

Final Internal Audit Report

Fleet Asset Management Plan

12 April 2024

PL2308

**Overall
Assessment**

**Reasonable
Assurance**

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This Internal Audit review is conducted for the City of Edinburgh Council under the auspices of the 2023/24 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2023. The review is designed to help the City of Edinburgh Council assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose. The City of Edinburgh Council accepts no responsibility for any such reliance and disclaims all liability in relation thereto.

The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Although there are specific recommendations included in this report to strengthen internal control, it is management’s responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the City of Edinburgh Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and elected members as appropriate.

Executive Summary

Overall
Assessment

Reasonable
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Overall opinion and summary of findings

Moderate weaknesses were identified in the design and operating effectiveness of the key controls established to ensure that the Council effectively achieves the objectives of the Fleet Asset Management Plan. Key areas of improvement noted during the audit include:

- adequate consideration should be provided to the financing, installation and maintenance of electric vehicle charging infrastructure with clear roles and responsibilities for different services
- arrangements to accurately record, monitor, and report emissions from the Council's current and future fleet, and grey fleet vehicles, should be formalised with data quality issues timely resolved
- fleet services should continue to reassess the composition of electric vehicles in its fleet to ensure they are on track to achieve the Council's [CERP and net zero emission target](#) by 2030
- whole of life costing including insurance and fuel costs should be established for fleet assets. Vehicle disposal strategy/plan should be formalised with required contracting arrangements.





- the project risk register should be regularly reviewed and updated, and the Project Manager's role and responsibilities should be formalised, documented, and approved.
- risks associated with the delay in delivery of LEZ compliant vehicles should be noted and mitigating actions should be discussed with the Council Services to ensure uninterrupted service delivery and compliance with LEZ requirements.

Areas of good practice

Our review identified:

- there is proactive planning by Fleet services to identify vehicles that are nearing end of life or needs replacement to align with emissions requirement, including potential introduction of Electric Vehicles (EVs) in the Council's fleet
- there is good engagement with services about their requirements and the suitability of EVs for their operations
- a dedicated project manager has been appointed to support the delivery of Fleet Asset Management Project.

Audit Assessment

Audit Area	Control Design	Control Operation	Findings	Priority
1. Project Planning			Finding 3 – Fleet Asset Management Plan Governance	Low Priority
2. Fleet replacement provisions			Finding 1 – Fleet Asset Management plan alignment to the Council's Sustainability targets	Medium Priority
			Finding 2 – Fleet Asset Management Plan Financial Assessment	Medium Priority
			Finding 4 – Vehicle compliance with LEZ regulations	Medium Priority

Background and scope

The City of Edinburgh Council Fleet and Workshops service currently holds 1,348 individual assets, which includes 801 (60%) Council-owned vehicles and 547 (40%) hired or leased assets. Most of these vehicles are powered by Internal Combustion Engines (ICE). The Council is currently working on a programme to change the composition of its fleet to ensure it is modern, efficient, fit for purpose and compliant with the upcoming Low Emission Zone (LEZ) and the Council's approved Emissions Reductions Plan (CERP) as far as is financially practicable.

282 vehicles have been identified to not meet with LEZ emissions regulations and will require to be replaced before June 2024. Management has advised that as part of their replacement plan, the Council will achieve a 27% fully electric fleet, which is in line with other Scottish local authorities.

Fleet Asset Management Plan and its financial model was presented to the [Finance and Resource Committee on 21 November 2023](#) and subsequently to the [full Council on 14 December 2023](#). The plan estimates a total investment cost of £56.8m for the fleet replacement. This cost is expected to be met from existing vehicle disposal generating £2m, an earmarked reserve of £3.2m, resulting in £51.6m of borrowing. The team is working with the Finance and Procurement colleagues to ensure that priority is given to replacing LEZ non-compliant vehicles, followed by other vehicles. The plan will reduce the Council's reliance on leased assets, which have become relatively expensive due to inflation in hire prices and enable greater use of Council in-house maintenance facilities.

Scope

The objective of this review was to assess the adequacy of design and operating effectiveness of the key controls established to ensure that the Council is prepared to align its fleet to Scottish Government and Council's climate change targets within the prescribed timescales.

Risks and Business Plan Outcomes

The review also provided assurance in relation to the following Corporate Leadership Team (CLT) risks:

- Strategic Delivery
- Financial and Budget Management
- Health and Safety
- Service Delivery
- Workforce
- Regulatory and Legislative Compliance

Business Plan Outcomes:

- Edinburgh is a cleaner, better maintained city that we can all be proud of.

