

Report No. 46 of the Director of Audit — Chapter 4

MANAGEMENT OF THE GOVERNMENT FLEET

Summary

1. The Marine Department (MD) is responsible for the efficient management of the government fleet. The MD's main activities include operating its crewed fleet, providing marine transport services to government departments and performing maintenance of government vessels. In 2004-05, the MD incurred an expenditure of \$400 million on the management of the government fleet.

Audit review

2. The Audit Commission (Audit) has recently conducted a review of the MD's activities relating to the management of the government fleet. Audit notes that there is room for improvement in a number of areas.

Operation of the Marine Department crewed fleet

3. The MD provides crew staff to man and operate government vessels. As at December 2005, the MD had 283 crew staff to man and operate government vessels, 20 crew staff to perform special duties and another 62 crew staff in a reserve pool.

4. **Review of manning scale.** In 1995, the MD completed a review of the manning scale for the MD crewed fleet and proposed to revise the manning scale for vessels of certain types and sizes. The MD estimated that a net saving of 49 posts would be achieved by adopting the revised manning scale. A trial scheme in 2003 also confirmed that the revised manning scale was feasible. However, because of possible problems with the creation of new posts and staff redundancies, the MD withheld the adoption of the revised manning scale. *Audit has recommended that the Director of Marine should critically consider adopting the revised manning scale in the MD's fleet operation.*

5. **Utilisation of reserve pool staff.** To provide relief for crew staff, the MD had a reserve pool of 62 crew staff. Audit has found that, since July 2005, staff in the reserve

pool could not be fully utilised. The utilisation rate had remained below 80% for the four months ended December 2005, despite the fact that 10 crew staff in the reserve pool had been redeployed in the second half of 2005 to help man the government vessels. Audit is concerned that the reserve pool might have been over-staffed, and that the government vessels might have been over-manned as a result of the redeployment. *Audit has recommended that the Director of Marine should critically review the manpower resources in the reserve pool and, in consultation with the relevant government departments/organisations which have operational control of the vessels, critically review the optimum manning arrangements for MD crewed vessels.*

6. ***Utilisation of the MD crewed fleet.*** Audit has analysed the utilisation of 59 MD crewed vessels for the 12 months ended September 2005. The result of the analysis indicated that 49 government vessels (83%) had a utilisation rate of 50% or more, whereas 10 vessels (17%) had a utilisation rate of less than 50%. *Audit has recommended that the Director of Marine should closely monitor the utilisation of the MD crewed fleet and take prompt action to deal with vessels with low utilisation rates.*

Administration of in-house maintenance work

7. The MD is responsible for the maintenance of all government vessels. For some years, it has outsourced about 80% of the maintenance and repair work to contractors. The remaining 20%, which related mainly to workshop jobs and minor urgent repairs, has continued to be done in-house by MD staff. As at November 2005, the MD had a total of 81 staff, with an annual staff cost of \$16 million, working on in-house maintenance.

8. ***Need for cost comparison.*** According to an action plan worked out in May 2001 for reducing the size of its workshops, the MD planned to conduct regular cost comparisons to measure the cost differentials of similar jobs done by contractors and by in-house staff to see if further outsourcing would be desirable. Audit found that, due to other work priorities, the MD had not yet conducted such cost comparisons. *Audit has recommended that the Director of Marine should conduct regular cost comparisons to evaluate the cost-effectiveness of in-house maintenance work and assess the potential for further outsourcing.*

Administration of maintenance contracts

9. ***Maintenance contracts.*** The MD has contracted out its vessel maintenance work by means of term contracts and one-off contracts. In general, term contracts have the advantages of reducing administrative work, improving efficiency and reducing vessel downtime. Audit however found that, instead of increasing, the MD's use of term contracts

had decreased. *Audit has recommended that the Director of Marine should ascertain if the use of term contracts is more cost-effective vis-à-vis one-off contracts and explore how the MD can make better use of term contracts for its vessel maintenance work.*

10. ***Provision of free workshops to selected contractors.*** The MD has used a workshop allocation points system to determine the priorities for the allocation of 14 workshops at its dockyard free of charge to its vessel maintenance contractors each year. Audit notes that while the provision of workshops free of charge to some contractors may enable them to meet the MD's repair needs speedily, this arrangement results in disparity in treatment between the contractors. *Audit has recommended that the Director of Marine should critically review the desirability of continuing the existing arrangement of providing workshops free of charge to selected contractors.*

11. ***Monitoring of contractors' performance.*** The MD has devised a demerit points system under which vessel maintenance contractors will be allotted demerit points for offences committed and will be penalised for poor performance. Audit has found that there is scope for improvement in the MD's procedures for applying the demerit points system. *Audit has recommended that the Director of Marine should provide clearer directions, by revising the MD's guidelines, to help his inspecting staff determine the actions to be taken based upon the seriousness of the offences committed.*

Stock management

12. ***Stock value and stock level.*** The number of major mechanised vessels maintained by the MD had decreased from 146 in 2002 to 134 in 2005. However, the MD's expenditure on vessel maintenance materials had increased. Similarly, the stock value and the number of stock items had also increased. The MD had missed its targets of reducing the value of major parts by 2.5% a year and by 10% in four years' time (i.e. by 2005). *Audit has recommended that the Director of Marine should conduct a stock review to ascertain the reasons for the increased stock level and take appropriate measures to improve the stock position.*

13. ***Stock valuation.*** Since May 2001, the MD has valued its stock at historical cost. In applying the historical cost in the valuation of those spare parts procured with new government vessels, the MD has recorded them at zero value in its inventory records. Audit considers that the recording of the spare parts at zero value is not entirely appropriate because cost has been incurred in procuring these spare parts and the zero value treatment may result in lax control over them. *Audit has recommended that the Director of Marine should revise the stock valuation method by recording at cost all spare parts that are procured with new vessels in the MD's inventory records.*

Other areas for improvement

14. ***Extra downtime of vessels.*** Based on MD management reports, in 2004-05, 134 major mechanised vessels had spent 3,921 docking days for routine overhaul, which exceeded the budget of 3,396 docking days by 525 days (15%) due to various reasons. *Audit has recommended that the Director of Marine should critically review the reasons for the extra downtime and take appropriate measures to reduce downtime.*

15. ***Performance measurement.*** Under its programme “Government Fleet” in the Controlling Officer’s Report (COR), the MD has set a performance target of “vessel availability to all users” and two indicators of “mechanised vessels in use” and “new vessel projects undertaken” to measure its performance. *Audit has recommended that the Director of Marine should consider reporting additional key performance measures in the COR to reflect the extent to which the MD has met its programme aim of providing cost-effective marine transport services to government departments.*

Response from the Administration

16. The Director of Marine accepts all the audit recommendations.

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