

## **CHAPTER 7**

### **Government Logistics Department**

#### **Management of the government vehicle fleet**

**Audit Commission  
Hong Kong  
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*This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.*

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# MANAGEMENT OF THE GOVERNMENT VEHICLE FLEET

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## **PART 1: INTRODUCTION**

1.1 This PART describes the background to the audit and outlines its objectives and scope.

### **The Government Logistics Department**

1.2 The Government Logistics Department (GLD) was established in July 2003 by merging three logistic support departments, namely the Government Land Transport Agency, the Government Supplies Department and the Printing Department. The GLD is responsible for, among other things, the efficient and economical management and operation of the government vehicle fleet (Note 1). Its main activities include:

- (a) monitoring the utilisation of vehicles;
- (b) conducting departmental transport reviews;
- (c) vetting requests for additional and replacement vehicles;
- (d) procuring general purpose vehicles and managing funding through a block vote (Note 2); and
- (e) operating a transport pool.

### **The government vehicle fleet**

1.3 The government vehicle fleet comprises vehicles allocated to departments and those in the GLD's transport pool. The fleet had 6,777 vehicles in March 2004, down 8.6% from 7,417 vehicles in December 1998. Table 1 shows the details.

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**Note 1:** *Prior to the merger, the responsibility rested with the Government Land Transport Agency. For the sake of simplicity, the then Government Land Transport Agency is also referred to as the GLD in this report.*

**Note 2:** *Government vehicles are generally classified as general purpose vehicles and specialised vehicles. General purpose vehicles are vehicles for conveyance of passengers and goods (e.g. vans). Specialised vehicles are vehicles modified with ancillary equipment to carry out specific tasks (e.g. refuse collection vehicles). The GLD is responsible for procuring general purpose vehicles, which are funded by a capital account block vote with the Director of Government Logistics as the Controlling Officer. Specialised vehicles are funded by votes managed by the departments concerned.*

**Table 1**  
**Size of the government vehicle fleet**

Category	Number in March 2004	Number in December 1998	Increase/ (Decrease)
Vans	2,607	2,631	(24)
Cars	1,148	1,146	2
Motorcycles	1,128	1,185	(57)
Buses	480	355	125
Specialised vehicles	471	870	(399)
Trucks	439	747	(308)
Ambulances	330	310	20
Cross-country vehicles	174	173	1
<b>Total</b>	<b><u>6,777</u></b>	<b><u>7,417</u></b>	<b><u>(640)</u></b>

*Source: GLD records*

1.4 In 2003-04, the running costs of the government vehicle fleet (including maintenance and fuel but excluding driver costs) totalled \$229 million. In addition, \$100 million were spent on procuring additional or replacement general purpose vehicles.

### **Audit review**

1.5 The Audit Commission (Audit) has recently carried out a review of the GLD's activities relating to the management and operation of the government vehicle fleet. The review has found scope for improvement in a number of areas.

### **Acknowledgement**

1.6 Audit would like to acknowledge with gratitude the full cooperation of the staff of the GLD during the course of the audit review.



## **PART 2: MONITORING THE UTILISATION OF VEHICLES**

2.1 This PART examines the GLD's procedures for monitoring the utilisation of vehicles allocated to departments.

### **Monthly returns on the utilisation of vehicles**

2.2 The GLD requires the driver of each government vehicle to keep a log book to record the details of each journey (Note 3) and the idle times. It also requires departments to submit monthly returns in electronic form on the utilisation of their vehicles. The data submitted on each vehicle include:

- (a) ***Odometer reading.*** This is used for calculating the kilometres run by the vehicle during the month;
- (b) ***Number of operating days.*** An operating day is one on which the vehicle has been used for any duration; and
- (c) ***Number of idling days.*** An idling day is one on which the vehicle has not been used. Workshop days, Sundays and public holidays are not counted as idling days.

2.3 Upon receipt of the monthly returns, the GLD uploads the data to its computerised Transport Management Information System (TMIS).

### **May 2004 exercise to identify underutilised vehicles**

2.4 The TMIS can be used to generate management reports on the utilisation of vehicles allocated to departments. On how the GLD used the vehicle utilisation data in the TMIS for monitoring purposes, Audit's enquiry in April 2004 indicated that:

- (a) the TMIS utilisation data were used mainly for reference when the GLD vetted departments' requests for additional and replacement vehicles (see paras. 4.2 and 4.3); and

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**Note 3:** *For each journey, the point of departure and the destination, the departure time and the arrival time, the odometer reading at the commencement and at the end of the journey, the kilometres run, the number of passengers and the purpose of the journey are recorded.*

- (b) the GLD had not regularly analysed the TMIS utilisation data to identify underutilised vehicles for follow-up action. This suggested that there was scope for improvement in the GLD's use of such data.

2.5 Immediately following Audit's enquiry, the GLD took action to make better use of the TMIS utilisation data for monitoring. In May 2004, the GLD analysed the TMIS utilisation data for 2003-04 and identified 231 underutilised vehicles in 16 departments. In this exercise, a vehicle that met the following criteria was regarded as underutilised:

- (a) the vehicle had ten or more idling days in each month during 2003-04; and
- (b) the kilometres run by the vehicle in 2003-04 were less than 50% of the average kilometres run by vehicles of the same type in the government fleet.

2.6 The GLD asked the departments concerned to critically review the use of the vehicles identified and to take necessary improvement measures. As general guidelines, the GLD stated that the departments should:

- (a) discontinue any hiring of vehicles of similar types from the GLD's transport pool or the commercial sector in order to increase the use of the underutilised vehicles;
- (b) consider the feasibility of swapping the vehicles internally so as to make the best use of departmental transport resources; and
- (c) seek advice from the GLD on the appropriate corrective actions if changes in their operational modes had reduced transport needs.

