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**A. Introduction**

The Audit Commission ("Audit") conducted a review on the operation of the Hongkong Post ("HKP").

Background

2. HKP aims 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. In August 1995, a Post Office Trading Fund ("POTF") was established to manage and account for the operation of HKP by a resolution under the Trading Funds Ordinance (Cap. 430). As at 31 March 2015, HKP had 7 032 staff, comprising 5 090 civil servants and 1 942 non-civil-service contract ("NCSC") staff. Its postal facilities included two mail processing centres (i.e. Air Mail Centre ("AMC") and Central Mail Centre ("CMC")), 127 post offices, 28 delivery offices, some 1 100 street posting boxes and some 270 departmental vehicles. In 2014-2015, HKP handled 1 212 million mail items comprising 1 038 million (86%) local mail items and 174 million (14%) international mail items.

3. Under the Trading Funds Ordinance, HKP is required to achieve an annual rate of return on fixed assets as determined by the Financial Secretary. The rate of return is defined as the HKP's operating profit after tax (excluding other income) divided by its average net fixed assets (i.e. the average of the net fixed assets at the beginning and at the end of the financial year). In the period from 1995-1996 to 2005-2006, the target rate of return on fixed assets was 10.5% and in the period 2006-2007 to 2011-2012, the rate was 8.4%. Since 2012-2013, the rate has been set at 5.9%.

4. Director of Audit has conducted six reviews on various aspects relating to the operation of HKP since 2001<sup>1</sup>. Based on Audit's findings, the Committee conducted public hearings on the Chapters the "Financial performance of the Post Office" and "The Postal Mechanisation System at the Air Mail Centre" in 2002 and 2005 respectively. The findings were reported in the Committee's Report No. 38 of July 2002 and Report No. 44 of July 2005 respectively.

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<sup>1</sup> The six relevant chapters which have touched upon the operation of HKP are Chapter 9 of Director of Audit's Report ("Audit Report") No. 36 "Government's efforts to promote e-business in Hong Kong", Chapter 6 of Audit Report No. 38 "Financial performance of the Post Office", Chapter 7 of Audit Report No. 44 "The Postal Mechanisation System at the Air Mail Centre", Chapter 2 of Audit Report No. 49 "Administration of the Hongkong Post Certification Authority", Chapter 8 of Audit Report No. 54 "Provision of postal services" and the present one.

5. The Committee held two public hearings on 30 November and 21 December 2015 to receive evidence on the findings and observations of the Director of Audit's Report ("Audit Report").

### The Committee's Report

6. The Committee's Report sets out the evidence gathered from witnesses. The Report is divided into the following parts:

- Introduction (Part A) (paragraphs 1 to 7);
- Performance of the Hongkong Post as a trading fund (Part B) (paragraphs 8 to 21);
- Management of mail processing (Part C) (paragraphs 22 to 40);
- Management of post offices (Part D) (paragraphs 41 to 48);
- Management of postal vehicles (Part E) (paragraphs 49 to 54);
- Management of Central Mail Centre and General Post Office Building (Part F) (paragraphs 55 to 57); and
- Conclusions and recommendations (Part G) (paragraphs 58 to 60).

### Opening statement by Secretary for Commerce and Economic Development

7. **Mr Gregory SO Kam-leung, Secretary for Commerce and Economic Development**, made an opening statement at the beginning of the Committee's public hearing held on 30 November 2015, the summary of which is as follows:

- the Administration accepted the observations and recommendations made in the Director of Audit's Report and HKP was considering how to implement them in order to improve the operations of the department;
- the Commerce and Economic Development Bureau had regularly reviewed with HKP the latter's business strategy and its operational and financial performance. HKP, operating as a trading fund, had a higher flexibility on its resources allocation and formulate its strategic plans

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according to the market and operational environment. In recent years, HKP had implemented measures to increase its revenue and cut expenses. For 2014-2015, POTF achieved a surplus of \$160 million while meeting the performance pledges and maintaining the postage and other services at an acceptable level;

- when assessing the performance of HKP, the public should pay special attention to some special factors, including the keen competition in the postal and courier markets and the volume of mails was unpredictable. It was not easy for HKP to achieve self-financing and maintaining a satisfactory service to the customers without government subsidy or a great increase in fees; and
- HKP had taken proactive measures to address the observations of Audit in the Audit Report, such as underpayment of postage, overtime work of HKP staff, management of post offices, management of vehicles and the management of CMC and the General Post Office ("GPO") Building.

The full text of the Secretary for Commerce and Economic Development's opening statement is in *Appendix 38*.

**B. Performance of the Hongkong Post as a trading fund**

8. The Committee noted that since 1995 upon the establishment of POTF, HKP had operated as both a trading fund and a government department. As a government department, it was required to follow the relevant government regulations and procedures, such as the annual adjustment of the salary of civil servants and those relating to procurement. The Committee has also received submissions from two HKP staff unions, namely the Union of Hong Kong Post Office Employees and the Hong Kong Postal Workers Union (*Appendices 39 and 40* respectively), pointing out that HKP was different from four other departments which were also operating as trading funds<sup>2</sup> as HKP had to compete with other competitors in an open market of postal and courier services. More flexibility and autonomy should be allowed for HKP not following government regulations and procedures regarding accommodation and procurement as well as engaging non-government contractors to provide services.

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<sup>2</sup> The other four departments which are also operating as trading funds are the Companies Registry, the Land Registry, the Office of the Communications Authority and the Electrical and Mechanical Services Department.

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9. In this connection, the Committee asked whether the Administration would review the existing policy for HKP to operate as a trading fund. **Secretary for Commerce and Economic Development** explained at the public hearings and supplemented by his letter of 17 December 2015 (*Appendix 41*) that it was the Government's policy that HKP continued to operate as a trading fund. Discussions had been held between the Commerce and Economic Development Bureau and HKP and the focus of these discussions was the measures needed to enable HKP to deliver the best financial and operational performance when operating within the parameters of POTF. **Secretary for Commerce and Economic Development** and **Mr Philip YUNG Wai-hung, Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)**, pointed out at the public hearings, with reference to a note setting out the major differences amongst the different modes of operation of HKP, namely, trading fund, vote-funded department and corporatization/privatization (*Appendix 42*), that the Administration considered that trading fund was a suitable mode of operation for HKP.

10. In response to the Committee's enquiry about the constraints faced by HKP, **Secretary for Commerce and Economic Development** explained at the public hearings and supplemented by his letter of 17 December 2015 (*Appendix 41*) that any institutional and other constraints faced by POTF had always been recognized, and HKP had been making its best endeavour to make the best use of the flexibilities permitted under a trading fund mode of operation. These constraints served as a backdrop to the formulation of annual business plans and medium range corporate plans<sup>3</sup> as set out in the strengths, weaknesses, opportunities and threats analysis and the sections on longer term operational sustainability and financial viability of the plans. The relevant extracts of the Annual Business Plan 2014-2015 and the Medium Range Corporate Plan (2014-2015 to 2018-2019) for HKP are in *Appendices 43 and 44*.

11. On the constraints faced by HKP, **Mrs Jessie TING YIP Yin-mei, Postmaster General**, said at the public hearings and supplemented in her letters of 17 December 2015 (*Appendix 45*) and 22 January 2016 (*Appendix 46*) that:

- POTF was unique in that HKP provided postal and related services in competition with numerous service providers in an open market with a low entry threshold. HKP carried the universal service obligation, which required the Department to provide reasonable access to

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<sup>3</sup> Postmaster General is responsible for preparing and submitting to each Bureau Secretary an Annual Business Plan and a Medium Range Corporate Plan setting out the short and long term strategies for achieving business and policy objectives in the corresponding areas.

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affordable postal service for the community at large (including service provision at remote locations and provision of local mail service at uniform postage rate throughout the territory), while other local courier service providers were free to choose the scope and geographical coverage of their service provision. The other four trading funds, in comparison, provided niche services or services for niche markets;

- the public generally still viewed HKP as providing a social service and resisted HKP's measures to improve its finances (e.g. closing loss-making post offices, adjusting postage rates and postal fees to improve costs recovery, etc.). New services introduced by HKP could be quickly emulated at lower costs and lower prices. HKP also faced criticisms that it was competing with the market for profits;
- HKP faced institutional constraints as a government department related to manpower management, financial management and procurement as it had to follow the relevant government regulations, procedures and rules; and
- HKP had over the years made its best endeavour to enhance its operational and financial performance by implementing various measures to manage its costs, generate revenue through business development and maintain its longer-term financial and operational sustainability. In this endeavour, HKP had, as far as practicable, sought to make the best use of the flexibilities permitting under the prevailing institutional and legal framework governing POTF.

12. **Postmaster General** further advised in her letter of 8 January 2016 (*Appendix 47*) that universal service obligation included ordinary local mail and air mail, bulk air mail, local/air/surface parcel, registered mail, etc. For 2014-2015, the revenue from and cost of provision of universal service obligation accounted for 69% and 73% of the total revenue and cost of HKP respectively.

