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**Transport and
Housing Bureau
Government Secretariat
Transport Branch**

East Wing, Central Government Offices,
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本局檔號 Our Ref.

來函檔號 Your Ref.

28 December 2017

Mr Anthony CHU
Clerk to Public Accounts Committee
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Mr Chu,

Public Accounts Committee

**Consideration of Chapter 2 of the Director of Audit's Report No. 69
Procurement and maintenance of government vessels**

Thank you for your letter of 12 December 2017 of the captioned, requesting information about the Steering Committee on Systemic Reform of the Marine Department, as well as the Transport and Housing Bureau's monitoring of the procurement of government vessels by the Marine Department. The requested information set out in your letter is enclosed at **Annex**.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Louisa Yan".

(Ms Louisa Yan)
for Secretary for Transport and Housing

c.c. Director of Marine (Fax No. 2850 8810)
Secretary for Financial Services & the Treasury (Fax No. 2147 5239)
Director of Audit (Fax No. 2583 9063)

Public Accounts Committee

**Consideration of Chapter 2 of the Director of Audit's Report No. 69
Procurement and maintenance of government vessels**

(a) Steering Committee on Systemic Reform of the Marine Department

The Transport and Housing Bureau ("THB") set up the Steering Committee on Systemic Reform of the Marine Department ("Steering Committee") in May 2013 to advise and steer the Director of Marine ("DM") to conduct a thorough departmental review and reform with a focus on the regulatory framework on safety of local passenger vessels, business processes and operational procedures as well as the manpower and training strategy of the Marine Department ("MD"), and to formulate a work plan for implementing the necessary reform measures. The membership and Terms of Reference of the Steering Committee are at **Appendix A** and **Appendix B** respectively.

The Steering Committee held 17 meetings in total before its disbandment in May 2016. The Steering Committee published in April 2016 a final report which summarised the discussions and the recommendations on the next steps of MD's reform. The final report can be accessed at <http://www.mardep.gov.hk/en/publication/pdf/steeringcom.pdf>. An executive summary setting out the recommendations is at **Appendix C**.

(b) - (e) THB's monitoring role in MD's procurement of vessels

Vessel procurement for use by different government departments is under the purview of the Government Fleet Division of MD. According to file records, THB was made aware of a delay in the procurement of government vessels in August 2013. Acknowledging the need to catch up the tendering schedule for vessel procurement, THB provided policy support to MD in seeking additional resources to tackle the outstanding caseload.

To provide immediate relief, THB approved funding of \$35.44 million in October 2013 for MD to engage consultants from 2014-15 to 2016-17 to manage 10 procurement projects involving 26 vessels. As a longer term measure, THB gave policy support for MD to create three time-limited Surveyor of Ships ("SoS") posts up to 2018 to complete the outstanding and new anticipated projects.

Aside from securing resources for MD to clear the backlog in procurement as quickly as practicable, THB worked with MD to understand the causes of delay in tendering, and provide the necessary steer at the policy level. Meanwhile, the Steering Committee conducted a thorough review on various aspects of MD's operation, including its long-term manpower planning, records and documentation keeping, internal monitoring and reporting mechanism.

As far as the procurement of government vessels was concerned, the backlog was in part due to a lack of sufficient and experienced staff to handle the caseload. To this end, under the leadership of the then Secretary for Transport and Housing, the Steering Committee comprehensively reviewed the overall manpower planning of MD, and recommended ways to address the manpower shortage of the two professional grades – Marine Officer (“MO”) and SoS. This has led to the conduct of a Grade Structure Review for the MO and SoS grades of MD by the Standing Commission on Civil Service Salaries and Conditions of Service (“Standing Commission”), with a view to providing a long-term solution for the chronic manpower shortage problem of MD. We are now consulting stakeholders the findings and recommendations of the Standing Commission. The two unions of the MO and SoS grades, as well as Members of the Legislative Council Panel on Public Service, supported the Grade Structure Review. Upon completion of the review findings, we will seek the necessary approval before implementing the relevant recommendations.

Apart from not having enough experienced staff to handle procurement, another cause of delay in tendering was the suspension of the processing of new shipbuilding projects since December 2009. In response to the Central Tender Board's (“CTB”) request for MD to refine the discretion provision in the tender marking scheme for a vessel in consultation with the Department of Justice, MD took the opportunity to review the entire marking scheme with a view to developing a refined standard marking scheme applicable to all vessel types. Due to the complexity of the exercise, it took about three years before a revised marking scheme for a specific type of vessel was approved by CTB in October 2012. In hindsight, the Department agrees that the review of the marking scheme could have been conducted in parallel without pre-empting vessel procurements.

