

The Audit Commission ("Audit") conducted a review of the provision of postal services by the Hongkong Post ("HKP").

2. The Committee did not hold any public hearing on this subject. Instead, it asked for a written response to its enquiries.

3. As reported in paragraph 3.9 of the Director of Audit's Report ("Audit Report"), a large number of post offices operated at a loss. In this connection, the Committee asked:

- (a) about the major reasons causing the losses in respect of each of the 97 loss-making post offices in 2008-2009 according to the analysis of the HKP; and
- (b) whether there were any measures to improve the financial viability of the above post offices.

4. The **Postmaster General** provided the major reasons causing the losses in Annex I of his letter of 11 June 2010, in *Appendix 23*. He also stated that:

- being a trading fund, the HKP was charged with the responsibility of delivering efficient, reliable and affordable services to the local community while generating reasonable return to the Government. A retail network broadly covering the entire territory was essential to fulfilling this social commitment;
- there had been a sharp decline of global mail traffic in the last few years due to rising popularity of social networking software and different forms of electronic communication. Mail volume dropped by 2.1% and 5.6% in 2008-2009 and 2009-2010 respectively, mainly driven by substitution of personal correspondences. This evolving business environment posed a direct and significant impact on the financial performance of the post offices located in residential districts or remote areas;
- out of the 97 post offices recording losses in 2008-2009, 47 were located in sparsely populated areas. Despite being manned by only a bare minimum of two staff, their annual revenues (ranging from \$70,000 to \$2.1 million) could not fully offset salaries and rentals (between \$950,000 and \$2 million). Similarly, another 40 were located in moderately populated areas and manned by three to six staff with annual revenues (ranging from \$400,000 to \$3.7 million) falling short of salaries and rentals (between \$1.6 million and \$3.9 million). The remainder comprised eight larger outlets located in densely populated areas but whose annual revenues (ranging from \$4.4 million to

\$24.8 million) were depleted by salaries, rentals and expenses incurred as a result of long opening hours necessary to cater for customer demands, as well as two mobile post offices. In this context, salaries and rentals that made up over 80% of the operating expenditure for these post offices had risen by 10.8% and 26.3% respectively from 2004-2005 to 2008-2009;

- the HKP conducted regular reviews on the level of activities carried out by each post office and would take prompt action to adjust the staffing level and opening hours, relocate for lower rentals or downsize in situ whenever possible. Where alternative means of service provision was available and practicable, the HKP would also close down post offices subject to local consultation. During the five-year period from 2004-2005 to 2008-2009, five post offices had been closed down and eight had been relocated or downsized in situ; and
- apart from the above measures, the HKP had spared no effort in pursuing cost reduction through re-engineering/automation and in opening up new revenue streams. On the former, a pilot eCentre was launched at an industrial building in Cheung Sha Wan whose opening hours running from 1:00 pm to 8:00 pm and self-service kiosks had shown some initial success in diverting the workload originated from the Internet traders and could eventually help to facilitate downsizing. On the latter, the HKP were vigorously positioning the HKP as the preferred partner of government departments in delivering one-stop agency services. The HKP was also exploring with several organisations the feasibility of taking over their bill payment functions.

5. The Committee also enquired about the specific actions that the HKP had taken/would take to tackle the problem of underpaid postage mentioned in paragraph 3.18 of the Audit Report.

6. The **Postmaster General** stated in the same letter that:

- the HKP had already tightened up its internal monitoring system, appraised the verification procedures adopted at retail counters and mail processing centres, and stepped up random checking. As a result, the HKP managed to recover over \$132,000 on surcharges from February to April 2010, which represented a threefold increase over the same period in 2009. The HKP would keep up such efforts; and
- new posters were displayed at all post offices and uploaded onto the HKP's website to remind the general public of their responsibility to pay sufficient postage.

7. The Committee notes the above reply of the Postmaster General, and wishes to be kept informed of the progress made in implementing the various Audit recommendations.