

8 January 2016

Mr Anthony Chu  
Clerk to Public Accounts Committee  
Legislative Council Secretariat  
Legislative Council Complex  
1 Legislative Council Road  
Central  
Hong Kong

Dear Mr Chu,

**Public Accounts Committee  
Consideration of Chapter 5 of the Director of Audit's Report No. 65  
Operation of the Hongkong Post**

Further to our letter dated 5 January 2016, we set out in the ensuing paragraphs the requested information under items (d), (h), (m), (n), (t), (v) and (w) in your letter of 22 December 2015. We will provide our response to items (a) to (c) shortly.

**Hongkong Post operating as a trading fund**

*On item (d)*

2. There is no universal definition of services under the ambit of the universal service obligation (USO). For the purpose of this response, we draw on the definition of the Universal Postal Union (UPU) on basic services<sup>1</sup> and mandatory supplementary services<sup>2</sup>. Services falling within these scopes accounted for some 70% of HKP's revenue as well as costs in the past three years. Details are set out below :

<sup>1</sup> UPU requires its members to ensure that their designated operators accept, handle, convey and deliver letter-post items, which include priority items and non-priority items up to 2 kg; letters, postcards, printed papers and small packets up to 2 kg, etc.

<sup>2</sup> UPU requires its members to ensure that their designated operators provide mandatory supplementary services provision such as registration service for all inbound registered letter-post items, outbound priority and airmail letter-post items, etc.

	<b>Revenue from USO services<sup>3</sup></b>	<b>Cost of provision of USO services<sup>3</sup></b>
2012-13	66%	70%
2013-14	68%	72%
2014-15	69%	73%

3. Services provided by HKP that fall outside the afore-mentioned scope include Speedpost, Local CourierPost, the Hongkong Post Circular Service, philately, PayThruPost, Post Office Box service, mail redirection service, etc.

4. We wish to point out that in practice, most postal services provided by HKP that fall within the ambit of USO services as defined in paragraph 2 above (e.g. ordinary Local Mail and Air Mail, Bulk Air Mail, Local/Air/Surface Parcel, registered mail, etc.) are also used for conveying e-commerce purchases and patronised by e-merchants and consolidators.

### **Management of mail processing**

#### On item (h)

5. As HKP's service provision is demand-led, the actual manpower requirement is subject to variations depending on the mail volume, the mix of mail types (e.g. mechanically or manually sorted), the time of mail acceptance, the class of mail (e.g. in the case of Local Mail, priority mail that requires delivery on the following working day versus economy mail that can be delivered within three working days), etc. In addition to seasonal fluctuations in the business volume, mail traffic also fluctuates from day to day in an unpredictable manner. Amidst such fluctuations in service demand, HKP is required to meet its performance pledges in service delivery some of which are very stringent<sup>4</sup>. To ensure cost-effective utilisation of resources, HKP maintains a workforce comprising civil servants<sup>5</sup> and non-civil service contract (NCSC)

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<sup>3</sup> For the purpose of this response, USO services cover basic services and mandatory supplementary services as defined by the UPU.

<sup>4</sup> In 2015-16, HKP has set 25 performance pledges. Examples include :

- Deliver 99% of locally posted letters to local addressees by the following working day
- Despatch outward airmail items, posted before the advertised latest time for posting, to the designated air carrier, subject to availability of flights

Non-peak periods : 99% within the same day or the following working day  
Peak periods : 90% within 5 working days

<sup>5</sup> Frontline civil servants mostly belong to the Postal Officer Grade and the Postman Grade, the conditioned hours of work of which are 44 and 48 gross hours per week respectively.

staff<sup>6</sup> that is sufficient to cope with the regular workload, supplemented by overtime work to cope with fluctuations in workload.

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6. In paragraph 10 and Annex G in ~~our reply to the Public Accounts Committee (PAC) dated 9 December 2015~~, we explained the typical circumstances which give rise to overtime in different operational divisions under the Postal Services Branch (PSB). We further explain in paragraphs 7 to 21 below why it can be more cost-effective to cope with an increase in workload and staff shortage by undertaking overtime work rather than employing additional staff.

