

**Legislative Council Public Accounts Committee
Public Hearing on the Director of Audit's Report No. 65
Chapter 5 – Operation of the Hongkong Post**

**Opening Remarks by Mr. Gregory SO Kam-leung,
Secretary for Commerce and Economic Development**

Mr Chairman,

First, I would like to thank the Director of Audit for carrying out the value for money audit on the operation of the Hongkong Post (HKP). My thanks also go to the LegCo Public Accounts Committee (PAC) for choosing this subject for the hearing so that the Government could have the opportunity to explain the operation of the HKP.

2. The Government accepts in general the comments made by the Director of Audit on the operation of the HKP. The HKP is taking forward the implementation of the Audit recommendations to enhance the operation of the department.

3. The Commerce and Economic Development Bureau (CEDB), as the policy bureau for the HKP, has been closely monitoring the operation and finance of the HKP and conducting regular review with the HKP of its business strategy, operational performance and financial performance. The HKP, operating in the trading fund mode and remaining as a government department, is able to manage resources in a more flexible manner and formulate suitable business strategies in light of changes in the market and business environment while maintaining service quality. In fact, the HKP has been striving to explore new revenue streams and achieve savings within the scope of the existing regime. In recent years, a range of measures have been adopted to manage costs, enhance operational efficiency, develop new business and boost revenue. The Post Office Trading Fund achieved an operating surplus of \$160 million in the 2014-15 financial year after years of deficits. The HKP also fulfilled all its performance pledges while maintaining the postage rates and other services at reasonable levels in the same year.

4. With the support of CEDB and the dedicated efforts of the department, the HKP has launched a number of cost-saving measures, such as the amalgamation of the Sorting Offices of the International Mail Centre (IMC) and the General Post Office (GPO) to streamline the mail handling workflow; seeking to achieve a lower rate of increase for terminal dues payment by conducting bilateral negotiations; implementation of the Integrated Postal Services System to re-engineer counter service work processes and facilitate the planning and deployment of resources. In respect of generating revenue, the HKP has taken the following measures: introducing a range of new postal services in recent years in response to the development of e-commerce, for example, Smart Post local delivery service, e-Express and iMail international delivery service, and post office counter collection service; active enhancement of local and cross-border direct mail services; as well as promotion of HKP's total service solutions to local small and medium enterprises. On top of the above-mentioned measures, the HKP has also actively explored new initiatives to generate revenue and manage cost. These include enhancing cooperation with the Airport Authority Hong Kong to provide goods delivery services with wider coverage for travellers who shop at the Hong Kong International Airport. The HKP will further explore possible improvement measures in light of the Audit recommendations.

5. In assessing the performance of the HKP, we should bear in mind some special factors. The HKP's service provision is largely demand-driven. In our current open local postal and courier service market, competition is keen and speed is essential for mail delivery. Yet, the mail volume fluctuates and is hard to predict. The HKP has to meet the service needs of customers and fulfill the Government's universal postal service obligation to the public. It has achieved self financing by using business revenue to meet daily operational expenses without relying on government subsidy or drastic increase in fees. This is by no means an easy task. Indeed, the HKP has been trying its best to continuously enhance its performance in its daily operation and financial sustainability.

6. The Audit review mainly focuses on four key areas, namely management of mail processing; management of post offices; management of postal vehicles; and management of the Central Mail Centre (CMC) and the GPO Building. A number of valuable recommendations on matters relating to the above areas have been put forward for our reference. The CEDB and HKP attach great importance to the Audit recommendations, which the HKP is progressively implementing.

7. Regarding the management of mail processing, it is the sender's responsibility to pay sufficient postage for mail delivery. The HKP has already stepped up its publicity efforts to educate the public on the need to pay sufficient postage to avoid delay in delivery. Besides, the HKP will draw on the Audit recommendations to enhance the control mechanism for detecting postal items for which the risk of underpayment of postage is higher. Meanwhile, the HKP will formulate appropriate measures to recover underpayment, taking into account the feasibility at the operational level and the availability of resources. As for overtime work, since the volume and mix of mail handled by the HKP fluctuate, there is a practical need for overtime work to cope with the fluctuating workload, which cannot be fully taken up by the regular workforce. Moreover, overtime work is often a more cost-effective solution as it can avoid idle manpower created by an increase in permanent posts. The HKP has strengthened its departmental control mechanism to ensure compliance with the relevant requirements in the administration of overtime work.

8. In the management of post offices, we agree with the Audit recommendation that the HKP should continue to rationalise its post office network. To make progress in this regard, we should ensure that the affected communities show understanding for such rationalisation. The HKP will continue to identify opportunities for further rationalisation, manage the costs of operating its network of post offices, and make optimal use of post offices to explore new revenue streams.

9. As regards the management of vehicles, the HKP has proceeded to review the methodology for calculating the utilisation rates of departmental vehicles with a view to optimising vehicle utilisation. According to the data of the Government Logistics Department, a majority of the utilisation rates of departmental vehicles are reasonable. In procuring hired vehicle service, the HKP will introduce a greater element of market competition where appropriate to ensure cost-effectiveness in service procurement on the one hand, and cater to the actual operational needs of the department on the other.

10. With respect to the management of the CMC and the GPO Building, the HKP will put available space in the CMC to gainful use as planned to meet the department's operational needs, and will seek the Property Vetting Committee's approval for future changes to the allocation of accommodation reprovisioned from the IMC to the CMC. To facilitate the development project of the New

Central Harbourfront, the GPO Building will be reprovisioned. In this connection, the HKP has been working closely with relevant government bureaux and departments to actively take forward tasks relating to the reprovisioning under its purview. The HKP will also, as planned, put the space at the existing GPO Building to gainful use before its reprovisioning.

11. Mr Chairman and Members, we will seriously consider the recommendations in the Audit Report which are related to the value for money audit, listen carefully to Members' views, and work closely with the PAC to take active follow-up actions. My colleagues and I will be happy to answer in detail any questions that Members may raise later.

12. Thank you, Mr Chairman.