2.7 The GLD also indicated that it planned to analyse the TMIS utilisation data every six months to identify underutilised vehicles meeting the specified criteria. It would re-examine the utilisation of the 231 vehicles in the next exercise in November 2004. It would also review the criteria for identifying underutilised vehicles in each exercise to tie in with the latest trend of utilisation within the government vehicle fleet.

### **Audit observations**

2.8 *Vigorous follow-up action needed.* The GLD's action in May 2004 identified 231 underutilised vehicles. It indicated that it would re-examine the utilisation of these vehicles in the next exercise in November 2004. **Audit welcomes the GLD's action.**

However, given the large number of vehicles and the substantial potential savings involved, Audit considers that the GLD may need to take prompt and more proactive follow-up action jointly with the departments concerned, to deal with the underutilised vehicles.

2.9 *Need to revise criteria.* In the May 2004 exercise, the GLD set the criteria for identifying underutilised vehicles based on the number of idling days and kilometres run (see para. 2.5). Using these criteria, the GLD could not identify all underutilised vehicles. For example, vehicles utilised for a short duration (say less than an hour) per day, or with very low mileage, could not be identified if they had less than ten idling days in each month. **In Audit's view, the GLD may need to revise the criteria used for identifying underutilised vehicles to enhance the effectiveness of subsequent exercises.**

### **Audit recommendations**

- 2.10 **Audit has recommended that the Director of Government Logistics should:**
- (a) **consider taking prompt and more proactive follow-up action jointly with the departments concerned to deal with the 231 underutilised vehicles identified in May 2004; and**
  - (b) **review, and consider tightening, the criteria used for identifying underutilised vehicles in future exercises.**

### **Response from the Administration**

2.11 The **Director of Government Logistics** agrees with the audit recommendations. She has said that:

- (a) the GLD considers that departments should be allowed adequate time for taking remedial measures. Reminders will be sent, three months after the issue of a vehicle utilisation exception report, requesting them to report progress on any improvement actions taken. A reminder (in respect of the exception report for May 2004) was issued in August 2004. If the vehicles are still found underutilised in the next issue of exception report, the GLD will consider taking more vigorous actions, including deleting the vehicles from the departmental vehicle fleet; and
- (b) it is the GLD's plan to review the criteria for identifying underutilised vehicles at each issue of vehicle utilisation exception report to take into account the latest trend of utilisation within the government vehicle fleet.

## **PART 3: DEPARTMENTAL TRANSPORT REVIEWS**

3.1 This PART examines the GLD's procedures for conducting departmental transport reviews.

### **Objectives of departmental transport reviews**

3.2 The GLD conducts departmental transport reviews to examine the efficiency and economy with which departments operate and manage their vehicle fleets. A review includes an examination of a department's transport needs, its use of both government and commercially hired transport resources and its transport management. In particular, the GLD examines the log books and the utilisation rates (Note 4) of vehicles allocated to the department to ascertain whether there are underutilised vehicles.

3.3 The GLD commenced to conduct reviews in 1985. It has since completed 36 reviews and, through the implementation of the review recommendations (e.g. deletion of underutilised vehicles), has achieved substantial savings. Figure 1 shows the number of reviews conducted from 1985 to 2003.

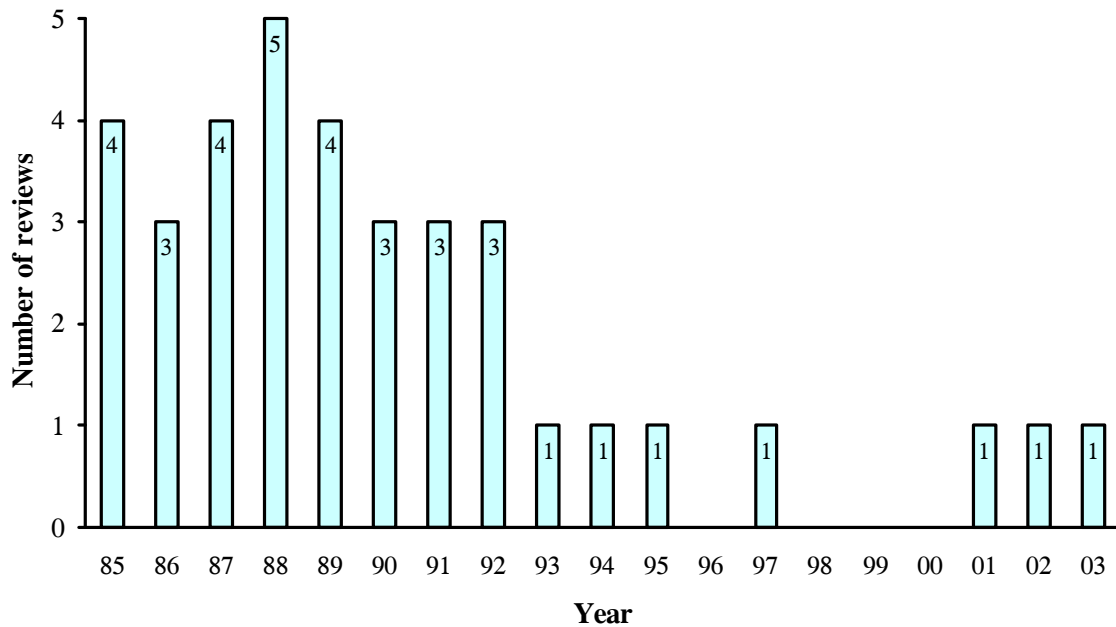
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**Note 4:** *The GLD calculates the utilisation rate of a vehicle in a period as follows:*

$$\frac{\text{Number of a.m. and p.m. sessions in which the vehicle was utilised}}{\text{Total number of a.m. and p.m. sessions in the period excluding workshop days, Sundays and public holidays}} \times 100\%$$

Figure 1

Departmental transport reviews



Source: GLD records

**Decreasing number of departmental transport reviews**

3.4 It can be seen from Figure 1 that the number of departmental transport reviews has been decreasing, as follows:

- (a) **For the years 1985 to 1992.** The GLD conducted three to five reviews a year, with an annual average of 3.6; and
- (b) **For the years 1993 to 2003.** On average, less than one review a year was conducted. According to the GLD, this was due to staff constraints and the need

to redeploy resources to other priorities (Note 5).