Post office counters

7. Most post offices are open for 7.5 hours (from 9:30 a.m. to 5:00 p.m.) on weekdays and 3.5 hours (from 9:30 a.m. to 1:00 p.m.) on Saturdays. 13 post offices<sup>7</sup> operate extended service hours (for 8 to 12.5 hours on weekdays and 4 to 9 hours on Saturdays). The General Post Office (GPO) and Airport Post Office also open on Sundays and public holidays. The normal operation of a post office involves daily preparation work before the start of business as well as essential day-end activities (e.g. day-end balancing for each counter, dispatching mail accepted during the day to mail processing centres, handing over cash receipts to the contracted security company, etc.) after the close of business. While the daily preparation work takes about 15 minutes, the day-end activities take about 45 minutes depending on the scale of operation of a post office and the positions of the staff concerned. For instance, in most post offices, a counter staff member takes 15 minutes to complete his/her sub-stock balancing while the postmaster takes 45 to 75 minutes to complete the main stock balancing work. In view of the nature of the duties as well as the duration involved, it is neither practical nor cost-effective to employ additional staff to undertake these duties which are in excess of the conditioned hours of a regular staff as slack hours would inevitably result for these additional staff.

8. Notwithstanding the circumstances giving rise to overtime work, we have made continuous effort to minimise the need for overtime work as far as operationally practicable. For illustration, we set out below some of the measures we have implemented in this connection :

- (a) *staggering of the duty hours of post office staff* – For post offices with extended service hours (i.e. more than 7.5 hours on weekdays), we stagger the duty hours of the post office staff in a manner that caters for the

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<sup>6</sup> To provide flexibility in staff deployment in response to operational needs, there is a mix of monthly-, daily- and hourly-rated NCSC staff.

<sup>7</sup> These post offices are : Tai Po Post Office, Tuen Mun Central Post Office, Yuen Long Post Office, Sha Tin Central Post Office, Tsuen Wan Post Office, Kowloon East Post Office, Cheung Sha Wan Post Office, Kowloon Central Post Office, Mong Kok Post Office, Shek Wu Hui Post Office, Tsim Sha Tsui Post Office, General Post Office and Airport Post Office.

counter patronage pattern as well as the preparation work before the start of business and the day-end activities after the close of business. For example, in addition to an early shift from 9:15 a.m. to 5:15 p.m., there is a second shift from 10:15 a.m. to 6:15 p.m. As the Postmaster of a post office is required to oversee the completion of all day-end activities, where operationally practicable, we arrange for him/her to report duty at a later hour in the morning than other counter staff so as to minimise the amount of overtime work required;

- (b) *rationalisation of the bulk posting counter network* – We reduced the number of post offices with bulk posting counters from 26 to 18 from September 2014 and facilitated bulk posting at the mail processing centres. As a result, we were able to reduce the amount of overtime work incurred by post offices arising from the handling of bulk mail acceptance;
- (c) *adjustment of the business hours of post offices* – Starting from April 2014, we ceased counter operation at Tsim Sha Tsui Post Office on Sundays in view of low service demand. Commencing from 2 February 2015, we suitably adjusted the business hours of 59 post offices in response to the prevailing service demand. The adjustment to the closing time of selected post offices means that the day-end activities in the post offices concerned can be completed earlier. Day-end mail collection from post offices for the entire collection route can also be advanced, resulting in earlier mail arrival at the mail processing centres. Such adjustment brings about annual savings of about \$4 million (including savings arising from less overtime work); and
- (d) *technological solutions* – The Integrated Postal Services System (IPSS) automates counter operation and streamlines the backend work processes in post offices, including the day-end balancing work. The EC-ship platform, our on-line posting platform, enables bulk mailers to prepare their postings in advance and accelerates mail acceptance at the counter, which often takes place in the late afternoon before the post offices close.

#### Local mail processing

9. HKP processes some 3 million of locally posted mail items every day. Over half of the mail collected from post offices and street posting boxes arrive at the Central Mail Centre (CMC) in the late afternoon/early evening. Given HKP's stringent performance pledge of delivering 99% of the locally posted mail items to local addressees on the following working day, there is only a very narrow window for processing such mail, sorting them to the respective delivery offices/delivery beats and conveying them to the respective delivery offices before they start operation early next morning.

10. Resource planning at the CMC is further complicated by fluctuations in the daily mail volume, which cannot be precisely forecast. For illustration, the daily mail volume fluctuated between 2.7 million items and 6.9 million items in April 2015. The unpredictable late influx of mail at the CMC leaves few feasible options other than overtime work and adjusting the work hours of daily-/hourly-rated NCSC staff given the need to meet HKP's pledged performance standards. Except for known peak periods of mail traffic (e.g. processing of election mail in the run-up to District Council/Legislative Council elections, processing company reports, etc.), for which we arrange additional support by engaging temporary staff, it would not be cost-effective to engage additional staff for the CMC on a regular basis during other periods as there is insufficient workload to keep them fully occupied.

