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2 January 2019

By fax 2543 9197

Mr Anthony Chu
Clerk to Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road,
Central, Hong Kong

Dear Mr Chu,

Public Accounts Committee

Consideration of Chapter 3 of Director of Audit's Report No. 71

Procurement of operational equipment by the Hong Kong Police Force

I refer to your letter of 17 December 2018 on the above subject.

I attach at Enclosure our response to Questions 11 and 12 for the consideration of the Public Accounts Committee, please.

Yours sincerely,

(Lina NG)

for Director of Government Logistics

Encl.

- c.c. Secretary for Security (fax no. 2877 0636)
- Secretary for Financial Services and the Treasury (fax no. 2537 3210)
- Commissioner of Police (fax no. 2866 2579)
- Director of Electrical and Mechanical Services (fax no. 2882 9042)
- Director of Audit (fax no. 2583 9063)

Public Accounts Committee

Consideration of Chapter 3 of the Director of Audit's Report No. 71

Procurement of operational equipment by the Hong Kong Police Force

Part 3 : Procurement of police vehicles

- (11) According to paragraphs 3.7 and 3.8, HKPF encountered various operational problems in using the electric vehicles, including long charging time, lower average availability and lower maximum driving range. EMSTF in its maintenance of the electric saloon cars for HKPF also found that some of them had deteriorating battery performance. Have other user departments of these electric vehicles encountered similar operational problems? Has GLD carried out trials before introducing these electric vehicles? If yes, what was the result? If not, why not? According to paragraph 3.14(a), as at September 2018, 14 electric saloon cars were still pending battery replacement. What action has been/will be taken by the Administration to speed up the outstanding battery replacement work and to protect the Government's interest?**

Of the 119 electric cars procured under Contracts D1 and D2, 69 and 50 of them were used by the Hong Kong Police Force (HKPF) and 24 other departments respectively. Similar to HKPF, these departments also experienced deteriorating battery performance. Battery replacement is therefore required. According to the contract terms, in the event of any defect in design, materials or workmanship in the vehicle being discovered during the warranty period, the contractor shall repair the defect and replace all defective components with new ones for the Government. To protect the Government's interest, we have urged the contractor to speed up the battery replacement process and closely monitored the progress.

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2. Other departments also faced similar situation of short driving range of electric cars. Taking into consideration their operational needs and the characteristics of electric cars, departments have deployed these vehicles to duties involving scheduled routes, short trips and assigned transport orders which have charging facilities for electric vehicles at the visiting venues etc. There was no major operational problem encountered by these departments.

3. For the 11 electric motorcycles procured under Contract C (as mentioned in the Audit report), 10 of them were deployed to HKPF while one unit was used by another department. Having regard to the short driving range of the vehicle, the department has deployed the motorcycle for short distance trips and GLD has not received any feedback on other operational problem encountered by the department.

4. As regards the 59 electric motorcycles procured under Contract E (as mentioned in the Audit report), 52 and seven of them were allocated to HKPF and three other departments respectively. As mentioned in the Audit Report, the batteries for all the electric motorcycles had been replaced. Since the battery replacement works had been completed, we have not received any report from the other departments concerning other operational problem with the motorcycle.

5. As electric vehicles (EVs) have no tailpipe emissions, replacing conventional vehicles with EVs can help improve roadside air quality. For promoting a wider use of EVs, the Government has committed to taking the lead in adoption of EVs in the government fleet. Over the years, the Government had conducted trials of EVs with a view to exploring the feasibility of using more environment-friendly vehicles in the Government fleet.

6. In 2008, HKPF conducted a small scale trial of a Model A^{Note} electric scooter and confirmed that it was suitable to meet their operational needs. Model A was the only available electric scooter/motorcycle in the market at that time and HKPF needed electric scooters for their operation in the "Olympic Torch Relay" in May 2008. HKPF also decided to have a larger scale trial of the electric scooters. Six

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Model A electric scooters were therefore procured to meet both purposes. Given the positive feedback from the HKPF, another six Model A electric scooters were procured in the same year for trial by several departments to determine whether electric scooters were suitable to meet their departmental requirements.