Limitations of Scope

The following areas were specifically excluded from the scope of our review:

- Technical assessment of fleet's asset management plan against the required emission standards.

Reporting Date

Testing was undertaken between 8 January 2024 and 29 February 2024.

Our audit work concluded on 29 February 2024, and our findings and opinion are based on the conclusion of our work as at that date.

Findings and Management Action Plan

Finding 1 – Fleet Asset Management plan alignment to the Council’s Sustainability targets

Finding Rating	Medium Priority
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The [Fleet Asset Management plan 2023-29](#) indicates that 27% of the Council's fleet will be replaced with zero emission electric vehicles (EVs), with the potential for this number to increase as the technology matures. However, the plan does not currently consider the logistical arrangements for EV infrastructure and its financing plan. Discussion with management also highlighted that there is also a lack of clarity on the Council service responsible for the strategy and implementation of EV charging infrastructure.

It was also noted that limited consideration has been given to methods of regularly capturing, recording, monitoring, and reporting vehicle emissions from the Council's future fleet and grey fleet (colleague-owned vehicles). Discussion with Sustainability team has highlighted the ongoing data quality issues with the current fleet emissions data.

The current Fleet asset management plan extends to 2029 and primarily aims to align its fleet with the LEZ compliance but alignment with the [Council’s Carbon Emissions Reductions Plan \(CERP\)](#), is only “as far as is financially practicable”. The Council has a net zero emission target for the city and its own fleet; however, the current fleet plan includes 72% of the replaced vehicles as internal combustion engine/non-electric vehicles with expected delivery between 2024-2025 and estimated life of 7-12 years. Management has highlighted current practical challenges with a complete electrical fleet

including, but not limited to high procurement cost, insurance availability, charging infrastructure, maintenance etc. Fleet Services have noted some of these in the [November 2023 paper to the Finance and Resource Committee](#) and [December 2023 paper to the full Council](#), and also notes to bring a further report to the Committee in 2028/29 outlining resources required to procure sustainable alternatives to the diesel HGVs and specialist vehicles ahead of the Council’s current 2030 CERP target.

Risks

- **Programme and Project Delivery/ Service Delivery/ Financial and Budget Management:** lack of a properly planned EV charging infrastructure may impact the effective delivery of Fleet Asset Management plan objectives, compromise or delay the ongoing service operations using EV vehicles, and potentially lead to higher financial cost of charging Council vehicles through external commercial chargers.
- **Governance and Decision Making/ Regulatory and Legislative Compliance:** lack of accurate and complete emissions data would not allow the management and committee to make informed decisions and report accurate emissions data to the Scottish Government.
- **Reputational Risk:** inability to achieve fleet’s net zero emissions target may impact Council’s reputation to not achieve its own targets.

Recommendations and Management Action Plan: EV infrastructure, emissions monitoring and alignment to Council’s sustainability targets

Ref	Recommendation	Agreed Management Action	Action Owner / Lead Officers	Timeframe
1.1	The Fleet Project Board should add an EV charging infrastructure workstream to its project plan and assess/formalise the current and future charging	<ul style="list-style-type: none"> Review current EV charging infrastructure strategy. 	Owner: Executive Director of Place	30/06/2024

	<p>infrastructure requirements, including financing and staff training. The roles and responsibilities of each Council team responsible for strategy, procurement and installation of charging infrastructure should also be formalised.</p>	<ul style="list-style-type: none"> Detail roles and responsibilities for all service areas involved to be detailed and approved at Fleet Replacement Board. Workstream updates to be discussed at the board. 	<p>Lead officers: Service Director – Place Operational Services</p> <p>Head of Operational Support, Performance and Improvement</p> <p>Fleet and Workshops Manager</p>	
1.2	<p>The Fleet Project Board should work with the Sustainability team to formalise the arrangements to capture, record, and report vehicle emissions data for its current/future fleet, including grey fleet. Any system requirement for accurate recording of these emission data should be included in the procurement plan.</p> <p>Existing and potential data quality issues in generating and reporting these emissions data should also be discussed and resolved, where possible.</p>	<ul style="list-style-type: none"> Fleet Services to work with Sustainability Team to formalise the arrangements to capture, record, and report vehicle emissions data for its current/future fleet. Fleet Services to work with Sustainability Team to understand current data quality issues and implement solutions where required. Fleet Services will work with HR colleagues to determine what data is captured on grey fleet users. 	<p>Owner: Executive Director of Place</p> <p>Lead officers: Service Director – Place Operational Services</p> <p>Head of Operational Support, Performance and Improvement</p> <p>Fleet and Workshops Manager</p>	30/09/2024
1.3	<p>The Fleet Project Board should continue to engage with Council’s Finance, Insurance, Sustainability, and other relevant teams on a regular basis to reassess the composition of electric vehicles in its fleet to ensure they are on track with achieving Council’s CERP and net zero emission target by 2030.</p>	<ul style="list-style-type: none"> 6-monthly meeting with relevant teams to review electric vehicle composition. The Fleet Replacement Board will assess any underspend from the financial model and re-allocate monies to purchase additional electric vehicles where possible. 	<p>Owner: Executive Director of Place</p> <p>Lead officers: Service Director – Place Operational Services</p> <p>Head of Operational Support, Performance and Improvement</p> <p>Fleet and Workshops Manager</p>	31/03/2025