11. To tackle the issue of fluctuating mail traffic and the concentration of workload during the evening at the CMC, we have implemented a variety of measures as set out below in order to minimise the incurrence of overtime work :

- (a) *upgrading the Mechanised Letter Sorting System (MLSS) at the CMC* – Taking the opportunity of the re-provisioning of the International Mail Centre (IMC) and the GPO Sorting Office to the CMC, we have upgraded the MLSS to achieve a processing speed of 39 000 items per hour and to sort local letters direct to individual delivery beats;
- (b) *developing a Chinese Character Optical Recognition capability for the MLSS* – This project is in progress. When the system is fully commissioned by November 2016, 91 000 mail items bearing Chinese addresses can be sorted mechanically daily, thus reducing the reliance on manual sorting and overtime work; and
- (c) *load-levelling and work-sharing with bulk mailers* – We have been offering advice to bulk mailers on how to improve their mail make-up (e.g. packaging, envelope design, the font size of recipient addresses, address presentation, etc.) as well as assistance in cleansing their address databases in order to increase the volume of mail items that can be successfully processed by the MLSS. In addition, we have introduced load-levelling and work-sharing measures (e.g. encouraging posting preparation on our online posting platforms for early capture of posting information to facilitate resource planning by HKP, evening out the concentration of mail arrival at the mail processing centres by introducing pre-booking of posting slots at the CMC, etc.) to even out the mail processing workload at the CMC.

#### International mail processing

12. The volume of international mail volume fluctuates and is highly volatile as it is affected by the global economic condition as well as acute competition

from other service providers. For illustration, the daily outbound airmail volume in December 2015 fluctuated between 8 300 mail bags to 12 600 mail bags. Variations in the mail mix in terms of item size (e.g. large parcels require more manual effort in mail segregation and packing of mail bags) and despatching standards (e.g. same-day dispatch for Speedpost items and longer timeframes for other mail types such as “within seven working days” for outbound bulk airmail items during peak periods) on a day-to-day basis have a significant impact on the manpower requirements. Moreover, any last-minute flight cancellations or aircraft changes would mean a lot of abortive as well as additional work for the Air Mail Centre (AMC).

13. It is also noteworthy that while the arrival/departure time of the international mail handled by the AMC spreads throughout the day, workload concentrates in the evening from 6 p.m. to 9 p.m. in order to catch the departure of flights destined for the major destinations of our outbound mail in Europe and the US.

14. In view of the unpredictable nature of the outbound mail volume and the circumstances mentioned in paragraph 13 above, it is not always practical nor cost-effective to engage additional staff on a regular basis to cope with the workload at the AMC as slack hours will inevitably result. Overtime work to be undertaken by the staff already on the shop floor is often a more pragmatic solution, especially when there is an urgent need to dispatch the mail volume in hand the same evening. Moreover, as we are currently experiencing difficulty in recruiting NCSC staff and although the situation is improving, the creation of additional positions would not provide immediate relief. Notwithstanding the foregoing, we have implemented various measures as set out in paragraphs 28-30 in ~~our reply to the PAC dated 5 January 2016~~ to reduce the incurrence of overtime work at the AMC. *Appendix 56*

### Mail delivery

15. HKP provides mail delivery service six days a week. The conditioned hours of work of the Postman grade (i.e. 48-hour a week) matches this service requirement. Delivery beats are created based on an assessment of the normal delivery workload in accordance with an established methodology. The daily standard workload of a delivery beat is normally set close to, or equal to, 420 minutes.

16. However, the mail volume for delivery fluctuates and cannot be precisely forecasted. Moreover, proper performance of delivery work relies on the local knowledge of the delivery beat. It is both expensive and impractical to engage additional staff to cover the same delivery beat in the absence of any confirmed long-term operational needs as slack hours will inevitably result. For short-term and/or seasonal fluctuations in the delivery workload, it is also difficult to rely

on temporary staff to assist in the delivery work due to the considerable training effort required to equip the new staff with the necessary local knowledge.

17. Given the need to meet HKP's performance pledges for mail delivery<sup>8</sup>, it is not always possible for the delivery offices to defer the delivery work to another day. Whenever the actual delivery workload for the day is assessed to exceed the standard workload of a delivery beat, Postal Inspectors will consider the possibility of sharing out the extra workload within the delivery office and only if it is unavoidable will overtime work be approved.