7. In 2010, the Environment Bureau (ENB) arranged a trial of Model B electric motorcycle by some departments. Model B was provided with lithium ion battery which had an improved driving range. The performance of Model B was found satisfactory for meeting the daily operational needs of the departments. A tender was then arranged for procuring electric motorcycles/scooters and 11 Model B electric motorcycles were procured in 2011 (Contract C as mentioned in the Audit report).

8. Given the trial experiences in the past few years, a tender for the procurement of electric motorcycles / scooters was issued in 2012. A total of 59 Model C electric motorcycles were procured (Contract E as mentioned in the Audit report).

9. As regards the trial of electric cars, ENB conducted a trial of Model D electric car in May 2009 with the participation of various departments. Based on the satisfactory trial results, a tender for the supply of electric cars was then arranged and ten units of Model D were procured in August 2009 for various departments.

10. As the Government decided to introduce more EVs into the government fleet, tenders were arranged for the procurement of electric cars in the following years when there were available electric car models in the market that could meet the general requirements of the departments. Eleven Model E electric cars were procured in 2010. At that time, having regard to the relatively short driving range of electric vehicles, the electric cars Model D and Model E were operated by departments to serve scheduled routes, single shift and orders which have recharging facilities at the venues with no report of any particular problem in general. Then a total of 119 Model F electric cars with slightly better reported driving range than models D and E were procured in 2012 and 2013 (Contracts D1 and D2 as mentioned in the

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Audit report). The Government later found that the battery performance of Model F could deteriorate in a few years and actions were taken by the contractor to replace the batteries.

11. With the introduction of new models of electric cars in Hong Kong, we have arranged trials of electric car models by bureaux / departments from time to time with a view to facilitating them to assess whether EVs can meet their operational requirements. We will continue to identify environmental-friendly vehicles to replace departments' vehicles subject to the availability of suitable models in the market and operational requirements of the departments.

[Note : Instead of naming the models of the electric vehicles on trial or procured, denotation is used.]

12. For the 14 police electric cars mentioned in paragraph 3.14(a), battery replacement for seven of them had been completed. For the remaining seven cars, the contractor advised that tentatively two and five of them would be completed by January and March 2019 respectively.

13. We have been urging the contractor to speed up the early replacement of the batteries since November 2017. Warning letters were issued to the contractor on 22 January 2018, 13 September 2018 and 13 November 2018 requiring them to take all necessary actions to speed up the battery replacement work. We informed the contractor that we would not release the contract deposit if the batteries were not replaced in a timely manner. Apart from closely monitoring the replacement progress, we will not release the contract deposit until the battery replacement program is completed and EMSTF confirms that the performance of the replaced batteries is satisfactory.

(12) According to paragraphs 3.17 and 3.18, in March 2016, GLD awarded a contract (Contract F) at a cost of \$69.3 million for the supply of 129 large police vans to be delivered by two consignments, i.e. 66 and 63 by June and August 2017 respectively. However, up to September 2017, only 48 vans had been delivered and there were defects found in the delivered vans. Of the eight vehicle procurement contracts awarded to this contractor, five (including Contract F) had experienced delays in vehicle delivery. Up to September 2018, 124 vans had been delivered and the remaining five vans were rejected by EMSTF because of quality issues. What measures have been / will be taken by the Administration to ensure contractors' capability of due performance of multiple government contracts awarded? According to paragraph 3.20(a), after re-inspection by EMSTF, 124 delivered vans were found to require retrofit work due to defective retractable side steps and bumper cracks. Up to October 2018, some retrofit work was still in progress. What actions have been / will be taken by the Administration to speed up the retrofit work?

In respect of contract F referred to in the Audit Report, it has been stipulated in the contract that the contractor shall pay to the Government, as and by way of liquidated damages, for the losses and damage sustained by the Government resulting from the delay during the period from the deadline delivery date for the delayed vehicle to the date on which the contractor actually delivers to the Government the delayed vehicle in ready to use condition, a sum of 0.5% of the vehicle price of that vehicle, for each week of such delay up to a total maximum of 10% of the vehicle price of that delayed vehicle. If the contractor fails to deliver a delayed vehicle(s) or any part thereof in ready to use condition within sixty (60) days after the applicable deadline delivery date, notwithstanding anything else contained in the contract, the Government shall be entitled to reject the delayed vehicle(s) and/or terminate the Contract. GLD has closely liaised with EMSTF on the delivery status of the vehicles since the contract award and has reminded EMSTF to consider taking appropriate action against the

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contractor as provided under the contract conditions, including claiming liquidated damages in case of delay in delivery, withholding contract payment and/or executing contract termination, where appropriate.

