

**LEGISLATIVE COUNCIL PANEL ON PUBLIC SERVICE
MEETING ON 18 NOVEMBER 2002**

Review of Duty Mileage Allowance

PURPOSE

This paper briefs Members on our proposal to revise the formula for determining the Duty Mileage Allowance (DMA) rates and the mechanism for future adjustments to the rates.

THE PROPOSAL

2. We propose -
 - (a) to revise the DMA rates, with effect from January 2003, to \$2.07 per kilometre (km) for motor vehicle and \$0.77 per km for motor cycle; and
 - (b) to adjust the DMA rates on 1 April annually, starting from 2004, in accordance with the year-on-year change in the relevant components ("motor fuel" and "repairs to motor vehicles") of the Composite Consumer Price Index (CCPI) for the 12-month period ending December of the preceding year.

JUSTIFICATION

Formula for determining the DMA rates

3. The current formula for determining the DMA rates covers both the fixed costs and the running costs of a vehicle. The fixed costs comprise 50% of the depreciation value, 50% of the vehicle licence fee and 75% of the insurance premium. For running costs, the full costs on petrol, oil, greasing, repairs and maintenance, and tyres are covered. Given that a large proportion of the fixed cost elements would have been reimbursed after the first 4 800 km mileage, the DMA rates for accumulated mileage above 4 800 km in any one financial year are discounted by 20%. The current DMA rates are \$3.44 per km (for the first 4 800 km) and \$2.75 per km (for over 4 800 km) for motor vehicle, and \$1.26 (for the first 4 800 km) and \$1.01 (for over 4 800 km) for motor cycle. A breakdown of the cost components of the current DMA rates are at Enclosure 1.

4. The Director of Audit, in his report no. 33 published in 1999, commented that the Government was over-generous in reimbursing an officer for more than the direct cost incurred by him in using his private vehicle for duty journeys. He recommended that the rates of mileage allowance should be reduced to cover only the direct cost, i.e. the fuel cost, incurred for such journeys.

5. We have reviewed the formula for determining the DMA rates in the light of the Director of Audit's comments and consider the present formula for determining DMA rates has room for improvement.

6. We consider that as the vehicle owner has to bear the fixed costs anyway upon the purchase of a vehicle, there is a case for excluding these costs from the formula for determining the DMA rates. Previous claims pattern in the major DMA-spending departments shows that some 90% of the annual claims of individual officers were less than 4 800 km, of which some 40% were less than 500 km. These figures indicate that most DMA claimants use their own vehicles for official use only to a very limited extent. We therefore do not consider it justified to reimburse DMA claimants for the fixed costs of their vehicles.

7. As for the running costs, the Director of Audit considers that only the direct cost, i.e. the fuel cost, should be reimbursed. We take the view that as the DMA is intended to provide a fair recompense for eligible officers who, for operational reasons, use their private vehicles for duty purposes, it would be reasonable to reimburse the claimants the full running costs incurred for their duty journeys. As a general indication, fuel cost accounts for about half of the running costs.

8. With the removal of the fixed cost elements from the formula for determining DMA rates, we consider that the 20% discount factor for accumulated mileage over 4 800 km should be abolished. The administration of DMA will be simplified as a result.

9. Taking account of the updated running costs of a vehicle (breakdown at Enclosure 2), we propose that the DMA rates should be revised, with effect from January 2003, to cover only the running costs, as follows -

Encl. 2

Type of Motor Vehicle	DMA Rates
Motor car	\$2.07 per km
Motor cycle and scooter	\$0.77 per km

Adjustment mechanism

10. Adjustment to the DMA rates is currently based on the changes in the cost of components covered by DMA. For the running costs, the cost of each of the five components is calculated and adjusted by a different formula. For petrol, oil, greasing and tyres, the respective costs are based on their respective retail

prices and consumption rates supplied by Government Land Transport Agency and Electrical and Mechanical Services Department. For the cost of repairs and maintenance, it is calculated at 10% of the average capital cost for a certain mileage of selected motor vehicle models. We consider the existing method for adjusting the DMA rates is far too complicated. Besides, there is no mechanism for regular adjustments.