18. Although the need for overtime work in delivery offices cannot be removed altogether, we have adopted a variety of measures to reduce the overtime work for delivery postmen as far as practicable :

- (a) *prioritisation of delivery work* – Economy Local Mail (for delivery within three days after the day of posting) or Hongkong Post Circular Service mail (for delivery within four days after the day of posting) have longer delivery timeframes. Postal Inspectors will organise the delivery of such mail to optimise the flexibility offered by the relevant performance pledges with the objective of reducing the need for overtime work;
- (b) *rationalise work organisation in a delivery office* – To fully capitalise on the local knowledge of delivery postmen of their delivery beats, we seek to reserve as much of their available hours of service for outdoor delivery duty as possible. To this end, we have engaged NCSC staff as well as hired vehicle services to relieve delivery postmen from non-core work processes, such as pouch preparation, pouch feeding, etc. Please refer to our response on item (1) in ~~our reply to the PAC dated 9 December 2015~~ for details;  
*Appendix 48*
- (c) *engagement of temporary staff for known traffic peaks* – For known peak periods of delivery workload (e.g. delivery of election mail), we will recruit additional temporary staff to assist in some of the backend work processes in delivery offices in order to reduce the reliance on overtime work; and
- (d) *offering alternatives to door delivery* – Door delivery, including the handling of items that cannot be successfully delivered, is labour-intensive and costly. In view of the increase in mail items requiring door

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<sup>8</sup> In 2015-16, the performance pledges for mail delivery include :

- Deliver 99% of locally posted letters to local addressees by the following working day
- Deliver 99.5% of Bulk Economy letters to addressees within 3 working days
- Deliver 99.%% of Hongkong Post Circular items within 4 working days
- Deliver 99% of inward airmail items within 2 working days after arrival in Hong Kong

delivery due to the growth of e-commerce, we have been offering alternatives to door delivery such as :

- (i) *Partnership with the Post Scheme* – Under this scheme, a mail item for which door delivery is unsuccessful is handed to the management office of the delivery address for collection by the recipient upon return. This saves the delivery postman’s effort in the subsequent handling and recording of the mail item; and
- (ii) *introduction of counter collection service options* – For instance, we have introduced Smart Post to provide customers with a choice to collect their mail items at designated post offices at a lower postage fee. We have also launched a counter collection service for e-commerce purchase (such as purchases made on Taobao).

19. In view of the labour-intensive nature of postal operations, staff shortage naturally has a negative impact on service provision. Such shortage may arise from vacancies pending the completion of recruitment and promotion exercises (i.e. institutional vacancies) and temporary staff absence due to vacation leave, sick leave, clearance of time-off in lieu and training, etc.

20. For institutional vacancies concerning civil service posts, they are short-term in nature. Instead of engaging additional staff which is difficult to justify, we seek to provide relief through various means in addition to overtime work, e.g. short extension of the service of retiring officers, temporary redeployment of staff in the leave reserve or the TOIL clearance team to fill the vacancies, etc. (please also refer to paragraph 8 in ~~our reply to the PAC dated 17 December 2015~~ *Appendix 45*). As regards NCSC vacancies, we are addressing the situation in a targeted manner having regard to the circumstances of the operational unit concerned as illustrated by the action taken in response to the NCSC vacancies at the AMC (please refer to paragraph 9 in ~~our reply to the PAC dated 17 December 2015~~ *Appendix 45* and paragraph 28 in ~~our reply to the PAC dated 5 January 2016~~).

*Appendix 56*

21. As regards staff shortage due to temporary staff absence, in addition to overtime work, we seek to ameliorate the negative impact by enhanced management of leave-taking of staff, effective deployment of staff in the leave reserve, where applicable, and imposing restriction on leave-taking during peak seasons. These are more pragmatic and cost-effective solutions than augmenting the workforce with additional regular staff.

## **Management of post offices**

*On item (m)*

22. The productivity indices of post offices in 2011-12 to 2013-14 are set out below :

<b>Productivity index</b>	<b>Number of post offices in 2011-12</b>	<b>Number of post offices in 2012-13</b>	<b>Number of post offices in 2013-14</b>
up to 50%	2	2	2
51% to 60%	6	3	6
61% to 70%	11	16	17
71% to 80%	34	41	51
81% to 90%	42	44	39
91% to 100%	23	14	8
over 100%	10	8	5
<b>Total</b>	<b>128</b>	<b>128</b>	<b>128</b>

Note : The above table covers mobile post offices.