### **Audit observations**

3.5 ***Reviews are useful.*** The GLD's departmental transport reviews are useful for identifying savings opportunities in the use of departmental transport resources. In the last three reviews, for example, the GLD identified savings totalling \$10.4 million (Note 6). This translates into a cost/benefit ratio of 1 : 5, given the staff cost of \$2.1 million the GLD spent on these reviews.

3.6 ***Need to conduct more reviews.*** Since 1993, the GLD has on average conducted less than one review a year, down from a yearly average of 3.6 previously. Audit is concerned that this could result in a loss of savings opportunities. **The GLD may need to conduct more reviews in future, having regard to the cost/benefit of such reviews and availability of resources.**

3.7 ***Need to set clear selection criteria.*** As at 31 March 2004, the GLD had allocated vehicles to 75 departments of which 48 had not been selected for review. On the other hand, of those that had been reviewed, some had been selected twice. While such selections might have been made for good reasons, Audit notes that the GLD does not have clearly laid down criteria for prioritising and selecting departments for review. **Audit considers that setting such criteria is important. It will help GLD officers prioritise departments for review in a consistent manner.** It will also guide GLD officers in their assessment of relevant factors (e.g. number of vehicles, utilisation rate, and timing and findings of previous reviews) in the selection process.

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**Note 5:** *According to the GLD, the number of review teams was reduced from two to one in 1993 to meet other operational requirements. Furthermore, between 1996 and 2000, the review team had to carry out other ad hoc assignments, as follows:*

- (a) *in 1996, staff resources were diverted to the preparatory work for the Handover Ceremony and the World Bank Conference, both held in 1997; and*
- (b) *during 1998-2000, staff resources were redeployed to examine the economic life of vehicles (see para. 5.3) and the cost-effectiveness of the transport pool services (see paras. 6.5 and 6.6). Furthermore, the review team was heavily involved in a series of studies in connection with the GLD's Change Management Programme, which included the studies on Strengthening Transport Consultancy Services and Enhancement of Staff Motivation.*

**Note 6:** *Of these savings, \$6.8 million were savings of capital expenditure resulting from recommendations of the reviews to delete 10 vehicles and downgrade another 12. In addition, there were savings of recurrent expenditure amounting to \$3.6 million a year (including maintenance, fuel and driver costs).*

## Audit recommendations

- 3.8 **Audit has recommended that the Director of Government Logistics should:**
- (a) **consider conducting more departmental transport reviews, taking into account the cost/benefit of such reviews and resource availability; and**
  - (b) **set clear criteria for prioritising and selecting departments for departmental transport review.**

## Response from the Administration

3.9 The Director of Government Logistics agrees with the audit recommendations. She has said that:

- (a) the GLD aims at conducting more than one departmental transport review each year in future. Taking into account resource availability, the GLD will consider focusing on specific issues when conducting reviews so as to complete the reviews within shorter time; and
- (b) the GLD will review and revise the criteria for prioritising and selecting departments for departmental transport review, with a view to identifying more systematically departments that have the potential for significant savings.

## Audit examination of three recent reviews

3.10 As shown in Figure 1, the GLD conducted three reviews in the last three years. The departments concerned were the Civil Engineering and Development Department (CEDD — Note 7) in 2001, the Correctional Services Department (CSD) in 2002 and the Drainage Services Department (DSD) in 2003. Table 2 shows the results of the GLD's reviews.

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**Note 7:** *The CEDD was established in July 2004 by merging the Civil Engineering Department and the Territory Development Department. The GLD's review in 2001 was conducted on the Civil Engineering Department. For the sake of simplicity, the then Civil Engineering Department is also referred to as the CEDD in this report.*

**Table 2**  
**Results of departmental transport reviews**

Year	Department	Number of government vehicles reviewed	Savings identified (Note)  (\$ million)
2001	CEDD	57	2.0
2002	CSD	71	4.4
2003	DSD	72	4.0
	<b>Total</b>	<u><b>200</b></u>	<u><b>10.4</b></u>

*Source: GLD records*

*Note: The savings were achieved mainly by deleting or downgrading vehicles (see Note 6 in para. 3.5).*

3.11 Audit selected the three recent reviews for examining the GLD’s review procedures and whether there is room for improvement. Audit’s examination has highlighted the following areas for attention:

- (a) the large number of contract vehicles provided to works departments under their works contracts (see paras. 3.12 to 3.17); and
- (b) possible areas for further economy in the provision or use of vehicles in the three departments (see paras. 3.18 to 3.27).

### **Contract vehicles provided under works contracts**

3.12 It is a common practice for works departments to require their works contractors to provide vehicles (commonly known as “contract vehicles”) for use by the departments’ engineers and their staff in supervising the works and performing related duties. For the



works departments as a whole, there were 872 contract vehicles in March 2004, representing an increase of 55 % from 564 vehicles in May 1999 (Note 8).