13. In reply to the Committee's enquiry about HKP's endeavour to seek relaxation of some of the institutional limitations on HKP's operations, **Postmaster General** explained in her letter of 22 January 2016 (*Appendix 46*) that in the past five years, HKP had discussed with different bureaux/department in order to seek their agreement to relax some limitations on HKP's operations, including waiving payment of dividend of \$21.5 million for 2003-2004 so that POTF could make continued investment for its future sustainable development; waiving of notional

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market rental on premises leased from the Government; HKP to adjust the bulk postage rates for Local Mail and Air Mail on its own; modifying investment guidelines; procuring printing service directly from outside contractors for some printing jobs; and using non-government maintenance service for selected non-mission critical equipment as well as for selected departmental vehicles.

14. **Postmaster General** further explained in the letter of 22 January 2016 about the measures that it would consider to enhance the operating environment of HKP:

- target rate of return - pursue with the Financial Services and the Treasury Bureau whether and how allowance could be made when setting the target rate of return of POTF in view of the inherent constraints of such a status and responsibility on HKP's commercial operation in the review to be conducted on the target rates of return for trading funds in 2016;
- streamlining the statutory provisions on the scope of HKP's service and the postage/postal fee adjustment mechanisms - review on the Post Office Ordinance (Cap. 98) and the Post Office Regulations (Cap. 98A), which were too restrictive in places, and identify room for improvement;
- human resource management - explore with the Civil Service Bureau whether there were appropriate arrangements for engaging contract staff that were more attuned to the manpower requirements of HKP, and whether and how recruitment processes could be streamlined;
- financial management and procurement - explore with relevant bureaux/departments to allow more flexibilities for HKP in these areas; and
- Framework Agreement concluded between the Secretary for Commerce and Economic Development and the Postmaster General - review if there was scope for enhanced flexibility to facilitate POTF's operations in the coming review in 2016.

15. To enhance HKP's financial performance, the Committee enquired about HKP's efforts to explore means to increase its revenue, in particular the revenue generated from e-commerce.

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16. **Postmaster General** said at the public hearings and provided in her letter of 9 December 2015 (*Appendix 48*) on HKP's measures to generate revenue and its effort to introduce new services. HKP's service offerings in support of e-commerce included: Smart Post, collection of online purchases at post offices, Speedpost, EMS Cool Box, Bulk Air Mail, iMail, e-Express, e-EMS and conveyance of transit mail from Mainland China via HKP. Details of these services can be found in *Appendix 49*. **Postmaster General** also provided in *Appendix 50* a breakdown of POTF's Operating Revenue for the period from 2010-2011 to 2014-2015, with the revenue generated from e-services increased from 11.8% to 19.5% during the period.

17. The Committee noted from paragraphs 1.13 and 1.14, and Figure 4 of the Audit Report that HKP did not achieve the target rates of return in 14 years of the 20-year period from 1995-1996 to 2014-2015 and enquired:

- how the financial performance of HKP compared with other four trading funds;
- how the net fixed assets of HKP were calculated; and
- the factors considered by the Financial Secretary when determining the target rate of return for HKP.

18. **Secretary for Financial Services and the Treasury** advised in his letter of 9 December 2015 (*Appendix 51*) that all four other trading funds met the target rate of return for the period from 2010-2011 to 2014-2015 with actual rate of return at least twice of the target rate. In comparison, POTF did not achieve the target rate of return in the same period.

19. **Secretary for Financial Services and the Treasury** further advised in the same letter of 9 December 2015 that the value of fixed assets for POTF in calculating the actual rate of return was based on the net book value (cost less accumulated depreciation/amortization) of its fixed assets as shown in the audited financial statements of POTF. The fixed assets of POTF included property, plant and equipment, and computer software licences and system development costs. These fixed assets were valued at their historical costs. In setting target rates of return on fixed assets for trading funds, consultants were engaged through competitive bidding to provide professional advice. The following factors were considered in setting the target rates for the trading funds:

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- the cost of capital of the respective trading fund, which was equal to the weighted average of the cost of debt and the cost of equity of the respective trading fund;
- the cost of debt was calculated on the basis of a risk-free rate, as trading funds remained part of the Government, and adjusted to allow for the potential tax benefit on interest payments. In calculating the cost of debt for trading funds, the risk-free rate was determined with reference to the long-term yield of the Hong Kong Exchange Fund Notes; and
- the cost of equity was calculated by adopting the Capital Asset Pricing Model. It consisted of the risk-free rate and an equity-risk premium multiplied by an equity beta coefficient. In calculating the cost of equity, the same risk-free rate and equity-risk premium were adopted for all trading funds. The equity-risk premium represented the additional return required over and above the risk-free rate to justify investors' investment in equities and the equity beta coefficient reflected the level of risk faced by the relevant industry based on the Hong Kong data to the extent practicable as well as overseas market data if necessary.

The calculation of the target rates of return for HKP since 1995-1996 using the above methodology is shown in *Appendix 52*. In his letter of 4 January 2016 (*Appendix 53*), **Secretary for Financial Services and the Treasury** advised that the Administration had made reference to a number of overseas companies or organizations in the post and delivery industry in the last review of the target rate of return on fixed assets for POTF in 2011 with details in the letter.

20. The Committee noted from a memo from Postmaster General to Secretary for Financial Services and the Treasury dated 20 December 2011 (*Appendix 54*) during the last review of the target rates of return for trading funds in 2011 that HKP had no objection in principle to the consultant's recommendation on continuing the existing methodology of determining the target rate of return for the competitive services of POTF. However, the target rate of return should not be applicable to the universal services obligation. **Postmaster General** said at the public hearings that the Commerce and Economic Development Bureau and HKP had made submissions in 2010 (*Appendix 55*) and 2011 (*Appendix 54*) to the Financial Services and the Treasury Bureau providing justifications for different approaches in respect of universal services obligation and competitive services provided by POTF. However, the consultant was of the view that POTF's case was not strong and

universal services obligation was not a necessity. POTF's problem was more of a price, and a cost and service rationalization problem. As such, a uniform target rate of return at 5.9% had been fixed for all services of POTF since 2012-2013.

21. **Secretary for Commerce and Economic Development** advised in the annex to his letter of 17 December 2015 (*Appendix 42*) that pursuant to the 2015 Budget Speech, HKP was 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.

### C. Management of mail processing

#### Mail items with insufficient postage

22. The Committee noted from paragraphs 2.3 to 2.14 of the Audit Report that in 2014-2015, HKP handled around three million mail items each day but mail items with insufficient postage were not always detected. According to Audit's tests, of 50 test letters with no stamps or insufficient postage stamps, 43 (86%) of them successfully passed through the detection mechanism and were delivered to the addresses without being surcharged. The Committee asked HKP about the reasons and the improvement measures taken/to be taken by HKP to strengthen its detection of mail items with underpayment of postage.

23. **Postmaster General** said at the public hearings that some mail items with no stamps were detected but they were not followed up properly. In this respect, she said at the public hearings and supplemented through her letter of 5 January 2016 (*Appendix 56*) that:

- about 88% of the mail items processed by HKP daily were accepted over post office counters with postage paid by permit/meter/postage labels. These mail items were checked by HKP staff at the time of mail acceptance and hence the risk of underpayment of postage was very low. The remaining 12%, which were paid by postage stamps and accepted through street posting boxes and posting slots in post offices, carried a higher risk of underpayment. Striking a balance between revenue protection and administrative cost-effectiveness, HKP adopted a risk management approach in the detection of underpaid items, targeting mail items received through street posting boxes and

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posting slots in post offices and, in particular, large letters and packets which were more susceptible to underpayment of postage and the amount of underpaid postage for which tended to be higher;

- HKP had stepped up staff awareness of the need to protect HKP's revenue and the responsibility of all staff handling mail to assist in this task by: (a) improving the operational guidelines to incorporate detailed work steps and delineation of responsibilities for detecting underpaid items; (b) displaying notices carrying the key operational steps and essential points-to-note at relevant work units; and (c) conducting regular briefings for frontline staff to ensure compliance of the stipulated requirements;
- to help ensure effective detection of underpaid items by frontline staff, HKP had increased the minimum quantity, by mail category, to be checked by supervisors at different stages of mail processing taking into account their respective risk levels, and promulgated the requirement for strict compliance by the staff concerned. All underpaid items were recorded and accounted for, including when they were passed from CMC to delivery offices, to facilitate monitoring of follow-up actions. In addition, starting from December 2015, test mail items with insufficient postage were sent regularly as a control measure to ascertain the effectiveness of HKP's detection mechanism;
- to enhance operational efficiency, mail items identified to carry insufficient postage were centrally processed at CMC, which also maintained statistics on such items to facilitate monitoring of any underpayment trends. To further streamline the operational procedures for processing underpaid mail items and surcharge collection, HKP was enhancing the Integrated Postal Services System to automate the calculation of surcharge, the issue of dues labels in replacement of dues stamps and recording of the surcharge amount to be collected by item. This would be rolled out in phases from January 2016 for full implementation by end March 2016 to enhance management control;
- HKP would cease the existing practice of collecting surcharge for underpaid items at the time of mail delivery which was labour-intensive and time-consuming. Instead, recipients would be asked to pay the surcharge and collect the mail item at the designated post office starting from April 2016;

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- HKP had stepped up publicity and public education on the responsibility of mailers to pay sufficient postage that underpaid mail items were subject to surcharge and delivery delay; and
- HKP would consider the need for introducing more stringent measures (e.g. increasing the surcharge for underpaid items) to deter underpayment if warranted.