23. We wish to make the following observations :

- (a) The productivity index of post offices is but one of the indicators to assist assessment on the operational efficiency and cost-effectiveness of post offices. It has its limitations in that it only measures the time required for transactions conducted over the counters and applies a ratio to project the time required for back-office activities (such as mail despatching and loading/unloading, day-end balancing, handling of customer enquiries, verification of the number of call-for items received from delivery offices, etc.). As such, it cannot fully reflect the workload and operational realities of individual post offices (e.g. post offices providing bulk mail acceptance service, post offices with a large number of service-specific counters, post offices with a mail loading/unloading location far away from the post offices, etc.). Thus, we need to refer to other mail traffic and resource information, along with the productivity index, for assessing the performance of each post office having regard to the operational circumstances of individual post offices;
- (b) Those post offices with a productivity index at or below 70% are broadly categorised into two groups :
  - (i) two-man or three-man post offices located on outlying islands/in more remote areas and mobile post offices for which the manpower deployed is already minimal; and
  - (ii) post offices with extended business hour such as the General Post Office, Airport Post Office and Kowloon Central Post Office;

- (c) The increase in the number of post offices in the past few years under group (i) reflects a continuous drop in the transaction volume (including the posting volume) they handled. However, as most of them are already operating with the minimal staff deployment, there is no room for a further reduction in the staffing level. This has resulted in a relatively lower productivity index for the post offices concerned. The postmasters in selected post offices in group (i) (e.g. Lamma Post Office, Mui Wo Post Office, Peng Chau Post Office and Tai O Post Office) also oversee the operation of the adjacent delivery offices, thus achieving more cost-effective operation of these delivery offices. This is, however, not reflected in the productivity indices of the post offices concerned; and
- (d) For post offices under group (ii), they are generally located in major commercial areas and operate extended business hours in response to service needs. Given the nature of such service provision<sup>9</sup> and the scale of their operation<sup>10</sup>, their productivity indices are comparatively lower than other post offices operating normal business hours.

24. In discharge of Government's universal service obligation, HKP is required to maintain reasonably accessible postal service provision, including post office counter service. We also need to take account of the post office provision standards and guidelines contained in the Hong Kong Planning Standards and Guidelines. In other words, in rationalising the post office network, HKP has to take into account a host of consideration factors rather than the productivity index of the post office concerned alone.

25. We have implemented a number of resource-management and business development measures to improve the productivity of post offices, including :

- (a) *adjustment of the service hours of post offices* : From April 2014, Tsim Sha Tsui Post Office ceased to operate counter service on Sundays. From 2 February 2015, we adjusted the service hours of 59 post offices which have a relatively low service demand or whose service boundary overlaps with those of neighbouring post offices. We have since observed an improvement in the productivity indices of these post offices;

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<sup>9</sup> For example, the General Post Office operates round the year except the first day of the Chinese New Year and it is open for business from 8:00 a.m. to 6:00 p.m. on Mondays to Saturdays and from 9:00 a.m. to 5:00 p.m. on Sundays and public holidays. Airport Post Office opens for business from 8:00 a.m. to 8:30 p.m. on Mondays to Saturdays and from 8.00 a.m. to 5:00 p.m. on Sundays and public holidays.

<sup>10</sup> For example, in the General Post Office, which provides the full range of HKP's services, staff are assigned to man counters separately designated for PayThruPost, Speedpost & Parcel acceptance and bulk mail acceptance, etc. In comparison, post offices of a smaller scale of operation offer a broader range of services at the same counter.

- (b) *rationalisation of the bulk posting counter network* : The number of post offices with bulk posting counters was reduced from 26 to 18 from September 2014. With subsequent redeployment of staff from post offices that ceased to provide bulk mail acceptance, the productivity of these post offices has improved;
- (c) *staggering of the duty hours of post office staff and flexible staff deployment for neighbouring post offices* : These measures help to better align manpower resource with service needs and reduce overtime work;
- (d) *counter automation under the new IPSS* : The IPSS streamlines the daily operation at post offices and, in combination with other parallel measures, helps reduce overtime work and thus improve productivity; and
- (e) *generation of service demand through new/expanded services* : These include introduction of counter collection services for online purchases in response to the growth of e-commerce<sup>11</sup>, recruiting additional merchants for bill payment under the PayThruPost service, recruiting new mail traffic in collaboration with external partners (e.g. local/international delivery for purchases exceeding specified amounts made at the Hong Kong International Airport), etc.