### **Guidelines on using contract vehicles**

3.13 While the focus of this audit is on the GLD, it is relevant to point out that the responsibility for the efficient and economical use of contract vehicles rests with the works departments. Through its technical circulars, the Environment, Transport and Works Bureau has provided the works departments with the following guidelines on the use of contract vehicles:

- (a) a contractor may only be required to provide contract vehicles where it has been established that they are essential to the supervisory staff for the proper supervision of the works and for performing related duties;
- (b) in deciding whether contract vehicles are essential, due regard must be paid to the location of the site with respect to the office in which the supervisory staff is based. Due regard must also be paid to the adequacy of public transport and the travel time involved in using such transport between these points, and whether the requirements can be met by other means such as departmental transport; and
- (c) the specifications for contract vehicles must not call for a higher standard of transportation than is necessary.

### **Review findings on contract vehicles**

3.14 In the GLD's review on the DSD in 2003, the GLD examined the use of both contract and government vehicles. On contract vehicles, the GLD's review had the following findings:

- (a) the DSD had 114 contract vehicles provided under 35 works contracts. The utilisation of the vehicles was satisfactory. Compared with the full costs of using government vehicles, on average, the contractors' charging rates for contract vehicles were much lower; and

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**Note 8:** *According to the Environment, Transport and Works Bureau, this was because there were more contracts as at March 2004. These included contracts for mega projects with remote sites such as the Hong Kong Disneyland and cross border road network.*

- (b) contract vehicles formed part of the DSD's departmental vehicle fleet. The large number of contract vehicles in the DSD might have increased the fleet size unnoticeably.

The DSD agreed with the GLD's recommendation that the DSD should critically examine the requirement of contract vehicles and closely monitor their utilisation.

### **Audit observations**

3.15 Contract vehicles form part of the departmental vehicle fleets. Only by including contract vehicles in its departmental transport reviews, therefore, can the GLD obtain a full picture of how economically and efficiently works departments deploy their transport resources. **However, Audit notes that the GLD has not always included contract vehicles in its departmental transport reviews on works departments.** The review on the CEDD in 2001 is a case in point. Although the CEDD has a large fleet of contract vehicles (Note 9), the GLD did not take into account such vehicles in its 2001 review.

### **Audit recommendation**

3.16 **Audit has recommended that the Director of Government Logistics should consider the need to include contract vehicles in the departmental transport reviews on works departments, having regard to the large number of such vehicles which are in use.**

### **Response from the Administration**

3.17 The **Director of Government Logistics** agrees with the audit recommendation. She has said that the GLD will take into account the access of departmental staff to contract vehicles when conducting departmental transport reviews on works departments and determining the optimal level of provision of government vehicles.

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**Note 9:** *With 147 vehicles provided under 64 works contracts as at March 2004, the CEDD has a fleet of contract vehicles comparable in size to that of the DSD.*

**Possible areas for further economy**

3.18 As shown in Table 2 in paragraph 3.10, the three latest GLD reviews identified savings of \$10.4 million. While this was a notable achievement, Audit’s recent examination of the relevant records in the GLD and the three departments has identified possible areas for further economy. Table 3 gives a summary of the audit findings.

**Table 3**

**Possible areas for further economy**

Item	Department	Summary of audit findings
(a)	CEDD	The <b>operational need</b> for a contract vehicle provided at a total charge of \$0.8 million (comprising an initial charge of \$0.3 million and weekly charges totalling \$0.5 million up to July 2004) was <b>questionable</b> (see para. 3.19).
(b)	CSD	The CSD operates some laundry workshops that provide laundry services to hospitals and clinics. It uses both government and commercial vehicles to deliver the laundry items. <b>In the departmental transport review on the CSD in 2002, the GLD found that if the CSD hired commercial vehicles to meet all such transport needs, savings of \$6 million (comprising \$5.3 million of capital expenditure and \$0.7 million of recurrent expenditure) would be achieved.</b> However, the GLD did not raise this issue in its review report to the CSD.
(c)	DSD	Audit randomly selected five DSD works contracts to examine the specifications for contract vehicles. All five contracts had a contract period of two years. Two contracts specified that the vehicles should not be more than two years old. The other three specified that the vehicles must be new. <b>There may be scope for savings if the specifications for contract vehicles are less restrictive (e.g. by not specifying that new vehicles must be provided).</b>

*Source: CEDD, CSD, DSD and GLD records*

3.19 For illustration, this paragraph provides further details of an audit case study which led to the findings summarised in Item (a) in Table 3.

### Case study

#### The CEDD's use of contract vehicles provided under a works contract

##### *Case particulars*

This works contract provides for the formation of platforms near Choi Wan Road and Jordan Valley and the provision of roads, sewers and drains. The contract period is about 50 months, commencing in November 2001 and ending in January 2006. The estimated contract value is \$1,436 million.

The project has a number of sites, including the main project site, a conveyor belt system for transferring excavated materials and three sites at the former Kai Tak airport serving as the conveyor reception point, stockpiling area and barging point.

Under the contract, the contractor has provided six contract vehicles, as follows:

- (a) ***Five 7-seater cross-country vehicles.*** These vehicles have mainly been used by site officers for supervising the works and performing related duties throughout all the sites and for transport between the sites; and
- (b) ***One 16-seater minibus.*** According to the vehicle log books, this vehicle has mainly been used for:
  - (i) carrying site officers between the pick-up/drop-off point at the Choi Hung MTR station and the site office at New Clear Water Bay Road at the beginning and the end of each workday; and
  - (ii) delivering mails between the site office and the CEDD office (in Ho Man Tin before July 2004 and in Tsim Sha Tsui thereafter) in the afternoon as and when required. For example, 19 trips were run for this purpose in March 2004.