Finding 2 - Fleet Asset Management Plan Financial Assessment

Finding Rating	Medium Priority
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The financial assessment of fleet asset management plan currently considers procurement but does not include the whole maintenance (including EV battery replacement costs), fuel, and insurance costs. It is also noted that a limited amount of options for fleet composition, including the financing implications of each option, were appraised and reported to the Committee.

Financial assessment of the Fleet Asset Management plan consists of certain assumptions such as estimated useful life for new and existing vehicles, estimated residual values for both new and existing vehicles, and anticipated disposal date for current vehicles. However, the rationale and source of these assumptions could not be substantiated.

The plan intends to generate £2million through disposal of vehicles in current fleet. Audit discussions with Fleet services highlighted that there is no documented fleet disposal strategy or plan in place. A formally contracted arrangement also needs to be established with the auction house currently used for vehicle disposal.

Risks

- **Financial and Budget Management** – potential additional financial pressure on future revenue budgets if the whole of life costs for fleet’s operations and maintenance have not been adequately assessed.
- **Service Delivery/ Fraud and Serious Organised Crime:** lack of a formally documented and approved asset disposal strategy/plan may lead to inconsistent disposal of assets, exposing the process to a potential fraud.
- **Supplier, Contractor, and Partnerships Management:** lack of a formally contracted arrangement with an external supplier may not get the best value for Council and may lead to breach of Council and Scottish Government procurement requirements.

Recommendations and Management Action Plan: Fleet Asset Management Plan Financial Assessment

Ref	Recommendation	Agreed Management Action	Action Owner / Lead Officers	Timeframe
2.1	The Fleet Project Board should consider using whole of life costing, including all relevant vehicle expenditure, for financial assessment and progress reporting of the Fleet Asset Management plan. It should also consider carrying out a full options appraisal, including electric/ICE, hire/purchase decisions and other considerations.	A full options appraisal will be done and approved by the Fleet Replacement Board.	Owner: Executive Director of Place Lead officers: Service Director – Place Operational Services Head of Operational Support, Performance and Improvement Fleet and Workshops Manager	30/06/2024
2.2	The Fleet Project Board should consider reviewing and documenting the key financial assumptions of the fleet asset management plan. Any change in the amount of financial assumptions as a result of this reconsideration, including any wider budget impacts, should be reported to senior management, or the relevant executive committee, as applicable.	The service notes this recommendation and are satisfied that the robust financial model which was developed by Finance colleagues mitigates the risk. There is a gateway for each contract award, including sign-off by Finance colleagues to confirm that there is sufficient budget available.	N/A	N/A

		The service also has Revenue and Capital Finance representatives on the Fleet Replacement Board to provide feedback on financial monitoring.		
2.3	Fleet Services should consider working with procurement to establish their asset disposal strategy/plan for current and future assets and ensure formally agreed contracts are in place with all external organisations for vehicle and plant disposals.	<ul style="list-style-type: none"> Fleet Services to consult with the Council's Commercial and Procurement Services (CPS) to establish a strategy/plan for asset disposal and agree the associated contracting or agreement route. Document the asset disposal process. Formalise the contract/agreement with external disposal vendor, in consultation with CPS team, before the sale/disposal of Council's fleet assets. 	Owner: Executive Director of Place Lead officers: Service Director – Place Operational Services Head of Operational Support, Performance and Improvement Fleet and Workshops Manager	30/06/2024 30/07/2024 31/12/2024

Finding 3 – Fleet Asset Management Plan Governance

Finding
Rating

Low Priority

Review of the Fleet Project risk register highlighted that it has not been regularly reviewed and updated. While there were two subsequent updates to the risk register during the audit fieldwork, there has been no evidence to substantiate the discussion/rationale of these updates. Management have advised that they intend to update and discuss risk registers regularly, as part of the project meeting schedule.