On item (n)

26. HKP has made continuous effort to enhance its productivity and operational efficiency through automation, mechanisation, work process re-engineering, load levelling measures and work-sharing with mailers. Examples for illustration are set out below :

- (a) *consolidate the IMC and the GPO Sorting Office into a unified mail processing facility at the CMC* – The new facility, which was fully commissioned in November 2014, processes some three million mail items daily. It achieves economy of scale in mail processing by combining the work processes that were previously split between two centres. The expanded shop floor eases congestion and allows a smoother and more efficient mail flow. Assisted by upgraded letter sorting facilities and rationalised mail flow, the project achieves a reduction of 96 posts;
- (b) *upgrading the MLSS at CMC* – Taking the opportunity of the CMC project, the MLSS were upgraded to achieve a processing speed of 39 000 items per hour and to sort local letters direct to individual delivery beats. Together with strict enforcement of the posting conditions for bulk mail on envelope dimensions and address presentation, the successful read rate

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<sup>11</sup> Counter collection services for online purchases have the additional benefit of reducing the manpower demand for mail delivery.

has been improved from 87% under the previous MLSS to 89% under the upgraded MLSS;

- (c) *implementing the IPSS* – The new system, which was rolled out in phases from September 2014 and fully commissioned in December 2015, automates counter operation, integrates the frontend work processes with the backend operation, and streamlines the work processes at the backend. The management statistics available from the system assists monitoring of operational performance and supports decision-making on postal operations and business development. The full commissioning of the system is expected to achieve estimated annual net savings of about \$18 million;
- (d) *developing a Chinese Character Optical Recognition capability for the MLSS* – This capability is under development. When the system is fully commissioned in November 2016, 91 000 mail items bearing Chinese addresses can be sorted mechanically daily, thus reducing the reliance on manual sorting;
- (e) *developing online posting platforms and Application Program Interfaces* – We have set up two online posting platforms, namely EC-Ship and My Speedpost, to facilitate posting preparation by mailers (e.g. postage calculation, printing address labels, tracking mail delivery, etc.). The Application Program Interfaces further enable e-merchants to complete posting preparation on their e-commerce platforms as the electronic posting information can be uploaded direct to HKP’s online posting platforms. Electronic posting information is made available to the mail processing centres earlier for advance resource planning purpose. These online posting facilities also help streamline mail acceptance and reduce the transaction time at counters, to the mutual benefit of mailers and HKP;
- (f) *re-engineering the processing of Bulk Air Mail (BAM)* – BAM used to be processed entirely at the AMC. We implemented various measures to enhance the productivity and operational efficiency of BAM processing, including :
  - (i) requiring BAM to be posted by permit mailing, thus obviating the need for stamp cancellation for individual items. The imposition of a minimum weight per bag requirement helps ensure more compact mail bags, thus improving productivity in mail processing and the utilisation of air conveyance capacity;
  - (ii) relocating some of the work steps to the BAM Centre at Tsuen Wan and CMC so that the BAM bags will arrive at the AMC for uplifting to flights in a just-in-time operation mode; and

- (iii) relocating part of the aviation security screening procedure to the BAM Centre at Tsuen Wan and CMC so that BAM bags that fail the x-ray screening will be returned to the mailers at the point of mail acceptance. This speeds up the x-ray screening and avoids congestion there at AMC;
- (g) *developing a Mail Flow and Mail Tracking System* – Taking the opportunity of the redevelopment of the existing Track and Trace System, we will upgrade the system functionality to support our postal operations and enhance customer experience (e.g. enhancing the work flow for processing BAM and handling mail tracking enquiries, improving information flow to facilitate resource planning and deployment as well as performance monitoring of mail flow, etc.). The redeveloped system will be rolled out in phases from September 2016. Upon full commissioning by March 2017, the system is expected to achieve estimated annual net savings of about \$1.5 million;
- (h) *adjusting the service hours of 59 post offices with low patronage/in close proximity to other post offices* – This measure, which was implemented on 2 February 2015, enables earlier arrival of mail collected from post offices at CMC and AMC during the rush hours in the evening and brings about annual savings of about \$4 million due to a reduction of overtime work in post offices and the mail processing centres;
- (i) *rationalising the bulk mail acceptance counter network* – We rationalised the network from 26 mail acceptance counter offices to 18, with one in each of the 18 districts, in September 2014, thus optimising utilisation of transportation resources for mail conveyance;
- (j) *rationalising the transportation routes for mail conveyance* – To optimise the utilisation of transportation resources for mail conveyance following the reprovisioning of the IMC and the GPO Sorting Office to CMC, we have comprehensively reviewed the routing of our transportation network. For example, we have set up a new GPO transportation hub to consolidate the conveyance of mail between Hong Kong Island and CMC. This streamlined transportation arrangement has improved operational efficiency and minimised HKP’s transportation cost;
- (k) *implementing load-levelling measures to optimise resource utilisation* – We encourage mailers to pre-book posting slots at CMC, AMC and the BAM Centre to ease traffic peaks. We have also extended the latest time of posting at CMC to ease congestion at other mail acceptance counters towards the close of business hours;
- (l) *pursuing working-sharing with bulk mailers* – We promote various work-sharing measures such as pre-sorting and mail sequencing by mailers to

reduce mail sorting effort after mail acceptance, devising customised delivery solutions that meet the posting needs of mailers while optimising HKP's resource utilisation (e.g. delivery within a longer timeframe at lower prices), etc.; and