##### *Audit comments*

**Readily accessible by public transport, the site office at New Clear Water Bay Road is only less than ten minutes' walk from the Choi Hung MTR station. This casts doubt on the operational need for using the minibus to carry site officers between the Choi Hung MTR station and the site office (see (b)(i) above). The operational need for using the minibus to deliver mails is also questionable (see (b)(ii) above), because the CEDD can use any of the other five contract vehicles or public transport for this purpose.**

## Audit observations

3.20 The audit findings in Table 3 require the attention of the GLD and the three departments concerned. **The findings also highlight the importance of critically examining some fundamental questions when making decisions on vehicle provision (for both government and contract vehicles), or in conducting departmental transport reviews.** Such questions include:

- (a) Is the vehicle strictly necessary for operational purposes? Item (a) in Table 3 is a case in point.
- (b) Can the operational need be met by more economical means? Item (b) in Table 3 is a case in point.
- (c) Can the operational need be met by cheaper vehicles? Item (c) in Table 3 is a case in point.

## Audit recommendations

3.21 **Audit has recommended that the Director of Government Logistics and the three departments concerned should:**

- (a) **follow up the audit findings in Table 3 with a view to achieving further economy; and**
- (b) **draw lessons from the audit findings for future reference when making decisions on vehicle provision, or in conducting departmental transport reviews.**

3.22 **Audit has also recommended that the Secretary for the Environment, Transport and Works should, in the light of the audit findings, remind all works departments of the need for economy in the provision and use of contract vehicles.**

## Response from the Administration

3.23 The **Director of Government Logistics** agrees with the audit recommendations. She has said that the GLD will continue to follow the principles highlighted in paragraph 3.20 when making decisions on vehicle provision or in conducting departmental transport reviews. Regarding the audit findings in Item (b) in Table 3, she has said that:

- (a) despite the estimated savings, the GLD noted that the 12 medium trucks then engaged in the laundry delivery service still had a considerable serviceable life, and that there was no requirement for such vehicles in other departments. As the savings hinged on the successful redeployment of these surplus vehicles, the GLD decided to exclude the issue in its review report; and
- (b) the GLD will follow up this issue with the CSD and explore the feasibility of contracting out the laundry delivery service, taking into account the possible redeployment or disposal of the surplus vehicles.

3.24 The **Director of Civil Engineering and Development** has accepted the audit recommendations. He has said that:

- (a) following a review of the operation of all the six contract vehicles provided under the works contract examined by Audit (see para. 3.19), the CEDD has terminated the provision of the 16-seater minibus with effect from August 2004. As a result, government expenditure under the contract will be reduced by about \$0.3 million; and
- (b) in response to the audit recommendations, the CEDD has issued additional guidelines on the provision of contract transport. He is confident that observance of such guidelines will go a long way towards the more efficient and effective use of contract and government vehicles.

3.25 The **Commissioner of Correctional Services** has said that:

- (a) the CSD is open-minded about using commercial vehicles to replace government vehicles for delivering laundry items (see Item (b) in Table 3); and
- (b) the CSD is ready to consider any practical proposals, taking into account the availability of funds for hiring commercial vehicles.

3.26 The **Director of Drainage Services** agrees that there will be scope for savings if less restrictive specifications on contract vehicles are set in works contracts (see Item (c) in Table 3). He has said that:

- (a) the DSD accepts that there were some inconsistencies in contract vehicle arrangements in the five contracts examined by Audit. Regarding the three contracts which specified that the vehicles must be new, the DSD reviewed the requirement of two of them upon their expiry and allowed the contractors to provide used vehicles in the immediately following contracts. The remaining contract was not renewed upon its expiry; and
  
- (b) the DSD will issue internal guidelines and remind its staff to be critical and stringent when drawing up specifications. Without compromising efficiency and safety, specifications should be set at the minimum acceptable standard commensurate with the operational requirements of each works project.

3.27 The **Secretary for the Environment, Transport and Works** has no objection in principle to the audit recommendation in paragraph 3.22. She has said that the use of contract vehicles has been the subject of technical audits conducted by departments from time to time. She will review the technical circulars to provide more detailed guidelines on the provision of contract vehicles.

## **PART 4: VETTING REQUESTS FOR ADDITIONAL AND REPLACEMENT VEHICLES**

4.1 This PART examines the GLD's procedures for vetting departments' requests for additional and replacement vehicles.

### **Guidelines on vetting requests for additional vehicles**

4.2 Departments may submit requests for additional vehicles to the GLD at any time. According to the GLD's vetting guidelines, it will consider the following factors in determining whether to endorse a request for additional vehicle:

- (a) the circumstances leading to the increase in transport needs (e.g. creation of posts and teams);
- (b) the utilisation of the existing vehicles in the department, particularly those within the section/unit/division concerned;
- (c) possible alternatives (e.g. hiring of vehicles from the GLD's transport pool or the commercial sector); and
- (d) effects on operational efficiency if the request is rejected.

### **Guidelines on vetting requests for replacement vehicles**

4.3 Around August each year, as part of the Government's Resource Allocation Exercise (RAE), the GLD commences the exercise of vetting requests for replacement vehicles by generating a provisional vehicle replacement list from the TMIS using the economic life model (see para. 5.3). After the Electrical and Mechanical Services Department has inspected the vehicles on the list and confirmed the need for replacement, the relevant departments submit requests for replacement vehicles to the GLD. According to the GLD's vetting guidelines, it will not endorse a request for replacement if:

- (a) the vehicle concerned has been substantially underutilised as compared with the average utilisation of vehicles of the same type in the government fleet;
- (b) other vehicles in the department concerned, particularly those within the same section/unit/division, have been substantially underutilised;



- (c) no driver is available (e.g. the driver post has been deleted); or
- (d) there is a decrease in transport needs due to changes of departmental activities or redistribution of responsibilities and workload.