Procurement of airfreight services

24. The Committee noted from paragraphs 2.23 and 2.24 of the Audit Report that in the tendering exercise for the airfreight services for 2014-2015, there were the following inadequacies:

- contrary to the provision in the Government's Stores and Procurement Regulations<sup>4</sup> and the tender document<sup>5</sup>, HKP did not require the tenderers who failed the financial vetting and whose estimated contract value exceeded \$5 million to submit a contract deposit; and
- when seeking the Central Tender Board<sup>6</sup>'s approval of the award of the contracts, HKP informed the Board that the tenderers had been financially vetted and were considered financially capable of undertaking the contracts; and as they had passed the financial vetting, no contract deposit was required.

In this connection, the Committee enquired why HKP did not follow the Government's Stores and Procurement Regulations and did not provide accurate information to the Central Tender Board on the results of its financial vetting and the HKP's justifications for waiving the contract deposits.

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4 According to the Government's Stores and Procurement Regulations, for non-works service contract of a value exceeding \$5 million, financial vetting shall be conducted on a tenderer who is being considered for the award of the contract in order to ensure that the tenderer is financially capable of fulfilling the contract requirements.

5 HKP stated in the tender document that if a tenderer passed the financial vetting or the estimated value of the contract was not more than \$5 million, no contract deposit would be required; and if a tenderer failed the financial vetting and the estimated value of the contract was over \$5 million, HKP may require the selected tenderer to submit a deposit equivalent to 0.5% of the estimated contract value. See also Note 12 to the Audit Report.

6 The Central Tender Board, chaired by the Permanent Secretary for Financial Services and the Treasury (Treasury), considers and decides on the acceptance of service tenders exceeding \$15 million.

25. **Postmaster General** explained at the public hearings and supplemented in her letter of 5 January 2016 (*Appendix 56*) that:

- in the HKP's 2014-2015 tender exercise for airfreight services, HKP had conducted financial vetting for those tenderers whose estimated contract values exceeded \$5 million. Although some tenderers failed the financial vetting, HKP did not present the full details of the financial vetting results to the Central Tender Board, nor the reasons for regarding the recommended tenderers for contract award as having passed the financial assessment and the reasons for waiving the contract deposit. This was due to oversight in preparing the submission to the Central Tender Board. HKP accepted the recommendation of Director of Audit that it should provide accurate and comprehensive information to the Central Tender Board on the results of HKP's financial vetting and the justifications for waiving the contract deposits; and
- notwithstanding the waiver of the payment of a contract deposit, there was no adverse impact on HKP's interests as explained below:
  - (a) stringent regulatory regime for airline operators operating from Hong Kong - Regulation 6 of the Air Transport (Licensing of Air Services) Regulations (Cap. 448A) required a local airline operator to submit annually the audited financial statements as well as key prescribed information for financial vetting. For non-Hong Kong airline operators, the Civil Aviation Department required the airlines to submit their Air Operator's Certificates. According to the "Air Operator Certification and Surveillance Handbook" published by the International Civil Aviation Organization, before issuing an Air Operator's Certificate, the relevant regulatory authority would consider the financial viability of the operation as well as the economic and financial assessment on the applicant and the regulatory authority would make continuous re-evaluation of the financial viability of the airline operator during the validity period of the Air Operator's Certificates;
  - (b) low financial risk to Government - the airfreight services contracts operated under a Standing Offer Agreement mechanism. Service provision by a successful tenderer under contract was pursuant to a specific request from HKP from time to time during the contract period. Flights were ranked for each

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destination having regard to price and other applicable criteria. HKP made no commitment or warranty to any contractor regardless of its ranking as to the exact quantity of mail for its dispatch. When the volume committed by a contractor could not be provided due to whatever reasons, HKP would turn to other contractors on the ranking list immediately;

- (c) market and international practice - it was market practice that airlines might require their customers to pay them a deposit for a guaranteed supply of air conveyance capacity. The contract deposit arrangement as stipulated in HKP's tender document (i.e. the successful tenderers were required to pay a contract deposit to HKP under specified circumstances) was contrary to market practice; and
- (d) interests of Government - under the prevailing arrangement, there was reasonable assurance that HKP's air conveyance requirements would be met due to the relatively large pool of service providers and the established mechanism under contract for HKP to seek compensation from the contractors concerned in the event of defaults in their performance under the contracts with HKP. On the other hand, there was a risk that HKP's interests would be jeopardized (e.g. the contractors might decline the contract offers) if HKP insisted on the payment of a contract deposit by the contractors.

26. **Postmaster General** further advised in her letter that in the 2016-2017 tender exercise for airfreight services, HKP informed the Central Tender Board of the details of the financial vetting results and explained clearly the justifications for HKP's decision of not requiring the successful tenderers to furnish a contract deposit. The Central Tender Board approved the results of the 2016-2017 tender exercise and offered no further comments in this respect.

#### Overtime work of the Hongkong Post staff

27. According to paragraph 2.34 of the Audit Report, overtime hours worked by HKP staff had long been mainly compensated by overtime allowance ("OTA") rather than compensated by time-off in lieu ("TOIL")<sup>7</sup>. For 2014-2015, the number of

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<sup>7</sup> For example, for the years 2012-2013 to 2014-2015 the ratio of overtime hours compensated by TOIL to that by OTA was about 1:5.

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overtime hours was 1 362 941 of which 1 115 234 hours (81.8%) were compensated by OTA (\$179 million). The Committee had examined about the overtime work of HKP staff and HKP's manpower deployment in details.

28. In response to the Committee's enquiry about the justifications for a significant number of overtime work for HKP staff, **Postmaster General** explained about the nature of HKP's work and the overtime issues of HKP staff at the public hearings and in her letters of 9 December 2015 and 8 January 2016 (*Appendices 51 and 47* respectively) as follows:

- as HKP's service provision was demand-led, the actual manpower requirement was subject to variations depending on mail volume, mix of mail types, time of mail acceptance and the class of mail;
- the typical circumstances giving rise to overtime work in the Postal Services Branch, including local mail processing, mail delivery, international mail processing and retail business, are provided in *Appendix 57*;
- to meet the workload and cost-effective utilization of resources, a workforce comprising civil servants and NCSC staff were deployed to cope with regular workload, supplemented by overtime work to cope with fluctuations in workload; and
- with the implementation of measures for post office, local mail processing, international mail processing and mail delivery, such as automation/application of IT solutions, using a Mechanized Letter Sorting System with Chinese character optical recognition capability, process re-engineering and load-leveiling measures, etc., to reduce overtime work as set out in *Appendices 47 and 57*, savings of about \$7 million in overtime work was achieved in 2014-2015. HKP had stepped up effort since 2011-2012 to work down the overall balance of uncompensated TOIL hours in the Department. As a result of the above measures, the total uncompensated TOIL balance was reduced to about 207 200 hours as at 30 November 2015, representing a reduction of 41% compared to the balance at 31 March 2012 or 21% compared to the balance at 31 March 2014. As of the same date, the uncompensated TOIL balance of all staff in HKP was below the service-wide accumulation ceiling of 180 hours and 80% of the HKP staff with an accumulated TOIL balance had a balance less than 50 hours.

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29. Noting from paragraphs 2.41 and 2.42 of the Audit Report that the staff of Mail Distribution Division had accumulated a significant number of overtime hours, representing 48% of that of all staff of the HKP<sup>8</sup>, the Committee enquired:

- how a delivery beat<sup>9</sup> was formed and the workload for a delivery beat was calculated; and
- whether HKP would conduct review on the workload and the standard time for processing and delivering different mail items, and beat revisions.