- (m) *introducing a counter collection service* – In response to the increase in packet and parcel traffic which requires door delivery, we have introduced Smart Post for local mail with a choice between door delivery and counter collection as well as a counter collection service for online purchases. These services benefit users due to economical charges made possible by lower operating costs as well as HKP due to a reduced demand for door delivery, which is labour-intensive.

## **Management of postal vehicles**

### *On item (t)*

27. The reasons for the low utilisation rate (50% or below) of the 15 vehicles in Table 14 of the Audit Report are set out in **Annex A**.
28. The main reasons for the low utilisation rates and, where applicable, measures to increase utilisation are summarised below:
- (a) The vehicles were reserve vehicles to provide support when the regular fleet was under scheduled or unforeseen maintenance to ensure undisrupted service provision. Given the purpose of reserve vehicles, we need to ensure that they are available for use whenever required and could not over-commit them for other regular duties. Thus, their utilisation tends to fluctuate depending on the maintenance needs of the regular fleet. We will deploy the reserve vehicles to take up additional ad hoc duties as far as operationally practicable;
  - (b) The methodology for calculating vehicle does not reflect the usage pattern of the vehicles, e.g. the service duration of vehicles deployed for motorised beats is about 5.5 hours a day instead of nine hours a day as assumed under the prevailing methodology. We are reviewing the methodology and aim to implement the revised methodology from April 2016. The utilisation of these vehicles will be reflected more accurately under the revised methodology. For small estate cars, due to their limited storage capacity, there are few alternative uses. For vans and trucks, we will identify additional duties as far as operationally feasible;
  - (c) The vehicles are electric vehicles. Due to functional limitations, they are generally used only for shorter journeys to ensure that they have a sufficient electricity supply; and
  - (d) The utilisation of the vehicles were limited by a shortage of drivers arising from the retirement and/or promotion of the incumbent drivers. The vacancies

**\*Note by Clerk, PAC: Please see Appendix 64 of this Report for Annex A.**

could not be readily filled as it took time for staff with valid driving licences to obtain a licence for driving government vehicles. We identified suitable candidates in the recent internal recruitment exercise conducted in September 2015. They will fill the vacancies once they have obtained a licence for driving government vehicles. To expand the pool of Postman Drivers, we will arrange more suitable candidates with a driving licence to attend training and take the test for driving government licences.

29. With continuous effort to enhance the utilisation of these vehicles and notwithstanding the limitations explained above, we observe an improvement in the overall utilisation rate of these 15 vehicles by 11 percentage points during the period from September to November 2015. We expect the utilisation rate to further improve following the planned redeployment and scheduled disposal of some of the vehicles as indicated in **Annex A**.

On item (v)

30. Hired vehicles are deployed to different operational units to support a variety of key operational functions as set out below:

- (a) conveyance of mail between post offices, delivery offices and mail processing centres;
- (b) delivery of mail pouches to designated second pouch depositories and conveyance of postmen to the respective starting points of their daily delivery duty;
- (c) supporting motorised delivery beats; and
- (d) supporting the Speedpost teams for the collection of Speedpost items from clients and delivery of Speedpost items and parcels.

31. The service scope of hired vehicles (including vehicle type; hiring period such as the daily commencement and finishing time, day of service on a weekly basis and the length of the service period; geographical coverage of service provision, etc.) and the arrangements for extension of service hours are specified in the contracts concluded between HKP and the service providers. HKP has an established mechanism for monitoring and managing the performance of hired vehicles to ensure that the service and performance requirements under contract are fully met.