### **Change in approval procedures for additional and replacement vehicles**

4.4 *Previous arrangement.* Prior to the 2002 RAE, the Financial Services and the Treasury Bureau (FSTB) required the GLD to submit the endorsed requests for additional and replacement vehicles for the FSTB's examination. The FSTB would then indicate whether or not it supported a particular request. According to the GLD, the purpose of this procedure was primarily to determine the appropriate amount to be allocated to the block vote (see Note 2 in para. 1.2) in the next financial year, not to dictate the GLD as to which requests should be pursued. The GLD had the flexibility to change the priorities of procurement under the block vote to meet justifiable needs during the year.

4.5 *New arrangement.* To streamline procedures and encourage user departments to critically rethink the need for additional or replacement vehicles, with effect from the 2002 RAE, the FSTB has in each exercise set a predetermined limit on the provision to be allocated to the block vote for the next financial year. **Under this new arrangement, the GLD is no longer required to submit the endorsed requests for additional and replacement vehicles to the FSTB for examination.** Within the provision allocated and agreed prioritising criteria, the GLD will continue to consider the priorities of the departmental requests and to coordinate procurement.

### **Vetting results for the past four years**

4.6 Table 4 shows the results of the GLD's vetting of departments' requests for additional and replacement vehicles in the 2000 to 2003 RAEs.

Table 4

## Results of vetting of requests for vehicles

Resource allocation exercise	Number of requests processed by GLD	Number of requests endorsed by GLD	Number of GLD endorsed requests not supported by FSTB
<i>Additional vehicles</i>			
2000	151	50	13
2001	251	125	48
2002	8	6	Not applicable
2003	20	1	Not applicable
<i>Replacement vehicles</i>			
2000	1,211	1,038	3
2001	622	597	-
2002	405	386	Not applicable
2003	508	433	Not applicable

Source: GLD records

4.7 *Additional vehicles.* As shown in Table 4, the FSTB did not support a significant number of the requests for additional vehicles endorsed by the GLD (13 requests or 26% in the 2000 RAE, and 48 requests or 38% in the 2001 RAE). Audit noted that the FSTB had rejected the requests mainly for the following reasons:

- (a) the existing vehicles in the department concerned were sufficient to meet the increase in transport needs;
- (b) the GLD endorsed more additional vehicles than necessary;
- (c) it was more cost-effective for the increase in transport needs to be met by hiring vehicles from the GLD's transport pool or the commercial sector;

- (d) there was no increase in transport needs since the proposed creation of posts in the department concerned was not supported by its policy bureau; and
- (e) there was no imminent need to provide an additional vehicle since the actual increase in transport needs had yet to be ascertained.

4.8 **Replacement vehicles.** For replacement vehicles, as shown in Table 4, the FSTB supported nearly all the requests endorsed by the GLD. The FSTB did not support three requests in the 2000 RAE because the department concerned had planned to contract out the relevant services thus reducing the transport needs.

### **Audit observations**

4.9 **Potential risk.** The FSTB played a useful role in ensuring that departmental requests for vehicles were fully justified. It rejected, with good reasons, a significant percentage of the requests for additional vehicles that the GLD had endorsed. **The procedural change with effect from the 2002 RAE, therefore, could increase the risk of vehicles being procured without sufficient justifications.** This may not be a serious concern initially, given the small number of requests for additional vehicles endorsed in the 2002 and 2003 RAEs due apparently to financial stringency (see Table 4). However, the risk may increase over time, as the economic climate improves and the number of requests returns to the normal level.

4.10 **Measures to address the potential risk.** As a compensating measure, Audit considers that the GLD needs to exercise more stringency in vetting departmental requests for additional and replacement vehicles. **To this end, the GLD may need to draw lessons from those cases that it had endorsed but were later rejected by the FSTB.**

4.11 **Replacement of underutilised vehicles.** In May 2004, the GLD identified 231 underutilised vehicles in various departments (see para. 2.5). Audit found that these included three vehicles for which the requests for replacement had been endorsed by the GLD. **To avoid unnecessary expenditure, the GLD may need to suspend immediately the replacement process for these vehicles and re-examine the justifications for replacing them.**

### **Audit recommendations**

4.12 **Audit has recommended that the Director of Government Logistics should:**

- (a) **require GLD officers to be more stringent in vetting departmental requests for additional and replacement vehicles; and**
- (b) **suspend the replacement process immediately for the three underutilised vehicles reported in paragraph 4.11, and re-examine the justifications for replacing them.**

4.13 **Audit has also *recommended* that the Secretary for Financial Services and the Treasury should review the new arrangement for processing departmental requests for additional and replacement vehicles, at an appropriate time, to ensure that it is working satisfactorily.**

### **Response from the Administration**

4.14 **The Director of Government Logistics agrees with the audit recommendations. She has said that:**

- (a) GLD officers will be more stringent in vetting departmental requests for additional and replacement vehicles. A new approving procedure has been set up in this connection. Besides, the reduction in the block vote provision also necessitates greater stringency in the vetting of requests. The GLD will continue to monitor the effectiveness of the system; and
- (b) the procurement process to replace the three underutilised vehicles has been suspended. The departments concerned will be asked to provide additional information to support their requests for vehicle replacement.

4.15 **The Secretary for Financial Services and the Treasury has assured Audit that:**

- (a) current financial stringency apart, the FSTB will continue to be mindful of the need to ensure the economical and efficient use of resources; and
- (b) as Audit recommended, the FSTB will review the effectiveness of the new arrangement when necessary.