Since THB had been made aware of the delay in tendering, THB and MD had been working closely together to expedite procurement. However, the process to clear the procurement backlog took time. As the

outsourcing of project management of shipbuilding to help relieve MD's manpower shortage was a novel idea for MD at the time, the Department had taken some time to ascertain the market response of such consultancy services and to prepare the relevant consultancy briefs and selection documents for outsourcing. The engagement of external consultants would also need to be carefully planned to dovetail with the vessel procurement cycle, because it could be a consultant to help prepare the conceptual design and technical specifications of the vessel in the pre-tender stage, and/or a consultant to help manage the shipbuilding work after the tender was awarded to a contractor. With experience gained in engaging consultants to help the procurement process, the progress in clearing the backlog had expedited. With efforts by both MD and the consultants, tendering documents of a total of 52 vessels in eleven projects for six Government bureau/departments were issued between January 2016 and November 2017 (compared with an average of two to three projects per year prior to 2008).

As stated in the Director of Audit's Report (para 1.13), a Task Force on Reform was set up in MD to support the work of the Steering Committee and to assist DM to take forward the Steering Committee's recommendations. The Task Force on Reform reports to DM, who reports to THB, on a regular basis, and alerts THB of issues requiring attention and policy steer. Same as our role in monitoring MD in all other aspects, THB has assessed the timetable and resources needed in the procurement of vessels based on the most realistic and accurate information provided by MD at that time. THB has agreed to the observations and recommendations in the Director of Audit's Report, and will continue to provide the necessary steer to MD to ensure the recommendations therein are properly followed up.

**Membership of the
Steering Committee on Systemic Reform of the Marine Department**

Chairman

Prof Anthony CHEUNG Bing-leung
Secretary for Transport and Housing

Members

Ms Alice TAI Yuen-ying

Mr Irving KOO Yee-yin

**Terms of Reference of the
Steering Committee on Systemic Reform of the Marine Department**

To advise and steer the Director of Marine, who shall be assisted by the Task Force on Reform and other units in the Marine Department headed by a new Deputy Director (Special Duties), to:

- (a) undertake a comprehensive review of the legislative compliance and administrative measures governing passenger safety and local vessel regulation and inspection matters, in the light of the recommendations in the Report of the Commission of Inquiry into the Vessel Collision Incident near Lamma Island, drawing up detailed improvement proposals and seeing to their implementation;
- (b) review and re-engineer the business processes, operational procedures and supervisory structure in the Marine Department's management, to strengthen internal governance; and
- (c) map out a strategy to address the long-standing vacancy situation of the professional grades in the Department and to develop a manpower training programme.

The overall objective is to ensure that the Marine Department possesses the necessary capabilities to fully and properly discharge its functions and responsibilities.

Executive Summary

1. In response to the call for a systemic change in the Marine Department (“MD”) by the Commission of Inquiry into the Collision of Vessels near Lamma Island on 1 October 2012, the Secretary for Transport and Housing set up the Steering Committee on Systemic Reform of the Marine Department (“Steering Committee”) on 3 May 2013 to advise and steer the Director of Marine to undertake a comprehensive systemic review and reform of MD. In the past three years, under the supervision of the Steering Committee, MD has made significant progress in improving and enhancing its capabilities to fully and properly discharge its functions and responsibilities.
2. On the regulation on passenger safety and local vessels, MD has formulated and implemented a series of improvement measures to enhance marine safety, including enhancing look-out, installation of navigational and communications equipment, improving provision of lifejackets, strengthening the training and examination of coxswains, increasing the minimum coverage of third party risks insurance of local vessels, etc.
3. On business processes and operational procedures, MD has conducted a two-phase organisational review to improve its regulatory functions and business procedures. MD has implemented the review recommendations which seek to strengthen communication between the frontline staff and the management; develop systems and procedures to enhance reporting and documentation; and make use of information technology to improve record-keeping and shared use of information, etc.
4. On manpower strategy and training matters, MD has implemented a series of stop-gap measures to address the acute recruitment difficulties and manpower shortage of the two professional grades, namely, the Marine Officer grade and the Surveyor of Ships grade. MD has adjusted the entry requirement on applicants’ post-qualification working experience as well as language proficiency with a view to widening the pool of eligible candidates without compromising MD’s professional services. These measures are however inadequate to address the existing and upcoming vacancies of the two professional

grades. More fundamental measures such as embarking on a grade structure review of the two grades are required.

5. The review and reform process in the past three years has revealed the need for MD to sustain the improvement measures implemented and further tackle some issues on the regulatory regimes of local vessels, internal governance, and manpower and training of the two professional grades in MD. Looking ahead, a number of legislative exercises are in the pipeline to further strengthen the regulation on passenger safety and local vessels. MD will need to replicate the good practices introduced in the Local Vessels Safety Section and the Shipping Division to address similar deficiencies in the business processes and operational procedures in other Divisions of MD. MD will explore all possible means to tackle the very severe manpower shortage and succession problems of the two professional grades in MD in a bold and innovative manner.
6. The challenge ahead is to sustain the momentum of change and improvement in MD, and inculcate in the mindset of officers in MD the need for change and to improve the business processes and practices on a continuous basis. This will be a long process and will take time. The Steering Committee has set the broad directions and priorities for further systemic reforms in MD. MD will take forward the reform process in the years ahead.