30. **Postmaster General** advised at the public hearings and supplemented in her letter of 17 December 2015 (*Appendix 45*) and 5 January 2016 (*Appendix 56*) that:

- delivery beats were formed following a beat revision exercise to assess the daily workload of a delivery beat postman, taking account of relevant factors such as the volume, size and weight of the mail items for delivery; the delivery mode; the standard time for the processing and delivery of different mail types; the pledged delivery standard; errand time between delivery points and the local geographical characteristics of individual beats. As the conditioned hours of work of the Postman grade was 48 hours, the daily standard workload of a delivery beat was normally set close to, or equal to, 420 minutes a day;
- while HKP had set standard time for the processing and delivery of different mail types, there were inevitably variations among delivery beats due to diverse local conditions. Moreover, the actual volume and mix of mail for delivery on a day-to-day basis for a delivery beat might not exactly match the standard workload set for the beat concerned. Thus, supervisors in delivery offices would exercise judgment and draw on their local knowledge in assessing the daily workload of individual delivery beats and, where justified, allocate additional resources so as to ensure the timely completion of the delivery workload on hand. A copy of the guidelines on delivery workload assessment promulgated to supervisors and managers in the Mail Distribution Division is in *Appendix 58*. Specifically, Postal Inspectors were required to record on a daily basis the reasons for

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8 As at 31 March 2015, the Mail Distribution Division had 2 670 civil servants including 2 254 Postman grade staff.

9 As at 31 March 2015, there were 1 756 delivery beats under the Mail Distribution Division which was mainly responsible for the delivery of mail items to different points in Hong Kong.

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deviations from the standard time in assessing the workload for each delivery beat. Superintendents of Post/Senior Postal Inspectors as well as managers were required to examine these records and follow up on deviations of 5% or more; and

- to supplement the daily workload assessment for delivery postmen, Postal Inspectors were required to monitor the time of return of delivery postmen to the delivery office upon completion of their delivery duties, and conduct beat patrol at selected delivery points as well as the last stop of the delivery routes to review whether the resource allocation was in line with the workload. If notable deviations were observed, they would be reported to their Superintendents of Posts/Senior Postal Inspectors for necessary follow-up, e.g. by way of minor patching to the delivery beats concerned. Since November 2015, the Beat Survey Team ("BST") under Productivity Services Section had increased their monthly checks and enhanced their communication with delivery offices on notable disparity between the time allocated to a delivery postman and the actual time required. Reports on the monthly check were required to be submitted to Postal Services Branch Headquarters in a timely manner.

31. On the formulation of the workload for each delivery beat, **Postmaster General** explained in her letter of 5 January 2016 (*Appendix 56*) that:

- in 1999, HKP embarked on an exercise to formulate a new methodology for measuring the workload of individual delivery beats by reference to a set of standard time for mail preparation and delivery for different types of delivery beats. The new methodology was implemented from 2001. In 2001 to 2005, the Vertical Postmen Preparation Fitting was introduced to all delivery offices in phases. Due to the changes in postal operations and tools, HKP conducted another review in 2006 to 2008 on the standard time for workload assessment for delivery postmen. The updated standard time was adopted in 2008; and
- the determination of the standard time for the processing and delivery of different mail types in the two afore-mentioned exercises was carried out in-house. To enhance objectivity and reliability in assessing the work performance of delivery postmen for the purpose of defining such standard time, HKP sought professional advice from the

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Department of Industrial and Systems Engineering of The Hong Kong Polytechnic University on proven industrial engineering methodologies relevant to the exercise and engaged its assistance in organizing training for HKP staff who were involved in tasks related to workload assessment, e.g. beat surveys, productivity and performance measurement, etc. The content of the first training course provided by The Hong Kong Polytechnic University to HKP staff in 1999 is in *Appendix 59*.

32. On the reviews on the workload assessment for delivery postmen, standard time for mail preparation and delivery for different types of delivery beats and conducting beat revisions, **Postmaster General** said at the public hearings and in her letter of 5 January 2016 (*Appendix 56*) that:

- to provide an updated basis for workload assessment<sup>10</sup> for delivery postmen, HKP would embark on a comprehensive review in 2016. The review would examine if any adjustments were required for (a) the designation of eight categories of delivery beats<sup>11</sup>; and (b) the standard time for the processing and delivery of different types of mail items for different categories of delivery beats taking into account relevant factors such as changes to postal operations since the last review conducted in 2006 to 2008, changes in the mail mix in recent years, changes in the age profile of delivery postmen, the learning effect as a result of accumulation of experience with a delivery beat, etc.;
- in the upcoming review, HKP would select around 150 delivery beats that were representative of different delivery modes for a close study of their actual operations, covering the three key components underpinning the assessment of the standard workload of a delivery beat, namely, indoor preparation processes, journey time and outdoor delivery time;
- HKP tentatively targeted to complete the review in the first half of 2017. The new standard time for the processing and delivery of different mail types for application to different categories of delivery

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10 Under the current methodology for workload assessment for delivery postmen, standard time has been defined for the processing of different types of mail (including "letters/flats", "packets", "registered mails" and "Speedpost") under eight categories of delivery beats.

11 These eight categories of delivery beats are: residential nest letter boxes, residential door-to-door delivery, rural, commercial door-to-door delivery, residential nest letter boxes/irregular door-to-door delivery, commercial door-to-door delivery/residential nest letter boxes, residential/commercial 50% mix and Islands.

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beats would thereafter be applied for assessing the standard workload of each delivery beat in beat revision exercises; and

- according to the prevailing departmental guideline, a beat revision exercise should be carried out for each delivery office every three years. However, due to operational needs, BST was deployed to conduct unscheduled workload assessment for the three Speedpost Centres and the three Speedpost hubs in 2012-2014 due to the envisaged efficiency gain. Moreover, BST carried three vacancies out of a total establishment of ten Postal Inspectors during the period from March 2013 to June 2014. As a result, there had been a slippage in the conduct of the beat revision exercises for the delivery offices. To catch up with the prescribed review schedule, HKP was taking steps to augment BST by recruiting four to five more staff (in addition to the existing 12 staff) and aimed to complete all outstanding beat revision exercises by end 2017.

33. The Committee was concerned whether overtime would be granted to delivery postmen only from the computation of the standard working time and enquired about the calculation of actual overtime and the supervisory and monitoring mechanism for the overtime work of delivery postmen.

34. **Postmaster General** explained at the public hearings that HKP would only grant overtime work if the work had been actually carried out by the delivery postmen, regardless of the previous computation of the daily workload assessment. She further elaborated in her letter of 5 January 2016 (*Appendix 56*) that:

- Postal Inspectors in delivery offices were required to monitor the time of return of delivery postmen to their respective delivery offices upon completion of their delivery duties for an assessment on whether the resource allocation was aligned with the actual workload. If a postman returned to the delivery office earlier than the time indicated under the daily workload assessment, the overtime hours already granted might be forfeited subject to a review by the delivery office concerned. Conversely, if a delivery postman took longer than the required duration assessed by his Postal Inspector to complete his daily delivery duties, he would not be granted overtime hours automatically;
- Superintendents of Posts of delivery offices carried out checks on the pouch-out time (i.e. the time at which a delivery postman departed

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from the delivery office to commence the outdoor delivery duty) and the pouch-in time (i.e. the time at which a delivery postman returned to the delivery office after completing the outdoor delivery duty) to ensure that no excessive overtime was granted to individual beats. If a delivery postman persistently returned early, the respective Superintendents of Posts would review the standard workload of the delivery postman and seek endorsement from the Division Head for minor patching of the beat if the situation warranted;

- Postal Inspectors were required to conduct regular beat patrols at selected delivery points and the last stop of each permanent and temporary delivery beat at specified intervals without prior announcement to the delivery postman concerned. Superior spot checks of delivery beats were also conducted by the supervisors of the Postal Inspectors and the area Managers. If notable deviations and/or irregularities were observed during these inspections, they would be brought to the attention of the Mail Delivery Division Headquarters for necessary follow-up; and
- BST conducted independent supervisory checks and reported any irregularities observed to the Mail Delivery Division Headquarters and the Postal Services Branch Headquarters for follow-up actions. The frequency of these supervisory checks was increased from four times a month to six times a month from November 2015 and would be further increased to eight times a month in April 2016.

35. On how the manpower shortage problem of HKP could be addressed, **Postmaster General** provided in her letter of 17 December 2015 details of the staff situation of HKP, including the number of civil servants, vacancies and the vacancy rate in the Mail Distribution Division and AMC from 2010-2011 to 2015-2016 (*Appendix 60*) as well as similar figures for the NCSC staff for the same period (*Appendix 61*). The wastage rates of the Postal Officer grade and the Postman grade from 2010-2011 to 2014-2015 are provided in *Appendix 62*. She explained in her letter of 17 December 2015 (*Appendix 45*) about the difficulties in recruitment of civil servant staff and the measures to address the difficulties as follows:

- as HKP was required to follow procedures promulgated by the Civil Service Bureau, it had to process all applications received;
- once HKP embarked on a fresh round of recruitment, the waiting list from the last round of recruitment exercise would cease to be valid.

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As a consequence, HKP had to carry the vacancies arising during the recruitment process until the new intake reports for duty; and

- to address the above difficulties, HKP had sought to compress the recruitment process. The wastage of the Postal Officer grade and the Postman grade was relatively stable, and HKP did not face any retention difficulty for these two grades.