A Project Manager has recently been appointed to manage the Fleet Asset Management plan however their roles and responsibilities have not been formalised and documented.

Risks

- **Governance and Decision Making** – absence of a regularly updated risk register may not allow timely identification, discussion and mitigation of key risks impacting the Fleet project.

Lack of formally defined roles and responsibilities of key project team personnel including the Project Manager may compromise effective delivery of intended project governance activities.

Recommendations and Management Action Plan: Fleet Asset Management Plan Governance

Ref	Recommendation	Agreed Management Action	Action Owner / Lead Officers	Timeframe
3.1	Risk register should be regularly updated and reviewed at the project board meeting, with significant risks escalated to the Service and Directorate risk registers, as required.	Risk register will be reviewed monthly at board meeting	Owner: Executive Director of Place Lead officers: Service Director – Place Operational Services Head of Operational Support, Performance and Improvement Fleet and Workshops Manager	30/06/2024
3.2	The roles and responsibilities of the Project Manager should be formally agreed, documented and approved at the Project Board meeting.	Role and responsibilities of Project Manager will be documented and approved by the board.	Owner: Executive Director of Place Lead officers: Service Director – Place Operational Services Head of Operational Support, Performance and Improvement Fleet and Workshops Manager	31/05/2024

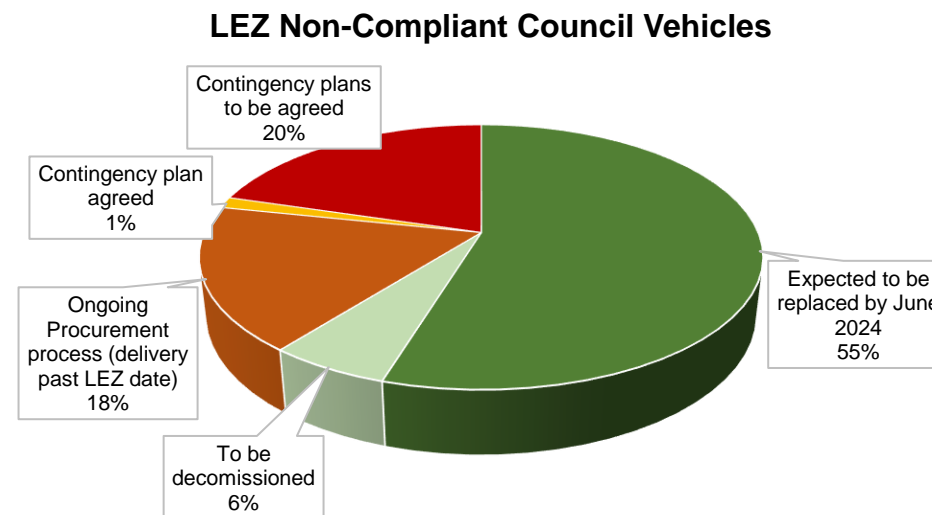
Finding 4 –Vehicle compliance with LEZ regulations

Finding Rating	Medium Priority
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Review of the Fleet Asset Management Plan highlighted that as at 27 March 2024, 221 vehicles out of Council’s current fleet of 1,348 vehicles are not compliant with the LEZ emission requirements. Fleet management have been active to identify the number of non-compliant vehicles and is working on an action plan with service areas to ensure that there are contingency plans in place.

Discussion with management on potential mitigating actions of these non-compliant vehicles identified that:

- 121(55%) of these vehicles are expected to be replaced with LEZ compliant vehicles by the June 2024 LEZ enforcement date and 13(6%) vehicles will be decommissioned or auctioned as they are not required
- Procurement process is ongoing for 39(18%) vehicles with an expected delivery date past the LEZ enforcement date
- Contingency plans for 3(1%) vehicles have been agreed but plans are still to be agreed for the remaining 45(20%) vehicles.



Risks





- **Regulatory and Legislative Compliance/Service Delivery/ Reputational:** Non-compliance of Council vehicles with the LEZ requirements may lead to reputational damage, potential financial penalties and service delivery impact if alternative vehicles are not identified or contingency plans are not established in time.

