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MEMO

To : CCS(1)6 *Dyan 3/8*
From : CCS(3)3
Ref : CB(3)/PAC/R54
Date : 2 August 2010

Public Accounts Committee

**"Provision of postal services"
(PAC Report No. 54)**

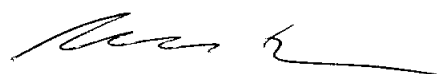
Public Accounts Committee ("PAC") Report No. 54 was tabled in the Council on 14 July 2010. One of the chapters in the Report is related to "Provision of postal services".

2. In examining the above subject, PAC was concerned that a large number of post offices were operated at a loss. In response to PAC's enquiries, the Postmaster General provided, vide his letter of 11 June 2010, the major reasons causing the losses in respect of each of the 97 loss-making post offices in 2008-2009 (referred to in paragraph 3.9 of Chapter 8 of the Director of Audit's Report No. 54) and the measures taken to improve the financial viability of such post offices.

3. PAC noted the information provided by the Postmaster General. As the policy issues concerning the provision of post services are within the purview of the Panel on Economic Development, PAC has decided to refer the subject to the Panel for consideration and whatever action it deems fit.

4. I enclose a copy of the English and Chinese versions of the relevant chapter in the Director of Audit's Report No. 54 and the PAC Report No. 54 respectively for your necessary action. Please let me know if you require further information.

not
enclosed



(Ms Miranda HON)
CCS(3)3

Encl.

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.

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Linking people Delivering business 傳心意 遞商機

11 June 2010

Ms Macy Ng
Clerk to the Public Accounts Committee
Legislative Council Building
6 Jackson Road
Central
Hong Kong

Dear Ms Ng,

**The Director of Audit's Report on the
Results of Value for Money Audits (Report No. 54)**

Provision of Postal Services (Chapter 8)

I refer to your letter of 14 May 2010 on the above subject.

Being a trading fund, Hongkong Post is charged with the responsibility of delivering efficient, reliable and affordable services to the local community while generating reasonable return to Government. A retail network broadly covering the entire territory is essential to fulfilling this social commitment.

Furthermore, there has 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 2008-09 and 2009-10 respectively, mainly driven by substitution of personal correspondences. This evolving business environment poses a direct and significant impact on the financial performance of post offices located in residential districts or remote areas.

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Out of the 97 post offices recording losses in 2008-09 (details at **Annex I**), 47 are 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 are 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 comprises 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 make up over 80% of the operating expenditure for these post offices have risen by 10.8% and 26.3% respectively from 2004-05 to 2008-09.

Hongkong Post conducts regular reviews on the level of activities carried out by each post office and will 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 is available and practicable, we will also close down post offices subject to local consultation. During the five-year period from 2004-05 to 2008-09, five post offices were closed down and eight were relocated or downsized in situ.

Apart from the above measures, we have 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 p.m. to 8 p.m. and self-service kiosks have shown some initial success in diverting the workload originated from internet traders and could eventually help to facilitate downsizing. On the latter, we are vigorously positioning Hongkong Post as the preferred partner of government departments in delivering one-stop agency services^(note 1). We are also exploring with several organizations the feasibility of taking over their bill payment functions.

(note 1) The one-stop agency service involving distribution/collection of application forms, vetting/verification of supporting documents and distribution of licenses for the Road Cargo System rendered recently to the Customs and Excise Department is a good example

On underpaid postage, Hongkong Post has 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, we managed to recover over \$132,000 on surcharges from February to April this year – a threefold increase over the same period in 2009 – and will keep up such efforts. Finally, new posters are displayed at all post offices and uploaded onto our website to remind the general public of their responsibility to pay sufficient postage.

The Chinese translation of our response is at **Annex II** and a soft copy will be ready shortly. Please feel free to contact Mrs Iris Wong on 2921 2238 for further information or assistance.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Y F Chan', written over a circular stamp or mark.

(Y F Chan)

for Postmaster General

cc Secretary for Commerce and Economic Development (fax no. 25376720)
Secretary for Financial Services and the Treasury (fax no. 2147 5239)
Director of Audit (fax no. 2583 9063)

***Note by Clerk, PAC: Annex II not attached.**

Breakdown of Post Offices Recording Losses in 2008-09

Hong Kong		Main Reasons
1	Ap Lei Chau Post Office	(1) & (3)
2	Cloud View Road Post Office	(1) & (3)
3	Cyber Port Post Office	(1) & (3)
4	Happy Valley Post Office	(1) & (3)
5	Heng Fa Chuen Post Office	(1)
6	Hennessy Road Post Office	(2) & (3)
7	Hing Fat Street Post Office	(2) & (3)
8	Hing Man Street Post Office	(1) & (3)
9	Kennedy Town Post Office	(1) & (3)
10	Lei Tung Post Office	(1) & (3)
11	Peak Post Office	(1) & (3)
12	Perkins Road Post Office	(1) & (3)
13	Pok Fu Lam Post Office	(1) & (3)
14	Repulse Bay Post Office	(1) & (3)
15	Sai Ying Pun Post Office	(1)
16	Siu Sai Wan Post Office	(1) & (3)
17	Stanley Post Office	(1)
18	Wah Fu Post Office	(1) & (3)
19	Wyndham Street Post Office	(2) & (3)

