

DATE OF MEETING JULY 15, 2020

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**SUBJECT FLEET REPLACEMENT PLAN**

## **OVERVIEW**

### **Purpose of Report:**

To provide the Finance and Audit Committee with a summary of the required changes to the Fleet Replacement Plan.

## **BACKGROUND**

The Fleet Replacement Plan is a forward-funded financial concept. Funds based on actual capital and operating costs are gradually accumulated into the Equipment Depreciation Reserve to become available when a vehicle is replaced. The current Fleet Replacement Plan uses a combination of vehicle age, kilometers, and condition criteria to determine and predict the replacement year of all vehicles. Typically, light to medium duty cars and trucks are replaced at a frequency of every 10 years.

Fleet unit #270 (2012, Ford Transit Connect) used in the Water Supply Unit, has failed prematurely, and as a result, needs to be replaced this year. The required right-sized duty of this vehicle warrants a heavier frame and all-wheel drive to access remote locations in all weather conditions. Knowing the history of this vehicle, the replacement of fleet unit #260 (the same vehicle) in the Water Supply Unit, is also being requested to be replaced this year.

A formal Budget Transfer has been prepared to accelerate the replacement of these vehicles for the Water Supply Unit. This will result in two new projects and the cancelling of two projects that will be re-budgeted next year.

The funding to replace these units will come from the following cancelled projects:

- Replacement of fleet unit #210, and
- Replacement of fleet unit #276.

The purchase of these units will be deferred until 2021.

When vehicles are replaced at a frequency greater than the expected life, additional costs are incurred and the fleet operations become reactive rather than proactive. Reactive maintenance can be costly and should be minimized by a proactive preventive maintenance program and optimization of the frequency of replacement. The object is to have the majority of fleet vehicles replaced at the optimum time.

## FINANCIAL IMPLICATIONS

The Fleet Replacement Plan is reviewed annually and the charge out rates are adjusted accordingly. Additional further analysis is required of the Fleet Replacement Plan to review current and historical repair costs in order to determine if they exceed a particular threshold such as the original cost, replacement cost, or salvage value of the vehicle. A weighted combination of these factors, including right-sizing, green fleet initiatives, preventative maintenance, hours of use, depreciation, and kilometers is required to determine the optimum replacement cycle for each fleet vehicle.

At 2019-DEC-31 the two vehicles (#260 and #270) being replaced have contributed \$63,740 to the Equipment Depreciation Reserve for their replacement. The new units are anticipated to cost \$106,153 (excluding GST) including outfitting costs. After trade-ins, the reserve will be drawn down by an additional \$35,413 as a result of the units being replaced early and with units that are more heavy duty.

To fund these purchases in 2020, the replacement of units #210 and #276 are being deferred until 2021 and will be re-budgeted in the 2021 – 2025 Financial Plan.

### **SUMMARY POINTS**

- A cargo van within the Water Supply Unit has failed prematurely, repair costs exceed the residual replacement value and the unit needs to be replaced this year.
- The replacement of an additional similar Cargo Van within the Water Supply Unit is also being requested to be replaced this year.
- The required right-sizing duty of these vehicles warrants a heavier frame and all-wheel drive to access remote locations in all weather conditions.
- The Fleet Replacement Plan needs to be further reviewed and updated to determine the optimum time of all fleet vehicle replacement frequencies.

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