Annex B

Operation as a Trading Fund by HKP

During the Public Accounts Committee Hearing on Chapter 5 of the Director of Audit's No. 65 held on 30 November, Members raised whether trading fund was the appropriate operation mode for HKP. We have stated the Government's position that we do not have any intention to change the current mode of operation.

2. To facilitate Members' understanding, it may be useful to set out the major differences amongst different possible models of operations.

Background

3. The Trading Fund Ordinance (Cap 430), enacted in 1993, provides that a trading fund may be established to manage and account for the operation of a government service for which the Government has the financial objective that the service shall fund itself from the income generated from the government service whether it is a service provided to the Government, to public bodies or to persons other than the Government.

4. It provides that in considering whether to establish a trading fund for a government service, the Government is to have regard to the capability of the provider of the government service –

(a) to provide an efficient and effective operation that meets an appropriate standard of service; and
(b) to have the capacity, within a reasonable time, to meet expenses incurred in the provision of the government service and finance liabilities to be specified in the resolution out of the income of the proposed trading fund.

5. A number of trading funds were established in the 1990s, including the Post Office Trading Fund (POTF), Land Registry Trading Fund, Companies Registry Trading Fund, the Electrical and Mechanical Services Trading Fund, the Office of the Communications Authority Trading Fund, etc.

6. The POTF was established by a Resolution of the Legislative Council passed on 19 July 1995 under Cap 430 to manage and account for the operation of the HKP with effect from 1 August 1995. The aims of the HKP are to meet Hong Kong's postal needs and fulfill Hong Kong's international postal obligations by providing reliable, efficient and universal postal services at reasonable and affordable prices.

Vote-funded department vs trading fund

7. The key difference in operation between a vote-funded department and a trading fund lies in the resources management. Revenue generated from a vote-funded department goes into the Government's general revenue, while it can only incur expenditure up to the amounts stated in the expenditure estimates and for the purposes approved by the Legislative Council. Where the department needs to incur expenditure say on an enhanced/new initiative, it has to obtain the necessary funds through the Government's resource bidding and allocation processes.

8. A trading fund department retains the revenue generated from its business to cover the cost of service provision on a self-financing basis. The enhanced flexibility in resource management enables the department to respond to changes in markets, improve productivity and efficiency, raise service standards, and introduce new services to meet changing customer needs in a more timely manner. At the same time, it is expected to achieve a reasonable rate of return as determined by the Financial Secretary. It needs to pay notional profits tax, and declare dividend.

9. Notwithstanding the above flexibilities, as a government department, HKP is still subject to service-wide government rules and regulations, e.g. civil service pay and conditions of service, rules on procurement of goods and services, and rules on adjusting fees for miscellaneous postal services under the Post Office Regulations (Cap 98A) etc. Furthermore, the Government has committed that future increases in postage rates would be broadly in line with inflation.

Corporatization/privatization

10. Under this mode, the HKP would become a company, with profit maximization as a, if not the, key objective. In order that the corporatization/privatization be meaningful, the new entity needs to have commercial freedom, including not only the services it renders but the terms and conditions of service of employment etc. It is clear that staffing implications would be the most significant implication of any corporatization/privatization of HKP. At present, there are over 5 000 civil servants and staff costs accounts for 45% of HKP's overall costs. The issue of compulsorily retiring civil servants/changing permanent civil servant status is very sensitive. The Government does not have any intention to corporatize/privatize HKP.

Our View

11. As can be seen from the above, no single model is a perfect one. This notwithstanding, as a trading fund, HKP enjoys flexibilities that a vote-funded department does not have. Of course, HKP has to make continuous efforts to deliver its mission of providing affordable and efficient postal services of a good quality and to improve the longer-term financial sustainability of the POTF through costs management and business development to meet evolving market needs. As a result of these sustained efforts, the operating loss of the POTF was significantly reduced to $2.6 million in 2013-14 and the POTF achieved an operating profit of $169 million in 2014-15.

12. Furthermore, pursuant to the 2015 Budget Speech, HKP is currently reviewing its business operation with the objectives of enabling the department to further support the development of the logistics industry in Hong Kong and expand its service offerings in response to market needs. HKP will continue to endeavor to deliver its above-mentioned mission, building on its capabilities and enhancing its service provision to the benefit of customers (in particular, local small and medium enterprises) and the community at large.

13. On a last note, some quarters have suggested that the need for postage increase arises because HKP is a trading fund. This is of course a misconception. Giving the Government's principle of cost recovery of service provision, the pressure for postage increase is likely to be greater if HKP were to be reverted as a vote-funded department, given the lack of flexibility for HKP to subsidize the "loss" of certain services by "gains" from other profitable businesses.

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