Recommendations and Management Action Plan: Vehicle compliance with LEZ regulations

Ref	Recommendation	Agreed Management Action	Action Owner / Lead Officers	Timeframe
4.1	Fleet management should work with all the relevant services to create and implement a time bound action/mitigation plan to ensure all vehicles travelling within the LEZ are emissions-compliant by the June 2024 enforcement date. Risks associated with not meeting the timescales should be highlighted to both	<ul style="list-style-type: none"> • Fleet Services to work with all relevant services areas business contingency plans in place for any vehicles not LEZ compliant. • Risks associated with not meeting the timescales should be highlighted to both the Service and Executive Director, and to the Directorate/Corporate Leadership Team Risk Committee, as required. 	Owner: Executive Director of Place Lead officers: Service Director – Place Operational Services Head of Operational Support, Performance and Improvement Fleet and Workshops Manager	01/07/2024

	the Service and Executive Director, and to the Directorate/Corporate Leadership Team Risk Committee, as required.			
4.2	<p>Fleet Services should continue to closely monitor the timely delivery of vehicles expected by June 2024.</p> <p>Contingency plans should also be developed for the vehicles with a potential or expected delays in the delivery timescales.</p>	Fleet Services will continue to monitor the timely delivery of vehicles and contingency plans will be developed where there are any noted delays.	<p>Owner: Executive Director of Place</p> <p>Lead officers: Service Director – Place Operational Services</p> <p>Head of Operational Support, Performance and Improvement</p> <p>Fleet and Workshops Manager</p>	01/07/2024

Appendix 1 – Control Assessment and Assurance Definitions

Control Assessment Rating		Control Design Adequacy	Control Operation Effectiveness
Well managed		Well-structured design efficiently achieves fit-for purpose control objectives	Controls consistently applied and operating at optimum level of effectiveness.
Generally Satisfactory		Sound design achieves control objectives	Controls consistently applied
Some Improvement Opportunity		Design is generally sound, with some opportunity to introduce control improvements	Conformance generally sound, with some opportunity to enhance level of conformance
Major Improvement Opportunity		Design is not optimum and may put control objectives at risk	Non-conformance may put control objectives at risk
Control Not Tested	N/A	Not applicable for control design assessments	Control not tested, either due to ineffective design or due to design only audit

Overall Assurance Ratings	
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Finding Priority Rating	
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
Low Priority	An issue that results in a small impact to the achievement of objectives in the area audited.
Medium Priority	An issue that results in a moderate impact to the achievement of objectives in the area audited.
High Priority	An issue that results in a severe impact to the achievement of objectives in the area audited.
Critical Priority	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency

Appendix 2 – Areas of audit focus and control objectives

Audit Area	Control Objectives
Project Planning	The Council has a documented Fleet Asset Management plan, including but not limited to outlining aims and objectives of the programme, internal/external dependencies, resourcing and training requirements, and KPI (key performance indicators) for measures of success.
	The Fleet replacement plan includes a timeline with milestones aligned to LEZ, CERP deadlines and Scottish Government targets.
	The programme (including transition plan) has been consulted with relevant departments/service users in the Council and approved by Senior Management/Committees.
	A Project Manager has been appointed as the accountable officer to lead programme activities and appropriate governance arrangements have been established for effective progress monitoring and scrutiny of established KPIs.
	Relevant risks impeding achievement of programme objectives along with mitigating controls are identified, recorded and monitored by the replacement programme team and governance forum.
Fleet Replacement Provisions	<p>The Fleet replacement programme plan includes following workstreams and adequate consideration is provided to:</p> <ul style="list-style-type: none"> • Financial analysis including consideration of procurement, maintenance, insurance, and recharging costs • Recharging and maintenance infrastructure across the city along with a review of the source of electricity for charging, considering renewable energy options • Suitability of existing electric/hybrid vehicles to Council's operational services • Integration of GPS and fleet telematics in the new inventory including systems for data collection and management • Procurement plan including delivery timescales and consideration of time for senior management/executive committees sign-off • Disposal plan for current and future assets.
	There are systems and processes in place to monitor gas (CO2 and NOx) output by conventional vehicles and accurately feed into Council's fleet emissions data.
	Processes are established to ensure compliance with climate change targets for Council's grey fleet and contractor/sub-contractors' vehicles and assets. There are also procedures to record emissions from grey fleet and contractor vehicles to ensure accurate Council-wide emissions reporting.