36. On the work of NCSC staff in HKP, **Postmaster General** advised in her letter of 9 December 2015 (*Appendix 48*) that NCSC staff had been deployed to assist delivery postmen in their daily work, such as conveying sorted mail in the delivery office to the workstations of individual postmen, mail sequencing work, loading mail pouches onto feeding vehicles and clearing and returning all sorting tools/equipment for use by postmen. As HKP encountered difficulty in recruitment and staff retention for NCSC positions, **Postmaster General** elaborated in her letter of 17 December 2015 (*Appendix 45*) measures which are summarized as follows:

- explaining details of job clearly in the vacancy advertisements to attract right candidates and reduce wastage;
- conducting regular pay level reviews for NCSC staff with reference to market pay levels to ensure the remuneration package was competitive;
- providing on-the-job training for NCSC staff; and
- offering an attractive career path for NCSC staff by encouraging them to apply for civil service vacancies in HKP with recognition to relevant working experience.

37. The Committee noted from paragraphs 2.59 to 2.60 of the Audit Report that some staff of AMC had worked significant amount of overtime and HKP had encountered recruitment difficulty because of intense competition for manpower at Chek Lap Kok. The Committee enquired about HKP's measures to address the manpower shortage at AMC and the overtime work issue.

38. **Postmaster General** advised in her letter of 5 January 2016 (*Appendix 56*) that:

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- AMC was responsible for processing outbound and inbound mail to and from international destinations year-round. As the arrivals and departures of the flights engaged for conveying HKP's international mail were spread throughout the day and in order to meet HKP's performance pledges for processing international mail, AMC operated round-the-clock;
- overtime work was inevitable due to the unpredictable nature of postal traffic. Other circumstances which further added to the need for overtime work at AMC included vacancies, for both civil service posts and NCSC positions and temporary staff absence due to various reasons; and
- the following measures had been implemented to ease the situation:
  - (a) re-engineering the work processes at AMC to reduce manual effort, e.g. scaling down the operations on Sundays and public holidays;
  - (b) transferring some of the operations to alternative locations in town where manpower shortage was less acute than at Chek Lap Kok;
  - (c) rescheduling the duty hours of the staff at AMC so that the operating hours of AMC could be covered by the regular workforce as far as operationally practicable. Some NCSC staff from other operational units of the International Mail Division had also been redeployed to AMC to reinforce the workforce there. In addition, starting from August 2015, HKP had deployed leave reserve staff to AMC to cover temporary absence arising from attendance of staff training;
  - (d) enhancing on-the-job training to equip the AMC staff with the necessary skills and knowledge for enhanced operational performance; and
  - (e) stepping up effort to fill NCSC vacancies in AMC, e.g. by distributing recruitment advertisements in Tung Chung by means of household circulars and engaging the assistance of the Labour Department in arranging recruitment campaigns in Tung Chung in 2015. HKP had also increased the salary for staff on overnight shift from 1 November 2015.

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As a result of the above measures, during the period from April to November 2015, the total overtime hours incurred by the AMC staff had reduced by 20% and the number of staff working overtime in excess of the monthly departmental ceiling of 60 hours had reduced by 71% compared with the same period in 2014. HKP would continue to monitor the overtime work incurred for operations at AMC with the objective of further reducing overtime work there where operationally practicable. In this connection, HKP would further examine the feasibility of adjusting the duty hours of the AMC staff as well as the manpower deployment (including the mix of civil service posts and NCSC positions) at AMC. Where operationally justified, HKP would consider creating additional posts.

39. In reply to the suggestion of providing transportation service to the workplace for staff working at AMC, **Postmaster General** pointed out in her letter of 5 January 2016 (*Appendix 56*) that AMC was easily accessible by public transport. The duty hours of the staff working at AMC were scheduled to cope with the round-the-clock operation of AMC and they spread throughout the day. Moreover, the arrival and departure patterns of the AMC staff were uneven in reflection of the manpower demands at different hours during the day. In view of the foregoing, HKP considered that the provision of departmental transportation service to the workplace for staff working at AMC was not a cost-effective arrangement and did not intend to pursue the suggestion.

40. In reply to the Committee's enquiry about the upgrading of portable digital assistant currently used by the delivery postmen, **Postmaster General** advised in her letter of 5 January 2016 (*Appendix 56*) that all delivery postmen in Mail Delivery Division were equipped with portable digital assistant for instant recording of the delivery status of mail items supported by mail tracking. The recorded delivery status was uploaded to HKP's Track and Trace System for customers to check updated mail delivery information conveniently. These portable digital assistants were due for replacement when they reached the end of their serviceable life in 2017. In preparation, HKP would embark on a review of the functional requirements in early 2016. Under this review, HKP would examine the merits and feasibility of incorporating additional functions into the device so as to enhance performance management and service quality. These additional functions included global positioning and/or tour monitoring system (for enhancing control of outdoor duties) and photo-taking (for reporting irregularities such as damaged/insecure letterboxes of households). Allowing time for the above-mentioned review, procurement as well as system design and development, HKP aimed to implement the replacement programme in phases from the third quarter of 2017 to the first quarter of 2018.

## D. Management of post offices

41. According to paragraph 3.3 of the Audit Report, in 2014-2015, out of the 127 post offices (including three mobile post offices), 103 recorded loss, ranging from \$350,000 to \$5.2 million. In reply to the Committee's enquiry about the information on the 24 post offices which achieved an operating profit in 2014-2015, **Postmaster General** provided in her letter of 5 January 2016 (*Appendix 56*) a breakdown on the profit and the scale of these 24 post offices. As regards the services provided at these post offices, they were broadly the same as other post offices. Half of them accepted bulk postings and thus attracted more revenue. Some of them provided additional services such as post office box rental, trade declaration service, etc. These 24 post offices were generally located in commercial or industrial areas with a higher transaction volume. 14 of them were on premises vested in POTF (i.e. without the need to pay rent) and thus had a lower operating cost base.

42. Noting from paragraph 3.7 and Table 11 of the Audit Report that 28 post offices had productivity indices<sup>12</sup> below 70%, the Committee enquired about the reasons for the relatively low productivity indices for these post offices and measures taken by HKP to enhance its productivity and operational efficiency.

43. **Postmaster General** advised in her letter of 8 January 2016 (*Appendix 47*) that productivity index had its limitations as it only measured the time required for transactions conducted over the counters and applied a ratio to project the time required for back-office activities. It could not fully reflect the workload and operational realities of individual post offices. It was necessary 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. HKP had implemented a number of resource-management and business development measures to improve the productivity. Details of such measures, such as adjustment of the service hours of post offices, rationalization of the bulk posting counter work, staggering of duty hours of post office staff and flexible staff deployment for neighbouring post offices, counter automation, generation of service demand through new/expanded services, were provided in the letter. In the same letter, **Postmaster General** also set out in details HKP's effort to enhance its productivity and operational efficiency through automation,

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12 According to Note 30 of the Audit Report, the productivity index was used by HKP to measure the manpower utilization at individual post offices.

Productivity index = Staff hours required ÷ Staff hours used × 100%

Staff hours required = Number of items handled × standard time applicable to the service

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mechanization, work process re-engineering, load levelling measures and work-sharing with mailers.

Rationalization of post offices

44. The Committee enquired about the background behind HKP's efforts to rationalize the post office network and planning guidelines on the provision of post offices. In reply, **Postmaster General** explained at the public hearings and supplemented in her letter of 5 January 2016 (*Appendix 56*) that:

- according to the recommendations in the Director of Audit's Report No. 54, the Postmaster General should conduct regular evaluation of the demand for the postal services of individual post offices and their financial viability to ensure that the operation of each post office was justified, and critically explored the feasibility of closing down loss-making post offices with low demand for postal services;
- taking account of changes in postal behaviour locally over the years and to pave the way for rationalizing the post office network, HKP conducted a review of the standards and guidelines for post office provision set out in the Hong Kong Planning Standards and Guidelines in 2014. Following approval by the Committee on Planning, Land and Development chaired by Secretary for Development, the updated standards and guidelines for post office provision (*Appendix 63*) took effect in December 2014. In essence, the radius of the catchment area of a post office in urban areas had been increased from 0.8 km to 1.2 km;
- taking account of the updated planning standards and guidelines for post office provision and the following consideration factors, HKP had kept under review the operation, as well as financial viability, of individual post offices to see if they continued to be justified:
  - (a) whether the catchment area of the post office in question (i.e. the area covered by a radius of 1.2 km from the location of the post office) overlapped to a large extent with the catchment area(s) of adjacent post office(s);
  - (b) demand for postal services in the local community;
  - (c) the financial performance of the post office; and

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- (d) whether there were alternative postal facilities in the neighborhood of the post office that were conveniently accessible to local residents;
- in deciding on the solution to be adopted, HKP needed to take full account of the particular local circumstances in each case. Experience indicated that the local community was often resistant to any proposals to reduce the service level of post offices, despite dwindling service demand; and
  - the existing three mobile post offices adequately catered for the service needs in locations which did not justify the operation of a post office. HKP would keep the situation under review and, where justified, adjust its service provision in response to the postal needs of the local community. In this connection, HKP would review the service points of the mobile post offices biennially.