2. GLD and EMSTF held a meeting with the contractor to review the vehicle delivery status in December 2017 and closely monitored the delivery status of the outstanding vehicles in accordance with the revised delivery schedule submitted by the contractor after the meeting. All 129 large vans were delivered and accepted by EMSTF in November 2018 and EMSTF has also exercised its right to claim liquidated damages for the delay in delivery of the vehicles.

3. As regards the other 4 contracts that had experienced delivery delay, delivery and acceptance of the vehicles under 2 contracts were completed in January and June 2018 respectively. The delivery of the vehicles under the remaining 2 contracts is expected to be completed in January 2019. In conjunction with the relevant procuring departments, GLD will closely monitor the progress of vehicle delivery and take necessary follow up actions against the contractor in accordance with the contract conditions to protect Government's interest. Meanwhile, the relevant procuring departments have exercised/ would exercise their right to claim liquidated damages for the delayed delivery.

4. From a risk management perspective, bureaux / departments ("b/ds") should make a comprehensive risk assessment, monitor contractor's performance effectively, and draw up contingency plans as appropriate. GLD has already kept records of contractors' performance evaluation made by b/ds in the Procurement and Contract Management System ("PCMS") database. B/ds should consider the relevant past performance records of a contractor and take appropriate measures to reduce risks of default.

5. During the period from August 2015 to December 2016 when these five contracts which had experienced delays in delivery were awarded, the past performance of the contractor had been assessed to be satisfactory. To protect the Government's interest, it has also been stipulated in the tenders of these five contracts that payment would be made to the contractor either 100% upon acceptance of the vehicles or

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in two stages with the provision of an advance payment bond for the first stage payment upon notification by the contractor that delivery of the chassis to the contractor has been completed.

6. All 129 units of the large vans were accepted by EMSTF in Nov 2018. Some premature defects were identified by EMSTF after the vehicles have been accepted and used during the warranty period. As the contractor shall have contractual obligations to rectify any defects, including premature defects found after the acceptance of the vehicles and throughout the warranty period, EMSTF, who is the technical party responsible for the testing and acceptance of the vehicles, has liaised and would continue to liaise with the contractor for follow-up arrangements. The retrofit work involves both the retractable side step and the bumper of 124 large vans. The retrofit work on the re-designed retractable side step for all 124 large vans and bumper for 90 large vans has been completed. The outstanding retrofit work on the bumper component for the remaining 34 large vans is expected to be completed by end January 2019.

7. It has been stipulated in the contract that, in the event of any defect or mal-function or deficiency of any one large van or any part thereof being discovered during the 36-month warranty period from the date of acceptance note for that large van, the contractor shall arrange repair of the defect, mal-function or deficiency at no cost to the Government. The contractor shall also ensure that the vehicle availability in respect of each large van shall not be less than 97% annually throughout the warranty period and shall provide for free six months' extension of the warranty period for each failure of the availability threshold in respect of each of the large van, and up to a cap of 30 months of total extension per large van. If there is an increasing trend of warranty repairs or any lengthy down time, the contractor shall identify the root cause of the defect and be responsible for repairing the defects, even after the warranty period if the remedial action still has not been completed. If the remedial action implemented cannot resolve the root cause of the defect, the Government may proceed to rectify the defects by repair or replacement, on its own or through a third party service provider. All costs incurred by the Government arising from such repair or replacement shall be borne by the Contractor. The

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Government shall be entitled to terminate the contract if the contractor fails to observe or perform any of the terms and conditions of the contract, including any of the warranties and failure to remedy the breach to the satisfaction of the Government. GLD would provide assistance, in consultation with the Department of Justice, to EMSTF, where necessary, to enforce the contract terms if the contractor fails to perform its contractual obligations.