Summary

For the 2016/17 financial year, fleet management cost for South African provinces amounts to R2.8 billion. This was an increase of 5.6% from 2015/16 which was an increase of 6% from 2014/15. Over the last two years, the total provincial fleet has approximated 39 500 vehicles. The majority of the fleet consists of sedans (16,885) and light delivery vehicles (12,807). KwaZulu-Natal is the province with both the largest fleet expenditure and largest number of vehicles (8,589). Limpopo has the second largest fleet while Northern Cape has the smallest (1,793). The purpose of the study was not to comment on legitimacy of fleet size or mileage performed.

The fleet composition in each province will depend on the service delivery requirements, budget availability and terrain of the province. Gauteng (67% paved), Western Cape (38% paved) and Mpumalanga (39% paved), as the three provinces with the highest percentage of tarred roads, have fleets comprised mostly of sedans. In other provinces LDVs predominate, with the exception of Free State.

There are two different operating models currently in use: a centralised model where the province has created a separate Trading Entity to manage the fleet; and a decentralised model where the individual departments manage their own fleets. Because the majority (73%) of total fleet expenditure relates to the direct cost of running the vehicles (fuel, repairs and maintenance), we could not find that any one model was preferable. In the case of the centralised model, the legal status provides the flexibility and autonomy to build up a surplus from which vehicles can be replaced. But the same legal status also results in higher overheads, caused by the administrative and legal requirements of a separate entity (GRAP Annual Financial Statements, administrative costs etc).

To recover their costs the Trading Entities charge usage tariffs to recover direct expenditure, and daily tariffs to recover the vehicle capital cost and overheads. From their inception the Trading Entities have built up significant surpluses. Our analysis of the daily tariffs Trading Entities currently charged to provincial departments revealed that they recover the cost of the vehicles and overheads while not requiring a drawdown of the accumulated surplus to replace the vehicle. This indicates that the daily tariffs being charged are too high. Also that a potential cost saving is available to departments, to the extent that the Trading Entity surplus is cash backed.

There is a lack of a comprehensive policy framework for fleet management. The National Transport Circular 4 of 2000 is outdated; while it is currently being updated, it only covers the authorisation and usage of individual vehicles. Provinces have to compile their own policies, procedures and management practices for determining fleet size, age usage and composition. Two transversal contracts are in place to empower provinces: RT 57 – vehicle purchasing provides a streamlined procurement process to acquire vehicles at discounted prices. RT 46 – fleet management provides a fleet system for the payment of fuel and tolls by petrol cards as

well as the management of repairs and maintenance by assessment of the costs to be incurred as well as the selection of the vendor.

Most provinces use RT 57, but only the Western Cape does not rely on RT 46 as a fleet management system. RT 46 focused on operational issues such as repairs – instead of information which would affect operating and investing decisions.

The direct costs of running the vehicles are influenced by vehicle type and engine capacity. Sedans are the least expensive, followed by LDVs; lower engine capacities are also less expensive than high capacity units. Older vehicles are more expensive, but on average they accumulate less mileage than newer vehicles). Almost a third of provincial fleet was older than seven years. The average age of vehicles in the centralised provinces was younger than in the decentralised provinces.

Opportunities exist for cost savings in management decisions. These are related to investing (purchases and disposals which affect fleet composition, age and size) and operating decisions (how each vehicle is used). The model developed in the PER revealed that investing decisions have more impact on potential cost savings, but operating decisions also affect expenditure. For example, by understanding the cost per kilometre of each vehicle, the mileage performed by the lower cost units can be maximised provided that the service delivery requirements are taken into account, to ensure the vehicle is fit for purpose.