45. In response to the Committee's enquiry about HKP's efforts to rationalize the post office network, **Postmaster General** explained at the public hearings and supplemented in her letter of 5 January 2016 (*Appendix 56*) that HKP would continue to monitor the overall performance of its post office network and take appropriate actions to ensure its cost-effective operation. HKP would continue to manage the costs of service provision, explore new revenue streams for its post office network and identify opportunities for further rationalization. While changes had been made to the scope of services and operation days/hours of Tsim Sha Tsui Post Office, Chuk Yuen Post Office, Lok Wah Post Office and other 59 post office, Cloud View Road Post Office and On Ting Post Office were closed.

Provision of mobile post offices

46. The Committee noted from paragraphs 3.14 to 3.17 about the performance of the three mobile post offices and asked HKP about its justifications for using mobile post offices and its review of the existing routes of the two mobile post offices serving the New Territories.

47. **Postmaster General** advised at the public hearings and supplemented in her letter of 5 January 2016 (*Appendix 56*) that HKP had recently completed a review on the three mobile post offices with results as follows:

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- for two mobile post offices servicing New Territories, i.e. Mobile Post Offices No. 1 and No. 2, the transaction pattern of all 58 service points served was analyzed. Taking account of changes in the postal service demand of the local community and the improved accessibility of alternative postal facilities in the neighbourhood of the existing service points, HKP would cease service provision at 13 service points that either have a low service demand or were within the service boundaries of post offices in the vicinity. HKP would also suitably adjust the frequency of visits to a number of service points to align with service demand with a view to optimizing resource utilization. HKP would implement the above-mentioned adjustments with effect from April 2016; and
- for Mobile Post Office No. 3, it currently had only one service point at Lok Wah Estate. HKP would keep its service provision under review having regard to the service demand of the local community.

48. In reply to the Committee's enquiry about the channels for HKP to inform the public about the visiting schedules of the mobile post offices so as to enhance the utilization of these offices, **Postmaster General** said in her letter of 5 January 2016 (*Appendix 56*) that:

- HKP displayed the visiting schedules of the mobile post offices at the service points and advertised them on HKP's website;
- the public might also make enquiries at the HKP enquiry hotline and the government hotline 1823; and
- to enhance communication to the local community, HKP would display notices/posters in the vicinity of the service points and at the offices of village representatives and the public enquiry service centres of Home Affairs Department. The information would also be disseminated to the relevant District Councillors.

## **E. Management of postal vehicles**

### Utilization of postal vehicles

49. The Committee noted from paragraph 4.12 and Table 14 that some postal vehicles were under-utilized, with some 15 vehicles had utilization rate of less than 50%. In this connection, the Committee enquired about:

- how the utilization rate of postal vehicles was calculated;
- reasons for the low utilization rates for these 15 vehicles; and
- measures to increase the utilization of these vehicles.

50. **Postmaster General** responded in her letter of 5 January 2016 (*Appendix 56*) that HKP was conducting a review on the formula and assumptions currently used for calculating the utilization rates for different types of HKP's vehicles with the objective of enhancing the management of HKP's vehicle fleet by making available more accurate and reliable utilization data. Under this review, HKP would update the pre-determined factors for calculating the vehicle utilization rates (e.g. vehicle available hours, loading and unloading time and the usage patterns of vehicles, etc.) taking account of the prevailing organization of postal operations and the deployment arrangements for different types of departmental vehicles. The updated formula and assumptions would be on trial in the first quarter of 2016. Subject to the successful completion of the trial, HKP planned to implement the updated methodology for calculating the utilization rates of departmental vehicles in April 2016.

51. On the 15 vehicles which had utilization rate of less than 50%, **Postmaster General** advised at the public hearings and supplemented in her letter of 8 January 2016 about the reasons for such low utilization (*Appendix 64*). In summary, the reasons for low utilization rates and the measures to increase utilization were:

- some vehicles were reserve vehicles to provide support when the regular fleet was under scheduled or unforeseen maintenance to ensure undisrupted service provision. The reserve vehicles would be deployed to take up additional ad hoc duties as far as operationally practicable;

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- the methodology for calculating vehicle utilization rates did not reflect the usage pattern of the vehicles, e.g. the service duration of vehicles deployed for motorized beats was about 5.5 hours a day instead of nine hours a day as assumed under the prevailing methodology. HKP aimed to implement a revised methodology from April 2016 and the utilization of these vehicles would be reflected more accurately under the revised methodology;
- due to functional limitations of electric vehicles, they were generally used only for shorter journeys to ensure that they had a sufficient electricity supply; and
- utilization of the vehicles were limited by a shortage of drivers arising from the retirement and/or promotion of the incumbent drivers. HKP identified suitable candidates in the recent internal recruitment exercise conducted in September 2015. They would fill the vacancies once they had obtained a licence for driving government vehicles. To expand the pool of Postman Drivers, HKP would arrange more suitable candidates with a driving licence to attend training and take the test for driving government licences.

**Postmaster General** further said that with continuous effort to enhance the utilization of these vehicles, there was an improvement in the overall utilization rate of these 15 vehicles by 11 percentage points during the period from September to November 2015.

#### Management of hired vehicles

52. The Committee noted from paragraph 4.22 of the Audit Report that as at 31 March 2015, there were 16 hired vehicle contracts, of which 15 contracts were awarded to three contractors (involving 328 vehicles). For the preceding 16 contracts, 13 contracts were awarded to two contractors. One of the reasons for the award of contracts to just a few contractors was HKP's requirement on the minimum number of vehicles required in each contract. The minimum number required ranged from 20 to 38 for light goods vehicles, and ranged from 2 to 34 for trucks. The Committee enquired how HKP would promote tender participation and competition.

53. **Postmaster General** replied in her letter of 5 January 2016 (*Appendix 56*) that:

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- as HKP procured hired vehicle services by open tender, any service providers that were able to meet the tender specifications might submit a tender. HKP did not have information on the number of potential suppliers in Hong Kong that were able to meet the requirements on the minimum number of light goods vehicles and trucks under the respective tender exercises, which were set by reference to HKP's operational needs; and
- HKP was committed to encouraging market participation and market competition in its procurement of hired vehicle services in order to achieve better value for money, and had been taking action in this direction in its recent hired vehicle procurement exercises.

54. On HKP's measures to enhance monitoring and managing the performance of hired vehicles, **Postmaster General** pointed out in her letter of 8 January 2016 (*Appendix 47*) that HKP had an established mechanism for monitoring and managing the performance of hired vehicles to ensure that the service and performance requirements under contract were fully met. Details of various measures, such as the signing in/out, a vehicle daily log sheet, reporting any irregularities by HKP staff on board the hired vehicles, the use of IT, including the daily log sheets were captured electronically for generation of exception reports, and other administrative monitoring measures, were given in the letter. Consideration might be given to installing global positioning system on hired vehicles in the long run for efficient performance management of these vehicles.

#### **F. Management of Central Mail Centre and General Post Office Building**

55. The Committee noted that from paragraph 5.6 of the Audit Report that as at May 2015 accommodations were provided for some divisions/sections not listed on the approved Schedule of Accommodation of June 2010. In reply to members' enquiry about the reasons, **Postmaster General** explained at the public hearings that HKP aimed to optimize the utility of CMC. To achieve this, some divisions/sections which were located at offsite offices were re-located to CMC, thus saving the rental expenditure of these offices. Regarding the 46 vacant work stations mentioned in paragraph 5.11 of the Audit Report, **Postmaster General** provided an updated allocation plan for these work stations on the fifth floor of CMC in her letter of 8 January 2016 (*Appendix 65*).

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56. The Committee noted that from paragraph 5.16 of the Audit Report that in the Director of Audit's Report No. 31 issued in October 1998, Audit had reported on the Government's slow progress in the redevelopment of GPO site to maximize its development potential. In the 2014 Policy Address, the Government announced that it would launch the development of Site 3 under the Urban Design Study for the New Central Harbourfront as soon as possible. In order for Site 3 to be developed in accordance with the Study's recommendations, the GPO Building now located at the southern part of Site 3 had to be reprovisioned. The Committee sought further details about the progress of the reprovisioning exercise of the GPO Building.

