-training in support of the Driver Safety and Compliance Manual as required by Commercial Vehicle Operators Registration (CVOR) certificate as filed with the Ministry of Transportation. Fleet Services also provides accident investigation support and oversees the outsourced body shop repairs for vehicle accidents as approved by Risk Management.

Regulatory Compliance and Driver Training:

In the KPMG review the CVOR Safety rating was the measure of standard and the target Safety Rating was to be less than 50%. At the time of the review the Safety Rating was at 72.5%. In the KPMG review driver training and on road safety was reported as not operating at an acceptable standard.

In 2015 a complete overhaul of the driver training and compliance group was initiated with a complement increase of one superintendent and four eighteen month contract employees hired.

The Driver Safety and Compliance manual was led by Fleet Services and adopted in a collaborated effort with the CVOR committee, and was reviewed in detail and ratified by both CUPE 5167 and CUPE 1041 unions. The 2016 action plan was written by Fleet Services and included input from the CVOR committee; from the action plan the Collision Review Board (CRB) was established which has complete jurisdiction over vehicle and equipment collision and incident investigation.

One of the challenges in Fleet Services is delivering significant improvements to driver awareness and behaviour as the driver pool falls under the jurisdiction of the client groups and not that of Fleet Services, but with the combined support and cooperation of the front line drivers, user group management teams, Labour Relations, Divisional Directors and their respective DMT, the primary goal is to work in a collaborative manner to ensure the safety rating is continually improving and maintained at an acceptable level. To achieve and maintain a favourable threshold continued focus of on road performance is required from the driver pool and all staff.

As noted on the KPMG report, Driver Training and Compliance processes are in place in three different Divisions in the City. Established independent processes are observed in Transit, Fleet Services and Fire/EMS. All of these driver groups are governed by the Ministry of Transportation and all must follow rules under the *Highway Traffic Act*. There may be some concessions for certain groups within the *Highway Traffic Act* however the underlying driver training, on road vehicle safety and licensing demands for the Province of Ontario are all the same. With collaboration from all three groups a corporate solution could include standard operating procedures governing driver

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training, on road safety, *Highway Traffic Act* and CVOR compliance. The Regulatory Compliance and Driver Training team focuses on driver records, retention, training support, and professional driver improvement courses. While there are many commonalities, these requirements of the 3 groups are distinctly different, and need to continue as stand-alone pillars due to the unique operational training requirements on specific pieces such as plow trucks, ladder trucks, fire/ pumper trucks, conventional vs. articulating busses, labour collective agreements etc.

As HSR and Fleet Services each have CVOR permits, and Fire is exempt on heavy fire equipment, the present segregation should remain. All CVOR vehicles that operate under Fleet Services' CVOR number have driver records retained within Fleet Services. These records include the Hamilton Public Library Board, and recently work to include a Hamilton Police vehicle was completed in Dec 2017. This is a compliance requirement of the Ministry Of Transportation for heavy vehicles registered over 4500KG.

**Appendices and Schedules Attached**

- Appendix A – KPMG report from Dec 20, 2013
- Appendix B – Recommendations and actions to date
- Appendix C - Fleet Org Chart Structure