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Paper for the House Committee meeting on 15 November 2013

**Report of the Subcommittee on Post Office (Amendment)
Regulation 2013**

Purpose

This paper reports on the deliberations of the Subcommittee on Post Office (Amendment) Regulation 2013 ("the Subcommittee").

Background

2. The Post Office Trading Fund (POTF) was established by a resolution passed by the Legislative Council on 19 July 1995 under the Trading Funds Ordinance (Cap. 430). The Postmaster General (PMG) is the general manager of the trading fund and the management will retain the trading fund revenue to finance the cost of service provision on a self-financing basis.

3. Section 6 of the Trading Fund Ordinance requires the general manager to manage a trading fund with the objectives of –

- (a) providing an efficient and effective operation that meets an appropriate standard of service;
- (b) within a reasonable time, meeting expenses incurred in the provision of the government service and financing liabilities of the trading fund out of the income of the trading fund, taking one year with another; and
- (c) achieving a reasonable return, as determined by the Financial Secretary, on the fixed assets employed.

4. The Post Office Ordinance (Cap. 98) ("the POO") provides that PMG may, subject to any direction of the Chief Executive in Council ("CE in Council"), determine the rates of postage to be charged on postal articles.

Fees and charges stipulated in the Post Office Regulations (Cap. 98A) ("the Regulations") are adjustable through amendment to the subsidiary legislation.

The Post Office (Amendment) Regulation 2013

5. The Post Office (Amendment) Regulation 2013 ("the Amendment Regulation") was made by CE in Council on 9 July 2013 under section 3 of the POO to increase certain postal fees under the Regulations. These fees include postal box and bag rentals, fee for redirection of postal packets, registration and compulsory registration fees and recorded delivery fee. The increase will take effect from 1 December 2013. According to the Administration, some postal fees that are prescribed under the Regulations have not been adjusted since the establishment of the POTF on 1 August 1995. The proposed percentage increases on the above said items range from 13% to 25% and are intended to broadly recover the cumulative inflation since their last adjustments¹ up to the end of December 2012.

6. The Amendment Regulation was gazetted on 4 October 2013 and tabled at the Council meeting of 9 October 2013. Subject to the completion of the negative vetting process, the Amendment Regulation shall come into operation on 1 December 2013.

The Subcommittee

7. At the House Committee meeting on 11 October 2013, Members agreed to form a subcommittee to study the Amendment Regulation. Hon Andrew LEUNG Kwan-yuen was elected Chairman of the Subcommittee. The membership list of the Subcommittee is in **Appendix**. The Subcommittee has held a meeting with the Administration to examine the subsidiary legislation.

8. The scrutiny period of the Amendment Regulation has been extended to 27 November 2013 by resolution of the Council on 30 October 2013.

Deliberations of the Subcommittee

9. The Subcommittee notes that in tandem with the adjustment of the postal fees under the Amendment Regulation, PMG has also increased the principal postage rates by administrative means with effect from 1 October

¹ According to the LegCo Brief, postal box/bag rental fees, fees for redirection of postal packet, registration and compulsory registration fees were last adjusted in June 1995 and the recorded delivery fee was set in March 1997.

2013. These include the principal postage rates for Local, Surface and Air Mail (Letters and Packets), Bulk Air and Local Mail, Local Parcel and Surface Bulk Bag. These increases are not covered by the Amendment Regulation, and do not require the approval of the Legislative Council. The Subcommittee has raised no objection to the Amendment Regulation and the increase in the principal postage rates by administrative means. The major concerns raised by members about measures on revenue generation of the POTF, cost saving and productivity enhancement, manpower implications, and revision of postage rates and postal fees are summarized in the ensuing paragraphs.

Revenue generation, cost saving and productivity enhancement measures

10. The Subcommittee notes that due to unabated escalation of operating costs, the financial performance of the POTF has been deteriorating since 2007-2008 and has started to incur an operating loss of \$50 million in 2011-2012. Some members have expressed concern about the continuing trend of operating deficit of the POTF and urged the Hongkong Post ("HKP") to increase its competitiveness and maintain operational viability by exploring additional sources of revenue and enhancing productivity.