57. **Postmaster General** explained at the public hearings and supplemented in her letter of 5 January 2016 (*Appendix 56*) that:

- the GPO Building was situated in Site 3 of the New Central Harbourfront. In accordance with the Urban Design Study for the New Central Harbourfront completed by the Planning Department, Site 3 had been earmarked for development as a comprehensive development area. It was Government's plan to develop this site upon the completion of the Central-Wan Chai Bypass and the relocation of the relevant facilities. The reprovisioning of the GPO Building would be taken forward in step with the development of Site 3, which Government expected to commence in the next two to three years;
- the GPO reprovisioning project comprised two parts, viz. reprovisioning of the district-tied facilities and reprovisioning of the HKP's Headquarters. The district-tied facilities (i.e. the GPO Counter Office and the Post Office Box Section, the GPO Delivery Office, and the Speedpost Section) would be reprovisioned to a location north of Lung Wo Road within Site 3 of the New Central Harbourfront to meet the postal needs of the local community. HKP's Headquarters would be reprovisioned to a government site adjacent to CMC in Kowloon Bay. In order to maintain service continuity, the GPO Building would be demolished upon the completion of the reprovisioning of the relevant facilities; and
- HKP aimed to consult the Central and Western District Council and the Kwun Tong District Council respectively on the two GPO-related reprovisioning projects in 2016.

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**G. Conclusions and recommendations**

<b>Overall comments</b>
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58. The Committee:

- notes that the underperformance of Hongkong Post ("HKP") could be attributable to the dual role of HKP as a trading fund and a government department. As a trading fund, HKP has the flexibility in deploying the revenue generated from the business to cover the cost of service provision on a self-financing basis and has to achieve a target rate of return set by Financial Secretary. This role, however, is constrained by its status as a government department which is required to follow government policies, regulations and rules, such as the annual salary adjustment of civil servants and the Government's Stores and Procurement Regulations. This constraint would also limit the intended flexibility allowed for HKP and may have an adverse impact on its competitiveness in an open market of postal and courier services;

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- regrets that there have been inadequacies and room for improvement in the management and operation of HKP as evidenced by the following:
  - (a) the Audit Commission ("Audit") has conducted six value-for-money audits on various aspects of HKP since 2001<sup>13</sup> and the Committee has conducted hearings on "Financial performance of the Post Office" and "The Postal Mechanisation System at the Air Mail Centre" in 2002 and 2005 respectively;
  - (b) HKP did not achieve the target rates of return<sup>14</sup> in 14 years of the 20-year period from 1995-1996 to 2014-2015, including the last six years since 2009-2010;

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13 The six relevant chapters which have touched upon the operation of HKP are Chapter 9 of Director of Audit's Report ("Audit Report") No. 36, Chapter 6 of Audit Report No. 38, Chapter 7 of Audit Report No. 44, Chapter 2 of Audit Report No. 49, Chapter 8 of Audit Report No. 54 and the present one.

14 Under section 6(6) of the Trading Funds Ordinance (Cap. 430), HKP is required to achieve a reasonable return on fixed assets employed as determined by the Financial Secretary. The current target rate of return on fixed assets is 5.9%.

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- (c) HKP recorded operating loss in eight of the last 20 years from the establishment of the Post Office Trading Fund from 1995-1996 to 2014-2015;
  - (d) 103 (81%) of the 127 post offices of HKP (including three mobile post offices) recorded loss in 2014-2015, ranging from \$350,000 to \$5.2 million; and
  - (e) two mobile post offices have been operating at an annual loss of more than \$1 million each and during site inspection, Audit observed that each of the two mobile post offices serving various districts in the New Territories only served 11.5 customers and handled 12.5 items per day on average;
- recognizes that HKP is obliged to provide mail services falling under the universal service obligations which bear multiple characteristics: universal geographical coverage, whole range of postal products, universal access to services and facilities by the general public, affordable pricing, high service quality and security of mail. HKP has to honour the obligation to deliver any mail to every Hong Kong address at the same affordable price, with the same delivery frequency and security level;
  - notes that:
    - (a) the postal and courier services in Hong Kong is an open market with a relatively low barrier to entry and HKP has been facing keen competition from its competitors who could choose to compete in a niche and profitable market segment; and
    - (b) Secretary for Commerce and Economic Development has explained that the trading fund mode of operation is most suitable for HKP among other modes of operation, such as vote-funded department and corporatization/privatization, in view of the flexibilities allowed for HKP;
  - expresses dissatisfaction and disappointment that Postmaster General had not made her best efforts in exploring with the relevant bureaux/departments for enhanced flexibility that could address the institutional constraints faced by HKP;

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- urges Secretary for Commerce and Economic Development and Postmaster General to:
  - (a) fundamentally review the operation of HKP in its dual role as a trading fund and a government department;
  - (b) take the opportunity when the target rate of return for HKP is to be reviewed in 2016 to discuss with the Financial Services and the Treasury Bureau on a more realistic rate of return; and
  - (c) continue to explore measures to provide enhanced flexibility to facilitate HKP's operation;
- urges Postmaster General to conduct a review of the postal and courier market, in particular, the fast-expanding e-commerce, so as to identify a niche position for HKP which has a vast and comprehensive network of post offices;
- acknowledges that Postmaster General has undertaken that HKP would follow up with the Financial Services and the Treasury Bureau on the new rate of return for HKP in the review of the target rates of return for all trading funds in 2016 and would examine if there is scope for enhanced flexibility to facilitate HKP's operations in the review of the Framework Agreement between Secretary for Commerce and Economic Development and Postmaster General in 2016;
- wishes to be informed of the results of the discussion between Secretary for Commerce and Economic Development, Postmaster General and the Financial Services and the Treasury Bureau on the new rate of return for HKP and any new arrangements to enhance flexibility in HKP's operation;

Management of mail processing

*Insufficient postage*

- expresses concern that HKP has not implemented sufficient measures to detect and follow up on mail items with insufficient postage paid as evidenced by the following:
  - (a) 43 (86%) of 50 test letters (including 12 of the 13 test letters without postage stamps) sent out by Audit in mid-June to

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mid-July 2015 successfully passed through the detection mechanism implemented by HKP and were delivered to the addressees without being surcharged;

- (b) according to Audit's risk-based weighing test of 546 mail items conducted at the Central Mail Centre on 17 July 2015, 263 (48.2%) of them were underpaid; and
  - (c) some of the test letters had been detected by HKP staff but they were nonetheless delivered to the addressees without being surcharged;
- urges HKP to strike a balance when considering utilizing its already constrained manpower and resources to detect mail items with insufficient postage and recover underpaid postage to achieve cost-effectiveness in the use of resources. However, HKP should also have regard to the deterrent effect of its actions and the message its actions will convey to the public about the importance of paying sufficient postage for their mail items as part of the educational and promotional work;
  - acknowledges that HKP has implemented new measures to address mail items with underpayment of postage, including:
    - (a) stepping up staff awareness of their role to protect HKP's revenue;
    - (b) increasing the minimum quantity of mails to be checked by supervisors;
    - (c) centrally processing all mail items identified to carry insufficient postage at the Central Mail Centre and enhancing management control over surcharged items; and
    - (d) stepping up publicity and public education on the responsibility of mailers to pay sufficient postage;

*Tendering of airfreight services*

- expresses concern that for HKP's 2014-2015 tender exercise of airfreight services for its Speedpost and airmail, HKP did not provide

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accurate information to the Central Tender Board<sup>15</sup> on the results of the financial vetting of the tenderers and HKP's justifications for waiving the contract deposits when it sought the approval of the Central Tender Board for the award of the contracts;

- urges HKP, as a government department, to follow the Government's Stores and Procurement Regulations in tender exercises. It should provide sufficient justifications and documentation for its decisions which depart from the regulations and established practice for the relevant authority's approval to increase transparency and accountability;

*Overtime work of HKP staff*

- notes that as the number of staff employed by HKP had decreased from 7 230 in 2010-2011 to 7 032 in 2014-2015, the number of overtime hours for 2014-2015 was at a high level of 1 362 941;
- expresses dismay and serious concern that HKP has failed in its efforts in supervising and monitoring the overtime work of its staff as evidenced by the following:
  - (a) despite that according to the Civil Service Regulations, overtime work performed should normally be compensated by time-off in lieu ("TOIL") and where TOIL is, or is likely to be, impracticable within one month of the day on which the overtime is worked, an overtime allowance ("OTA") may be paid, overtime hours worked by HKP staff had long been mainly compensated by OTA rather than compensated by TOIL. For instance, the number of overtime hours for 2014-2015 was 1 362 941, of which 1 115 234 hours (81.8%) were compensated by OTA (\$179 million);
  - (b) a comprehensive review on the standard time for processing and delivering different mail items had not been conducted since 2008 and there had been delays in undertaking regular beat revisions. These factors are essential in formulating the standard workload of a delivery postman and whether overtime work has to be performed;

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<sup>15</sup> The Central Tender Board, chaired by Permanent Secretary for Financial Services and the Treasury (Treasury), considers and decides on the acceptance of service tenders exceeding \$15 million.