32. As hired vehicles are engaged on a time-charge basis, we pay particular attention to the on-time performance of hired vehicles, i.e. whether their arrival and departure at designated call points follow the scheduled arrival/departure time. Measures implemented in this regard are set out below :

**\*Note by Clerk, PAC: Please see Appendix 64 of this Report for Annex A.**

- (a) Drivers of hired vehicles are required to sign in and sign off in the attendance books of the operational units they are assigned to under supervision when they commence or finish their daily duty. Supervisors or the designated HKP's staff in the respective operational units check the punctuality of the drivers;
- (b) Drivers of hired vehicles are required to each complete a vehicle daily log sheet which records the arrival/departure time of each hired vehicle at specified points :
  - (i) For hired vehicles deployed for conveyance of mail between post offices, delivery offices and mail processing centres, the arrival/departure records must be endorsed by the designated HKP staff at the call points. For call points where there are no designated HKP staff to endorse the arrival/departure time (such as mail pick-up locations on customers' premises), a HKP escort will be provided to the hired vehicles for both mail security and service monitoring;
  - (ii) For vehicles deployed for motorised delivery beats and delivery of second pouches, they operate on fixed routes and HKP's escort on board will report any irregularities observed en route to their supervisors for follow-up; and
  - (iii) For vehicles deployed to the Speedpost teams, while they are assigned to cover a specified geographical area, the precise routing varies on a day-to-day basis depending on the delivery points. The HKP escort on board is required to record the arrival/departure time for each call point on the vehicle daily log sheet;
- (c) Upon completion of the daily service of each hired vehicle, supervisors or the designated HKP officers in the operational units to which the hired vehicles are assigned are required to verify and endorse the vehicle daily log sheets, and to provide justifications if approval is given for an extension of the service hours;
- (d) For those hired vehicles with HKP staff on board, the staff will report any irregularities (e.g. delay in vehicle arrival) to the supervisors at the respective operational units to which the hired vehicles are assigned;
- (e) To assist supervisors in monitoring the performance of hired vehicles, for hired vehicles deployed for conveyance of mail between post offices, delivery offices and mail processing centres, the actual arrival/departure time of hired vehicles at different call points of HKP's offices as recorded on the vehicle daily log sheets are captured electronically in the departmental eTick Sheet System. The system generates an exception report automatically if the actual arrival/departure time deviates from the

scheduled time. Supervisors review these exception cases and take appropriate follow-up action, if warranted;

- (f) Superintendents of Posts in the respective operational units conduct snap checks on the completeness of the vehicle daily log sheets and the reasonableness of any extension claims on a weekly basis. They also conduct snap checks on the punctuality of hired drivers on a monthly basis. In addition, Managers conduct snap checks on the above-mentioned areas on a bi-monthly basis. Any irregularities will be followed up;
- (g) For hired vehicles deployed for motorised delivery beats and the Speedpost teams, Postal Inspectors in the respective operational units are required to conduct spot checks at selected call points at a prescribed frequency (i.e. at least 6 times a year, one of which should be a last call-point check, for each motorised delivery beat and at least 24 times a year for each Speedpost team). In addition, Senior Postal Inspectors/Superintendents of Posts and Managers are required to conduct superior checks (i.e. at least one Postal Inspector every week/fortnight for Senior Postal Inspector/Superintendents of Posts and at least one Postal Inspector each month for managers) to maintain proper control over the performance of delivery postmen/Speedpost team and operation of hired vehicles;
- (h) Contract administrators (i.e. Mail Processing Division for trucks and Management Services Division for light goods vehicles) are required to collate the performance evaluations made by users on a monthly basis for performance management purpose and, in the event of under-performance, appropriate follow-up actions will be taken; and
- (i) Regular performance review meetings are conducted with contractors.

33. For hired vehicles deployed to support motorised delivery beats and the Speedpost teams, commencing from July 2015, we have strengthened control by requiring compliance reports on the conduct of beat inspections to be submitted to Postal Services Branch Headquarters for review. In addition, 4 SPO posts were created in November 2015 for two years, in the first instance, for stepping up the conduct of superior checks.

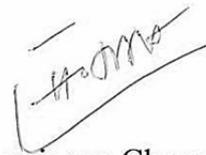
34. We are in the process of installing global positioning system (GPS) on departmental postal vehicles deployed to Speedpost Centres in phases to facilitate monitoring of their utilisation. Subject to a review on the effectiveness of the facility, we may consider installing mobile GPS on hired vehicles in the long run to support more efficient performance management of these vehicles.

## Management of Central Mail Centre and General Post Office Building

### On item (w)

35. We have reviewed the allocation plan for the 46 work stations on the fifth floor of the CMC having regard to our updated operational and accommodation needs. The updated allocation plan is at **Annex B**.

Yours sincerely,

A handwritten signature in black ink, appearing to read "L. Chow", written over a horizontal line.

( Lorrience Chow )  
for Postmaster General

c.c. Secretary for the Commerce and Economic Development  
Secretary for Financial Services and the Treasury  
Director of Audit

**\*Note by Clerk, PAC: Please see Appendix 65 of this Report for Annex B.**