## **PART 5: MAINTENANCE COSTS OF LARGE SALOON CARS**

5.1 This PART examines issues relating to the maintenance costs of large saloon cars.

### **Rules on allocation of large saloon cars**

5.2 The GLD follows the following rules on allocation of large saloon cars:

- (a) *Large saloon grade A cars.* These are allocated as departmental vehicles for use by departments headed by officers on the Directorate Pay Scale points D7 and above or equivalent (Note 10); and
- (b) *Large saloon grade B cars.* These are allocated to departments headed by officers on the Directorate Pay Scale points D4 to D6 or equivalent.

### **Policy on replacement of vehicles**

5.3 In December 1998, the GLD enhanced the TMIS to provide functions for recording vehicle maintenance costs and using such data for analysing the economic life of vehicles. In mid-2000, after completing the analyses of the economic life of all vehicles, the GLD began to adopt the economic life model as its vehicle replacement policy.

### **Cancellation of the tender exercise in 2001**

5.4 In May 2001, the GLD invited tenders for the supply of 46 grade A cars and 61 grade B cars from 2001-02 to 2003-04 to replace those cars which would reach the end of their economic life. However, in September 2001, the Central Tender Board gave approval to cancel the tender exercise on the recommendation of the GLD. In its recommendation to the Central Tender Board, the GLD stated that:

- (a) subsequent to the submission of the tender reports to the Central Tender Board, the FSTB decided that a review should be carried out to determine the transport needs of user departments, review the classification of the various sizes of saloon car and evaluate the different procurement options;

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**Note 10:** *In July 2002, upon implementation of the accountability system, the Directors of Bureau were also provided with large saloon grade A cars for use at their discretion as part of their remuneration package.*

- (b) cancellation of the tender exercise would allow the GLD time to fully examine these issues and take into account the review findings before commencing the procurement of large saloon cars; and
- (c) another tender exercise would be conducted once the review had been completed.

5.5 As at July 2004, the GLD had not conducted another tender exercise, pending finalisation of the results of the above-mentioned review.

### Analysis of maintenance costs of large saloon cars

5.6 As at 31 March 2004, the government vehicle fleet included 55 grade A cars and 94 grade B cars. Table 5 shows Audit's analysis of the maintenance costs of these grade A and grade B cars.

**Table 5**

**Maintenance costs of large saloon cars (Note 1)**

	Grade A car	Grade B car
	(\$' 000)	(\$' 000)
<i>Maintenance costs in 2003-04</i>		
Range	2 to 130	3 to 69
Average	35	16
<i>Accumulated maintenance costs as at 31 March 2004 (Note 2)</i>		
Range	81 to 383	24 to 308
Average	216	104

*Source: GLD records*

*Note 1: The maintenance costs did not include any repair costs caused by accidents.*

*Note 2: The grade A and grade B cars had an average age of seven years as at 31 March 2004.*

### **Audit observations**

5.7 Table 5 shows that there were significant differences in the maintenance costs in 2003-04 between individual vehicles for both grade A and grade B cars. For one particular grade A car, for instance, the maintenance cost in the year amounted to \$130,000, which was significantly higher than the average of \$35,000. Similarly, between individual vehicles, wide variations existed in their accumulated maintenance costs as at 31 March 2004. **Audit is concerned that vehicles with very high maintenance costs may have already been used beyond their economic life.**

### **Audit recommendation**

5.8 **Audit has recommended that the Director of Government Logistics, in conjunction with the Secretary for Financial Services and the Treasury, should expedite action to finalise their review on the procurement of large saloon cars, taking into consideration:**

- (a) **the high maintenance costs of some vehicles; and**
- (b) **the need to replace those vehicles which have been used beyond their economic life.**

### **Response from the Administration**

5.9 The **Director of Government Logistics** and the **Secretary for Financial Services and the Treasury** agree with the audit recommendation. The Director has said that she will submit the latest information to the FSTB and seek its endorsement to resume the procurement of large saloon cars.

## **PART 6: TRANSPORT POOL**

6.1 This PART examines the operation of the GLD's transport pool.

### **Hiring of pool and commercial vehicles**

6.2 The GLD operates a transport pool to supplement departmental vehicle fleets and provide transport services to those departments without departmental vehicles. The pool comprises vehicles of various types for hiring by departments at hourly or daily rates.

6.3 In addition, the GLD administers a number of vehicle hiring term contracts to facilitate departments to hire commercial vehicles not available within the Government, or to cope with seasonal peak demand or short-term transport needs which do not justify provision of additional vehicles.

6.4 Departments should observe the following requirements on the hiring of pool and commercial vehicles:

- (a) ***Pool vehicles.*** Departments may hire pool vehicles if departmental transport is not available and the use of public transport cannot achieve the purpose; and
- (b) ***Commercial vehicles.*** Departments may hire commercial vehicles only when no suitable departmental or pool transport is available. They must seek approval from the GLD before hiring commercial vehicles.

### **Reviews on the cost-effectiveness of pool services**

6.5 In March 1999, the GLD completed a review on the cost-effectiveness of pool services. The review concluded that:

- (a) the hiring charges of most pool vehicles were less competitive when compared with those of commercial vehicles; and
- (b) the number of pool vehicles should be reduced from 179 to 138 to provide mainly hiring services which were competitive (e.g. light buses), essential



(e.g. large saloon cars for judges —Note 11) or rarely available in the market (e.g. 7-seater medium vans).

6.6 In November 2000, the GLD completed another review. Based on the utilisation records, the GLD decided to further reduce the number of pool vehicles to 96 to enhance cost-effectiveness.