11. To facilitate future adjustments and to ensure that the DMA rates are updated regularly, we propose that the DMA rates should be adjusted annually on 1 April, in accordance with the year-on-year change in the relevant components (i.e. "motor fuel" and "repairs to motor vehicles") of the Composite Consumer Price Index (CCPI) for the 12-month period ending December of the preceding year.

FINANCIAL IMPLICATIONS

12. The annual expenditure on DMA was \$34.10 million in 2000-01 and \$29.37 million in 2001-02. We estimate that the proposed revision in the calculation and adjustment of the DMA rates will bring about savings of around \$3 million in 2002-03 and \$12 million a year thereafter.

STAFF CONSULTATION

13. We have consulted the staff sides of the four Central Consultative Councils on our proposal. Some of them suggest that certain elements of the fixed costs should be retained in the formula for calculating the DMA rates. The Police Force Council has specifically requested to retain the insurance element in the formula to take into account the additional insurance premium normally charged on police officers for driving their private vehicles for duty purposes. We have consulted the Office of the Commissioner of Insurance and the insurance trade, and have been advised that insurance premium for a motor vehicle is determined by a number of factors, including, for instance, the insured's age, occupation and track record, the vehicle's age and type, and the use of the vehicle. The standard terms of motor vehicle insurance cover the use of the vehicle for the insured's business and profession apart from social domestic and pleasure purposes. There is no evidence to suggest that additional insurance premium will definitely be charged on a vehicle used for work-related purposes. While appreciating staff's concerns, we expect that duty-related mileage would form only a relatively small portion of the total mileage of an officer's private vehicle. We remain of the view that the fixed costs of a vehicle should be borne by the vehicle owner himself and the DMA should cover only the running costs directly related to the use of the vehicle for duty purposes.

14. Some staff expect that the reduced DMA rates will discourage officers from using their own vehicles for duty, thus increasing the demand for departmental transport. We do not expect that the proposed reduction in DMA

rates will result in a sudden rise in the demand for departmental transport. As a general rule, departmental management will ensure that officers use the most economical means of transport for duty journeys wherever operational requirements permit. We will advise departments to take appropriate administrative measures to ensure effective deployment of their departmental transport, e.g. by encouraging officers to use public transport as far as practicable.

BACKGROUND INFORMATION

15. DMA is intended to provide a fair recompense for eligible officers who use their private vehicles for duty purposes. The current formula for determining the DMA rates was approved by the Finance Committee of the Legislative Council on 13 July 1990 *vide* FCR(90-91)43.

NEXT STEP

16. Subject to Members' views on our proposal set out in paragraph 2 above, we intend to seek the Finance Committee's approval at its meeting on 20 December 2002.

Civil Service Bureau
November 2002

Current DMA Rates

Cost components	Cost (\$) per km for motor vehicle	Cost (\$) per km for motor cycle
(I) Fixed costs		
(a) Depreciation	0.6953	0.1723
(b) Licence fee	0.1782	0.0469
(c) Insurance premium	0.6573	0.3011
<i>Total fixed costs</i>	<i>1.5308</i>	<i>0.5203</i>
(II) Running costs		
(a) Petrol	0.9565	0.3435
(b) Oil	0.0343	0.0238
(c) Greasing	0.0361	0.1250
(d) Repairs & maintenance	0.7813	0.2012
(e) Tyres	0.1042	0.0500
<i>Total running costs</i>	<i>1.9124</i>	<i>0.7435</i>
Fixed costs + Running costs	3.4432	1.2638
(i) Current DMA rates for the first 4 800 km	3.44	1.26
(ii) Current DMA rates for over 4 800 km [(i) x 80%]	2.75	1.01

Proposed DMA Rates

Cost components	Cost (\$) per km for Motor Vehicle	Cost (\$) per km for Motor Cycle
Running costs		
(a) Petrol	1.1023	0.4053
(b) Oil	0.0762	0.0529
(c) Greasing	0.0309	0.0625
(d) Repairs & maintenance	0.7690	0.1916
(e) Tyres	0.0937	0.0563
Total running costs	2.0721	0.7686
Proposed DMA rates	2.07	0.77