

Die Bundeswehr Fuhrpark Service GmbH
(that means a limited company that has been given charge of servicing
the vehicle fleet of the Armed Forces)

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Ladies and Gentlemen,

I have the pleasure to present to you today a case study of a privatisation in Germany.

When the word “privatisation” comes up, most people spontaneously think of local government functions such as providing the supply of water and energy, refuse collection, hospitals, road works and street cleaning.

At the national level, many countries have had privatised national telecommunication providers and railways since recent years.

However, today I would like to draw your attention to an area that may at first glance be surprising in the context of privatisation.

If you now argue that national defence is the area which is least suitable for privatisation, you are of course right where the core functions of an army are concerned. By core functions, we mean those tasks that are central for the activities of an army and cannot be contracted out to any third party. In the case of an army, these functions are the possession of military weapons and the ability to use them if necessary.

There are, however, other activities, such as supplying an army with material during training operations. This also includes equipping the army with vehicles that are not meant to serve its military core functions.

Therefore, I will focus here on what is known as ‘civilian-type vehicles’. These are vehicles that can be bought by anybody in the civilian market and used without any significant technical modifications. They include cars such as VW Golf or Audi A4 but also trucks or street cleaning vehicles. Any army needs such vehicles, especially in its home country. Cases in point are vehicles used in training institutions such as the two German Armed Forces universities but also other military establishments such as administrative agencies and command authorities of the Armed Forces whose staff need only ‘civilian’ transport services without any direct connections to military operations.

The German Armed Forces also have such vehicles. We monitored and audited the equipment of the German Armed Forces with and its need for such civilian-type vehicles during a number of years. In the course of its audits, we found that:

- the Armed Forces had an excessively large fleet of civilian type vehicles,
- did not have comprehensive and complete data about its vehicle pool,
- the Armed Forces’ vehicle fleet was over-aged,
- the annual mileage of each vehicle was excessively low and
- therefore, the Armed Forces had to spend too much on their civilian-type vehicles.

On the whole, the German SAI found that the operation of civilian-type vehicles in the Armed Forces was uneconomical.

Let me present you a specific case. In its annual reports, we report on particularly important audit findings to the German Parliament. In our 2001

annual report, we pointed out that the German Armed Forces had more than 2,200 buses at its disposal without using them to full capacity. We demonstrated that, if the number of buses was reduced and the reduced number of buses were used to full capacity, the Armed Forces could save more than DM 100 million each year.

Please bear in mind, Ladies and Gentlemen, that these figures merely relate to buses. You may get an idea of the vast total savings potential that existed when the total of 100,000 civilian type vehicles owned by the Armed Forces were taken into account. To illustrate my point further, I make reference to the PowerPoint slide on the different use of vehicle fleets in private-sector businesses and in the Armed Forces. Looking at it, you will see that the vehicles used in the private sector have a much higher annual mileage, which means that they are used more intensively than the Armed Forces' civilian type vehicles. In reverse, this means that many vehicles in the Armed Forces were not used efficiently.

As all items of the German SAI's annual report, this issue also was subject of parliamentary deliberations. Parliament asked the German Armed Forces to redesign their strategy for the use of the buses in order to accomplish savings. In response to the changed international security situation, the German Armed Forces increasingly focused on missions abroad and reduced their manpower.

Based on our findings, Parliament required that the Armed Forces should achieve savings in the field of their vehicle fleet. As a prerequisite for the achievement, the Armed Forces were:

- to reduce the number of their civilian type vehicles,
- to reduce the average age of the remaining vehicle fleet,
- to bring together all relevant data in a single data base and
- to make better use of its existing vehicle capacity.

The Armed Forces considered two different options: the first was the reorganisation of its vehicle fleet under arrangements ensuring best practice in fleet management, the second was privatisation.

As the subject of our meeting is “privatisation“, you may guess which option was chosen by the German Armed Forces, namely privatisation. The comparison of the two options showed that privatisation offered more advantages. Furthermore, the Armed Forces were not sure whether the set goals would be achieved under their own management, even if this had undergone an optimisation process. Under the privatisation option, the Armed Forces were able to stipulate the achievement of goals as part of the contractual agreement with the private-sector service provider.

Please let me now give you a more detailed description of the privatisation arrangements.

With the approval of Parliament, a limited company under the name of BundeswehrFuhrparkService GmbH was established to which I am going to refer as ‘the Company’ during the rest of my paper. The Company is majority-owned by the Federal Government, which in fact holds an interest of 75.1%. The remaining share capital is held by Germany’s semi-privatised railway company which is also majority-owned by the Federal Government.

These arrangements require some explanation. On one hand, this is no genuine privatisation in the sense that an entirely private business would have taken over the functions. The reason was that, in a previous interest notification procedure, the car rental companies already active in the market showed little interest in acquiring the operation to be privatised. This was probably due to very special demands, particularly with respect to the locations and the staff to be employed. This is why the Federal Government established a commercial company operating under private law. The German railways were admitted to the Company as a shareholder because they were already engaged in vehicle fleet management in connection with their own privatisation. The Armed Forces hoped to benefit from the lessons learnt during Deutsche Bahn’s privatisation process.

The basis of the Company's business the contract has been entered into with the Federal Republic of Germany. Its initial duration is up to the end of the year 2008.