6.7 In February 2004, in view of the drop in the utilisation rates of pool vehicles in 2003, the GLD conducted a further review to determine the optimal size of the pool. The review concluded that the GLD should retain **55 vehicles** in the pool as follows:

- (a) 38 vehicles to cope with emergency operations (e.g. a Severe Acute Respiratory Syndrome outbreak). These vehicles are deployed for hiring by departments under normal circumstances;
- (b) 12 vehicles to provide transport to judges; and
- (c) 5 vehicles to relieve departmental vehicles retained in workshops or to provide transport for Justice of the Peace and VIP visits.

#### **Utilisation of pool vehicles in March 2004**

6.8 As at 31 March 2004, the GLD transport pool comprised 59 vehicles. Table 6 shows an analysis of these vehicles and their utilisation rates.

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**Note 11:** *General Regulation 256 states that judges of the Court of Final Appeal and the High Court may use the specifically allocated pool vehicles, if available, for all purposes.*

**Table 6**  
**Utilisation of pool vehicles**

Type of vehicle	Optimal number determined by GLD in February 2004	Number as at 31 March 2004	Utilisation rate in March 2004 (Note) (%)
Light bus	7	7	79
5-seater medium van	5	5	75
Medium truck	4	4	74
Medium bus	6	6	69
Large saloon car	15	19	69
7-seater medium van	11	11	63
Multi-purpose car	5	5	61
VIP car	2	2	16
<b>Total</b>	<b><u>55</u></b>	<b><u>59</u></b>	<b>68</b>

Source: GLD records

Note: Audit calculated the utilisation rate using the GLD's formula in Note 4 in paragraph 3.2.

### Audit observations

6.9 *Achievements.* The GLD's transport pool had 59 vehicles in March 2004, about one-third the size in 1999. **The significant downsizing of the pool highlights the importance of continued efforts to achieve economy.** The audit observations in paragraphs 6.10 to 6.13 require the GLD's further action and attention.

6.10 *Need to achieve optimal size.* The transport pool in March 2004 had four vehicles more than the optimal number of 55 determined by the GLD in February 2004 (see para. 6.7). Audit's analysis in Table 6 indicates that the four surplus vehicles were large

saloon cars. **The GLD needs to take action to reduce the size of the pool to the optimal number by deleting four large saloon cars.**

6.11 ***Need to closely monitor utilisation.*** The analysis in Table 6 also shows that the overall utilisation rate of the pool vehicles was 68% in March 2004. **Close monitoring is needed to ensure that the pool vehicles are well utilised and to determine whether the size of the pool should be further reduced.**

6.12 ***Vehicles for emergency purposes.*** As indicated in paragraph 6.7(a), in determining the optimal size of the pool, the GLD considered that 38 vehicles should be retained to cope with emergency operations. This means retaining more vehicles than strictly necessary for meeting the Government's normal operational needs. It also means higher costs for the Government. **The GLD needs to critically re-examine, at regular intervals, the justifications for retaining a large number of vehicles for emergency situations which may seldom arise.** Furthermore, the Government as a whole has about 6,800 vehicles. With appropriate coordination and redeployment, departmental transport resources can be used effectively to meet operational emergencies when the need arises. Audit notes that the GLD has made arrangements with departments for such purposes. **In determining the optimal size of its transport pool in future, Audit considers that the GLD needs to take into account the availability of this option and reduce the size of the pool accordingly.**

6.13 ***Hiring commercial vehicles.*** As indicated in paragraph 6.4(b), departments may hire commercial vehicles only when no suitable departmental or pool transport is available. They must seek approval from the GLD before hiring commercial vehicles. In a recent sample check in the DSD and the GLD, Audit found some instances in which the GLD had given approval to the DSD for hiring commercial vehicles, although pool vehicles were available during the periods concerned. **This indicates that deficiencies may exist in the approval procedures.**

### **Audit recommendations**

- 6.14 **Audit has recommended that the Director of Government Logistics should:**
- (a) **take action to reduce the size of the pool to the optimal number determined in the GLD's February 2004 review, by deleting four large saloon cars;**
  - (b) **closely monitor the utilisation of the pool vehicles to ensure that they are well utilised and to determine whether the size of the pool should be further reduced;**

- (c) **critically re-examine, at regular intervals, the justifications for retaining 38 vehicles for emergency situations; and**
- (d) **with reference to the audit findings in paragraph 6.13, ascertain whether there are deficiencies in the GLD's approval procedures for hiring commercial vehicles, and take action to prevent recurrence of similar cases.**

### **Response from the Administration**

6.15 The **Director of Government Logistics** agrees with the audit recommendations. She has said that:

- (a) *Achieving optimal size.* Two large saloon cars were already deleted from the pool in May 2004. Plans are in hand to transfer the remaining two cars to other departments shortly to meet their justifiable needs;
- (b) *Monitoring utilisation.* Monthly reports on the utilisation rates of pool vehicles are examined by the GLD's senior management, with a view to monitoring the situation and considering whether there is a need to further adjust the pool size;
- (c) *Vehicles for emergency purposes.* The 38 vehicles are included in the Government's emergency operation plan. The GLD will review the relevant contingency plan every six months with a view to assessing the minimum required number of such vehicles for emergency situations; and
- (d) *Hiring commercial vehicles.* The GLD will strictly enforce the approval procedures for hiring commercial vehicles. In this connection, a web-based computer system was launched in June 2004 to facilitate a more systematic monitoring. It ensures that pool resources have been fully utilised before departments are permitted to hire commercial vehicles.

## Appendix

### Acronyms and abbreviations

Audit	Audit Commission
CEDD	Civil Engineering and Development Department
CSD	Correctional Services Department
DSD	Drainage Services Department
FSTB	Financial Services and the Treasury Bureau
GLD	Government Logistics Department
RAE	Resource Allocation Exercise
TMIS	Transport Management Information System