11. HKP has advised that riding on the trend of online-shopping, the POTF launched in April 2013 a new local mail service called "Smart Post" which provides customers with an economical local mail delivery solution with basic track-and-trace functions for mail items, along with a choice of mail delivery or counter collection to suit their preferences. Moreover, an e-Express Service ("the Service") was launched between Hong Kong and the United States in April 2011. The Service offers user-friendly features such as online mail tracking and delivery confirmation. Given the popularity of the Service, the POTF is liaising with other postal administrations with a view to extending the Service to other postal destinations.

12. HKP has also advised that the POTF has recently launched a new multi-media direct marketing online platform which allows its customers to plan, create and launch direct marketing campaigns. This platform aims to facilitate businesses, especially small and medium enterprises ("SMEs"), in reaching out to their target customers with ease and at an affordable price. The POTF is also collaborating with China Post on the cross-boundary Direct Mail Service that would enable local SMEs to promote their brands and enhance brand recognition in the Mainland market.

13. HKP has supplemented that apart from exploring new technologies in stamp printing and innovative stamp designs to promote philately, especially among the younger generation, the POTF also launched the personalized

"Make My Card" service in March 2012, which converts electronic messages prepared by customers into personalized cards for delivery.

14. As regards cost saving and enhancing operational efficiency, HKP has advised that the POTF has implemented a number of productivity improvement measures, including the launching of the Mechanised Letter Sorting System ("MLSS") in June 2009, and a number of capital investment projects, such as the amalgamation of the International Mail Centre and the General Post Office Sorting Office into the new Central Mail Centre, and the setting up of the Integrated Postal Services System for automating counter operations and streamlining back end support functions. The productivity of the POTF has increased by 14.6% over the past 10 years.

Manpower implications

15. Noting that the total mail traffic volume has maintained at around 1.3 billion mail items in recent years whilst the manpower establishment of the POTF has reduced from around 7 400 in 2008-2009 to around 7 000 to date, some members have expressed concern that the POTF might have reduced its manpower unreasonably and opine that the cost control of the POTF should not be at the expense of the workload of its staff. HKP has explained that the reduction in manpower whilst maintaining service quality is made possible by the implementation of productivity improvement measures such as the MLSS, which will be further enhanced to sort letters addressed in Chinese in addition to English.

16. Some members have enquired whether the POTF staff would enjoy similar levels of pay rises as compared to the proposed fees revision rates to recover the cumulative inflation. HKP has advised that whilst operating as a trading fund, HKP remains a Government department and the annual pay adjustments for civil servants in the Department is subject to the pay adjustment mechanism for the civil service. The pay adjustment for non-civil service contract staff in HKP follows an established mechanism set up in the Department for the purpose.

Revision of postage rates and postal fees

17. The Subcommittee notes that the major operational costs of HKP, namely, staff costs, air conveyance costs and terminal dues payments, have increased notably and are expected to continue to rise in the coming five years. Increasing the principal postage rates and miscellaneous postal fees will bring about additional recurrent operating revenue of around \$340 million in a full year. According to HKP, the one-off increase in 2013-2014 will not be sufficient to ensure the longer term financial sustainability of the

POTF. The POTF will continue to incur an operating loss, but the balance of the reserve will be maintained at a better level.

18. Some members consider that percentage-wise, the postages and postal fees increases are substantial. These members have called on HKP to regularly review these postages and fees in future in line with cumulative inflation, so as to avoid the need for large increases after a long interval as in this instance.

19. HKP has advised that the reserve of the POTF, which currently stands at about \$1.8 billion, will be completely depleted after 2015-2016 if timely adjustments are not made to the principal postage rates and some of the postal fees under the Regulations. HKP assures members that it will continue its efforts in controlling costs, enhancing productivity and exploring new sources of revenue. HKP will also review postages rates and postal fees from time to time, taking into account other relevant factors such as the POTF's financial position, the prevailing economic conditions, the business environment and public affordability.

Advice sought

20. Members are invited to note the deliberations of the Subcommittee.

Appendix

Subcommittee on Post Office (Amendment) Regulation

Membership List

Chairman Hon Andrew LEUNG Kwan-yuen, GBS, JP

Members Hon WONG Ting-kwong, SBS, JP

Hon Alan LEONG Kah-Kit, SC

Hon KWOK Wai-keung

Hon SIN Chung-kai, SBS, JP

Hon TANG Ka-piu

(Total : 6 members)

Clerk Ms YUE Tin-po

Legal Adviser Miss Evelyn LEE