Before I give you the details on the contract and scope of the services to be provided by the Company, let me make some fundamental remarks on the pool of civilian-type vehicles maintained by the Armed Forces. At the start of my paper, I have pointed out the deficiencies in the operation of civilian-type vehicles in the Armed Forces. This is, above all, a problem of numbers. As mentioned before, the German Armed Forces had still more than 100,000 civilian-type vehicles in 2002. When the Company was established, everybody was aware that a reduction in the number of vehicles was an essential prerequisite for success. A goal was set of having a pool of about 50,000 civilian-type vehicles in the Armed Forces in 2008. The current number is about 86,000 vehicles, of which the Company operates about 23,000. Most of them are 'civilian-coloured' vehicles with normal paint and no military camouflage painting. The latter is applied only at request and invoiced separately. Thus, we may say that considerable progress has been made on the way to privatisation.

How was this interim goal reached? What functions does the Company actually perform and where has the German SAI found problems and weaknesses? These are the questions I am going to address now.

The Company's core function is to provide cost-effective fleet management for the Armed Forces. To fulfil this function, the following elements are needed:

- a modern vehicle pool in line with actual needs,
- the optimisation of the use of vehicle capacities,
- reduction of vehicle reserves,
- reduction of the administrative burden,
- reduction of staff, thereby releasing military personnel for the performance of core functions,

- complete vehicle histories,
- reliable controlling data.

Let us look first into the Company's structure. The Company employs a workforce of about 300. Additional manpower is provided by 2,000 workers made available by the Armed Forces to the Company free of charge. I will tell you more about that later. The Company's headquarters are located in Troisdorf near Bonn. 24 mobility centres provide the vehicles. Each of them is responsible for several military garrison locations. They are led by regional mobility managers. Together with nine regional directors, these are responsible for the cost-effective operation and management of the mobility centres. It is worth mentioning that most of these managers are former officers and NCOs of the German Armed Forces. In addition, service stations and service points are maintained. There, vehicles of the Company are available for rental and use which is arranged either by Armed Forces staff or by means of electronic access authorisations.

The users, i.e. the military agencies and units, are supported by regional distribution managers. These advise the customers about which vehicles to rent under what conditions and for how long.

Thus, we have already come to address the Company's functions. These functions may be represented as stages in a process. The successive stages are:

- procurement of the vehicles by purchase or lease,
- provision of a vehicle pool in accordance with actual needs
- maintenance and management of damage,
- accounting,
- sale of vehicles,
- provision of advice to customers within the Armed Forces.

The focus is on providing civilian-type vehicles to the Armed Forces. A distinction is drawn between three mobility modes:

Mobility mode 1 is to cover basic needs. With the assistance of the Company's mobility advisors, the Armed Forces' agencies and units are to identify their transportation needs to the extent that these can be forecast, taking into account the period of use, the mileage and the vehicle type. In line with these criteria, the military agencies and units are to request vehicles for long-term rental for periods of at least six months.

Under mobility mode 2, the customers, that is the military agencies and units may request vehicles at short notice from the regional mobility centres. The vehicles are available for short-term rental at the centres or at service stations or service points. This is to cover extra short-term needs for vehicles beyond the basic needs. When extrapolated for a whole year, such short-term rental is of course more expensive than long-term rental. Apart from this, the Company also offers drivers' services for mobility mode 3. In these cases, the Company provides the vehicle, while the driver belongs to the personnel provided to the Company by the Armed Forces.

Up to that point, the privatisation in the field of civilian-type vehicles for the German Armed Forces appears to be an unlimited success. From our point of view, however, some critical comments are necessary.

I mentioned already at the beginning of my paper that this is not a 'genuine' privatisation as the Federal Government is the principal shareholder. As a government-owned company, the Company is exempt from taxation and the vehicles, being official vehicles, need not be insured like other civilian vehicles and, in fact, have number plates which identify them as government vehicles. Hence, the rental charges have not been calculated on the basis of full cost. Furthermore, the Company does not need to procure premises for the mobility centres – only for Company headquarters; the vehicles and other office premises are accommodated on real estate whose use is not subject to any rent. I have mentioned the provision of Armed Forces' personnel several times. Most of these are civilian employees. In the past, most of these employees were drivers within the Armed Forces. The Company may use this staff free of charge for collecting and delivering vehicles or for providing drivers' services. Practically all the Company's

about 300 own staff previously worked in the Armed Forces either as military personnel or civilian employees. The Company offers attractive remunerations especially for its managerial staff.

The German SAI has a close look on these issues. We will continue to point out any weaknesses during its audit assignments but also in advisory reports to Parliament and the Federal Government. The organisation of the Company's services especially in the field of short-term rentals will be an interesting audit issue.

The developments to be expected for 2008 are of particular interest. In that year, the contract between the Company and the Armed Forces will expire. Current plans are to award a contract on the basis of competitive bidding on or before the expiry of the old contract. The Company will then have to face private-sector competition. This means that the Company will then have to pay rent for premises and also to pay for the services of Armed Forces' personnel provided to it. In the German SAI's view, it will be necessary then to compare the level of privatisation of the civilian-type vehicles used by the Armed Forces attained by means of the Company with the tenders of civilian car rental companies established in the market and with optimised vehicle operation arrangements within the Armed Forces.

Our job as external bodies is to exert our influence to make sure that the federal government departments use the taxpayers' funds entrusted to them in an economical way. It is therefore the German SAI's objective to furnish the Federal Government and Parliament with the information necessary for their decisions as to how adequate mobility can be organised for the Armed Forces in a cost-effective way.