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- (c) Beat Survey Team only carried out supervisory checks of 48 beats a year, representing only 2.7% of the 1 756 beats in 2014-2015;
  - (d) 14 staff of the Air Mail Centre had worked the largest number of overtime hours in all the five years from 2010-2011 to 2014-2015. They worked some 990 to 1 440 hours of overtime each year; and
  - (e) for 2014-2015, eight staff of the Postal Officer grade and 20 staff of the Postman grade (who had not accumulated the maximum amount of earned vacation leave) were allowed to take vacation leave before first using their TOIL balances, contrary to Civil Service Bureau Circular No. 18/2000 which stipulates that TOIL is granted preferably before a staff takes his earned leave, unless the staff concerned has accumulated the maximum amount of earned vacation leave permissible under the relevant Civil Service Regulations;
- notes that Postmaster General has explained that overtime work is mainly caused by special commitment (e.g. exceptionally heavy mail arrivals which are outside the handling capacity of scheduled staff which fluctuates during a day, week, month and year). Changes in mail traffic are often difficult to predict and are beyond HKP's control. HKP also faces institutional manpower shortage at specific stages of recruitment/promotion exercises;
  - acknowledges that HKP has implemented new measures to monitor and minimize the overtime work of HKP staff including:
    - (a) using technological solutions for automation and streamlining operation, such as upgrading the Mechanized Letter Sorting System and developing a Chinese Character Optical Recognition capability for the Mechanized Letter Sorting System to increase the efficiency of local mail processing;
    - (b) rationalizing the operation and service hours of post office services and the duty hours of post office staff;
    - (c) recruiting additional temporary staff to assist in some of the backend work processes;

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- (d) conducting a comprehensive review to provide an updated basis for workload assessment for delivery postmen in 2016 and aiming to complete all outstanding beat revision exercises by the end of 2017; and
  - (e) reviewing the functional requirements for the portable digital assistant carried by delivery postmen which will be replaced from third quarter 2017 to first quarter 2018 to see whether new functions such as global positioning and/or tour monitoring system should be added for enhancing control of outdoor duties; and
- urges HKP to:
- (a) maintain close communication with its staff and the workers' unions to understand the problems faced by the frontline staff in their daily work and work together with the staff and unions to devise any new measures to address the significant overtime issue;
  - (b) act as a good employer by closely monitoring the workload of its staff. Consideration should be given to exploring the use of new technology and work re-engineering in the workflow in order not to overburden HKP staff with regular overtime work;
  - (c) conduct a comprehensive review on the manpower situation and deployment and explore measures, including the need for additional civil servant posts and/or non-civil-service contract staff, to address the manpower shortage problem with a view to alleviating the significant overtime work of its staff;
  - (d) expedite a comprehensive review of the standard time for processing and delivering different mail items and conduct regular beat revision exercises in order to formulate an updated workload for delivery postmen; and
  - (e) implement effective measures to monitor and control the granting of overtime work for its staff.

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<b>Specific comments</b>
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59. The Committee:

Management of mail processing

- expresses concern that:

- (a) while the risk of underpayment was lower for 88% of locally posted mail items which were prepaid or paid by permit/meter/postage label, there is room for improvement in HKP's measures in preventing or detecting underpayment of postage for the remaining 12% of locally posted mail items which were paid by stamps (about 400 000 per day), as revealed by the results of the following three different tests conducted by Audit:
- 43 (86%) of the 50 test letters with no or insufficient postage posted by Audit in June and July 2015 successfully passed through the detection mechanism of HKP without being surcharged;
  - postage was underpaid for 263 (48.2%) of 546 mail items that in appearance did not have sufficient postage checked by Audit, and the total underpayment was 39.4% of the correct postage required for the 263 underpaid items; and
  - for 1 190 mail items selected randomly by Audit, 97 (8.2%) were found to be underpaid, and the postage underpaid represented 29.8% of the correct postage of the 97 underpaid items and 3.5% of that of all the 1 190 mail items;
- (b) in the 2014-2015 airfreight services tender exercise, HKP did not require the tenderers who failed the financial vetting and whose estimated contract value exceeded \$5 million to submit a contract deposit as required by the Government's Stores and Procurement Regulations. HKP had neither provided accurate information to the Central Tender Board on the results of its financial vetting nor the justifications for waiving the contract deposits; and

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- (c) HKP's conveyance computer system did not capture instances where the daily actual allotment of mail items to contractors of airfreight services did not follow the intended allotment sequence;

*Overtime work of HKP staff*

- expresses dismay and serious concern that:
  - (a) many civil servants working in HKP worked overtime, which were compensated mainly by OTA rather than by TOIL. In 2014-2015, OTA of \$179 million were paid to compensate 81.8% of the overtime hours of 1 362 941. OTA payment represented, on average, 15.4% of the salaries of some 4 200 civil servants who were paid OTA;
  - (b) HKP had not carried out comprehensive review on the standard time for processing and delivering different mail items since March 2008;
  - (c) there were substantial delays in carrying out beat revision exercises to assess the workload of the delivery postman of each delivery beat;
  - (d) the Beat Survey Team only carried out supervisory checks on 48 beats a year representing only 2.7% of the 1 756 beats in 2014-2015; and
  - (e) in the five-year period from 2010-2011 to 2014-2015, some staff had worked significant amount of overtime; some staff were not required to exhaust TOIL before taking vacation leave; and some staff had taken long sick leave and worked long overtime;
- notes that Postmaster General has agreed with Audit's recommendations in paragraphs 2.15, 2.29, 2.39, 2.55 and 2.66 of the Director of Audit's Report ("Audit Report");

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Management of post offices

- expresses serious concern that:
  - (a) the number of post offices making operating loss increased from 90 (70% of 128 post offices) in 2010-2011 to 103 (81% of 127 post offices) in 2014-2015. Of the 127 post offices in 2014-2015, 84 (66%) made operating loss in all the five years in the period from 2010-2011 to 2014-2015;
  - (b) for 2014-2015, the productivity indices (used by HKP to measure the manpower utilization at individual post offices) were below 70% in 28 post offices. For these post offices, 16 post offices' productivity indices were consistently below 70% for the three years from 2012-2013 to 2014-2015; and
  - (c) during Audit's site inspection, the number of customers and items handled by the two mobile post offices serving the New Territories were small (11.5 customers and 12.5 items per day each on average). The annual operating loss incurred by each of these two mobile post offices has been more than \$1 million;
- notes that Postmaster General has agreed with Audit's recommendations in paragraphs 3.12 and 3.18 of the Audit Report;

Management of postal vehicles

- expresses dissatisfaction that:
  - (a) there were shortcomings in HKP's calculation of the utilization rates of its departmental vehicles. For instance, the pre-determined loading/unloading time for some types of vehicles were long and some loading/unloading time was incorrectly counted as usage time;
  - (b) for 2014-2015, the utilization rate of 15 of the 265 HKP's vehicles used for mail transportation was 50% or below;
  - (c) supervisory checking was conducted less frequently than as required by the supervisory measures set by HKP in respect of vehicles deployed to Motorized Delivery Beat and Speedpost/Parcel Team; and

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- (d) HKP relied on a few contractors to provide hired vehicles. As at 31 March 2015, of the 16 hired vehicle contracts, 15 were awarded to three contractors. There were only a small number of tenderers in the tendering exercises conducted in 2013 to 2015;
- notes that Postmaster General has agreed with Audit's recommendations in paragraphs 4.18 and 4.29 of the Audit Report;

Management of Central Mail Centre and General Post Office Building

- expresses concern that:
  - (a) HKP had not sought in a timely manner the Property Vetting Committee's approval for changes to accommodations reprovisioned from the International Mail Centre to the Central Mail Centre;
  - (b) nearly half (some 300 square metres) of the open plan area of the Central Mail Centre (involving 46 work stations) was not in use; and
  - (c) some 30 years have lapsed since the Government started planning for the relocation of the General Post Office Building (located at Connaught Place, Central) and the site has yet to be redeveloped;
- notes that Postmaster General has agreed with Audit's recommendations in paragraphs 5.13 and 5.20 of the Audit Report; and
- notes the advice by Postmaster General that the General Post Office Building will be reprovisioned in two batches. The Headquarters will be relocated to a government site adjacent to the Central Mail Centre in Kowloon Bay. The relevant public works project for the building is in progress. As regards the remaining facilities at the General Post Office Building, that is, the district post office and the delivery office, they would be reprovisioned in the redeveloped Site 3<sup>16</sup> in Central. According to the information provided by the Development Bureau, it is forecasted that Site 3 will be developed in the coming two or three years.

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<sup>16</sup> Site 3 of the Central Harbourfront Development is a comprehensive development area located at the north of Statue Square.

<b>Follow-up action</b>
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60. The Committee wishes to be kept informed of:
- the progress made in implementing the various recommendations made by the Committee and Audit; and
  - the results of the discussion among the Commerce and Economic Development Bureau, HKP and Financial Secretary on the review of the new target rate of return for HKP in 2016 and any new arrangements to be implemented to enhance the flexibility of the operation of HKP.