- (1) Located in residential districts or remote areas
- (2) High staff costs and/or long operating hours
- (3) High market rentals

Kowloon		Main Reasons
1	Choi Hung Chuen Post Office	(1) & (3)
2	Chuk Yuen Post Office	(1) & (3)
3	Fu Shan Post Office	(1) & (3)
4	Granville Road Post Office	(2) & (3)
5	Ho Man Tin Post Office	(1) & (3)
6	Hung Hom Bay Post Office	(1)
7	Kowloon Central Post Office	(2)
8	Kwun Tong Post Office	(2)
9	Lai Kok Post Office	(1) & (3)
10	Lam Tin Post Office	(1) & (3)
11	Lei Cheng Uk Post Office	(1) & (3)
12	Lok Fu Post Office	(1) & (3)
13	Lok Wah Post Office	(1) & (3)
14	Mei Foo Sun Chuen Post Office	(1) & (3)
15	Mong Kok Post Office	(2) & (3)
16	Ngau Chi Wan Post Office	(1) & (3)
17	Ngau Tau Kok Post Office	(1) & (3)
18	Oi Man Post Office	(1) & (3)
19	San Po Kong Post Office	(2) & (3)
20	Sau Mau Ping Post Office	(1) & (3)
21	Sham Shui Po Post Office	(2)
22	Shek Kip Mei Post Office	(1) & (3)
23	Shun Lee Post Office	(1) & (3)
24	To Kwa Wan Post Office	(1) & (3)
25	Tsim Sha Tsui Post Office	(2) & (3)
26	Tsz Wan Shan Post Office	(1) & (3)
27	Wong Tai Sin Post Office	(1) & (3)
28	Yau Tong Post Office	(1) & (3)
29	Yau Yat Tsuen Post Office	(1) & (3)

- (1) Located in residential districts or remote areas
(2) High staff costs and/or long operating hours
(3) High market rentals

	New Territories	Main Reasons
1	Butterfly Post Office	(1) & (3)
2	Cheung Fat Post Office	(1) & (3)
3	Choi Ming Post Office	(1) & (3)
4	City One Shatin Post Office	(1) & (3)
5	Fairview Park Post Office	(1) & (3)
6	Fanling Post Office	(1)
7	Fu Shin Post Office	(1) & (3)
8	Fu Tai Post Office	(1) & (3)
9	Heng On Post Office	(1) & (3)
10	Hin Keng Post Office	(1) & (3)
11	Kam Tai Post Office	(1) & (3)
12	Kam Tin Post Office	(1)
13	Kwai Chung Post Office	(1) & (3)
14	Kwai Shing Post Office	(1) & (3)
15	Kwong Yuen Post Office	(1) & (3)
16	Lai King Post Office	(1) & (3)
17	Lee On Post Office	(1) & (3)
18	Lei Muk Shue Post Office	(1) & (3)
19	Leung King Post Office	(1) & (3)
20	Ma On Shan Post Office	(1) & (3)
21	Mei Lam Post Office	(1) & (3)
22	On Ting Post Office	(1) & (3)
23	Po Lam Post Office	(1) & (3)
24	Sai Kung Post Office	(1)
25	San Tin Post Office	(1)
26	Sha Kok Post Office	(1) & (3)
27	Shek Wai Kok Post Office	(1) & (3)
28	Sheung Tak Post Office	(1) & (3)
29	Sun Chui Post Office	(1) & (3)
30	Tai Hing Post Office	(1) & (3)
31	Tin Yiu Post Office	(1) & (3)
32	Tin Yuet Post Office	(1) & (3)

- (1) Located in residential districts or remote areas
(2) High staff costs and/or long operating hours
(3) High market rentals

New Territories		Main Reasons
33	Tseung Kwan O Post Office	(1) & (3)
34	Tsing Yi Post Office	(1) & (3)
35	Tsuen Wan West Post Office	(1)
36	Wah Ming Post Office	(1) & (3)
37	Wan Tau Tong Post Office	(1) & (3)
38	Wo Che Post Office	(1) & (3)
39	Yeung Uk Road Post Office	(1) & (3)
40	Yuen Long Post Office	(2) & (3)

- (1) Located in residential districts or remote areas
- (2) High staff costs and/or long operating hours
- (3) High market rentals

Outlying Islands		Main Reasons
1	Airport Post Office	(2)
2	Cheung Chau Post Office	(1) & (3)
3	Discovery Bay Post Office	(1) & (3)
4	Lamma Post Office	(1) & (3)
5	Mui Wo Post Office	(1)
6	Peng Chau Post Office	(1)
7	Tai O Post Office	(1)

Others		Main Reasons
1	Mobile post office	(1)
2	Mobile post office	(1)

- (1) Located in residential districts or remote areas
- (2) High staff costs and/or long operating hours
- (3) High market rentals