

ITEM FOR FINANCE COMMITTEE

VARIOUS HEADS OF EXPENDITURE Subhead 149 General departmental expenses

Members are invited –

- (a) to approve the revision of the Duty Mileage Allowance rates to \$2.07 per kilometre for motor vehicle and \$0.77 per kilometre for motor cycle and scooter with effect from January 2003; and
- (b) to delegate to the Secretary for the Civil Service the authority to approve future adjustments to the Duty Mileage Allowance rates on 1 April annually, starting from 2004, in accordance with the year-on-year change in the relevant components of the Composite Consumer Price Index for the 12-month period ending December of the preceding year.

PROBLEM

The present formula for determining the Duty Mileage Allowance (DMA) rates was set in 1990. We have reviewed the formula and identified room for improvement.

/PROPOSAL

PROPOSAL

2. The Secretary for the Civil Service (SCS) proposes that –
 - (a) the DMA rates should be revised, with effect from January 2003, to \$2.07 per kilometre (km) for motor vehicle and \$0.77 per km for motor cycle and scooter; and
 - (b) the SCS should be delegated the authority to approve future adjustments to the DMA rates on 1 April annually, starting from 2004, 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.

JUSTIFICATION**Revision to 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 and scooter. A breakdown of the cost components of the current DMA rates are at Enclosure 1.

Encl. 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 identified 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. The pattern of previous claims in the major DMA-spending departments shows that some 40% of the annual claims of individual officers were less than 500 km and 90% were less than 4 800 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 (i.e. full costs on petrol, oil, greasing, repairs and maintenance, and tyres) 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 accordingly be abolished. The administration of DMA will be simplified as a result.

Encl. 2 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 –

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

/Adjustment

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 portion, 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 the Government Land Transport Agency and the Electrical and Mechanical Services Department. The cost of repairs and maintenance¹ 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 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 SCS should be delegated the authority to approve future adjustments to the DMA rates annually on 1 April, starting from 2004, in accordance with the year-on-year change in the relevant components (i.e. “motor fuel” and “repairs to motor vehicles”) of the 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. Based on the claims pattern in 2001-02, we estimate that the proposed revision of the formula for determining and adjusting the DMA rates will bring about savings of around \$3 million in 2002-03 and \$12 million on a full year basis.

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 staff side of 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

¹ The assessment of the cost of “repairs and maintenance”, as approved by the Finance Committee of the Legislative Council in 1990, is based on 10% of the capital cost of a vehicle per annum, averaged over 19 200 km for motor cars and 16 000 km for motor cycles and scooters. The capital cost of a vehicle is based on the average retail prices of several popular models.

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, therefore, 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 are required to ensure that officers use the most economical means of transport for duty journeys wherever operational requirements permit. We shall advise departments to take appropriate administrative measures to ensure the effective deployment of their departmental transport, e.g. by encouraging officers to use public transport as far as practicable.

CONSULTATION WITH LEGISLATIVE COUNCIL PANEL

15. We consulted the Legislative Council Panel on Public Service on the proposal on 18 November 2002. The Panel had no objection to the above proposal, but requested additional information on the DMA claimants and the computation of the cost of "repairs and maintenance" under the formula for determining the DMA rates. We have provided the requested information to the Panel after the meeting and incorporated it in this paper.

BACKGROUND INFORMATION

16. 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.

17. Eligibility for claiming DMA is determined essentially by reference to operational need and cost-effectiveness. An officer who anticipates a need to drive his private vehicle for duty purposes and intends to claim DMA for duty journeys must first seek prior approval in principle from the departmental management. Approval in principle will be given only if the departmental management is satisfied that there is a genuine operational need for the officer to travel by the nature of his duties in circumstances where public transport is not appropriate, available or cost-effective. Such circumstances include performing emergency or urgent tasks particularly during odd hours, conveying important documents or witnesses, carrying bulky tools/equipment, making visits/inspections to remote areas not accessible by public transport, conducting surveillance/investigations or ambush duties, working under a tight schedule, etc. Following the in-principle approval obtained from the departmental management, the officer concerned is required to seek specific approval for individual DMA claims. In processing these claims, the departmental management should be satisfied that the journeys are necessary for the performance of the officer's duties and the most appropriate method of conveyance in terms of efficiency and economy has been used.

18. In 2001-02, 64 departments incurred a total expenditure of \$29.37 million on DMA payments. The top five DMA-spending departments accounted for around 40% of the total DMA expenditure. These departments were, in descending order of their DMA spending, the Housing Department, the Architectural Services Department, the Highways Department, the Hong Kong Police Force and the Correctional Services Department. Around 1 600 officers from 84 ranks in these five departments submitted DMA claims in 2001-02. The ranks with most claimants were Police Constables and Sergeants, Clerks of Works, Works Supervisors, Housing Officers and Building Services Inspectors.

Current DMA Rates

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

Proposed DMA Rates

Cost components	Cost for motor vehicle \$ per km	Cost for motor cycle and scooter \$ per km
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
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Total running costs	2.0721	0.7686
Proposed DMA rates	2.07	0.77