

Report No. 54 of the Director of Audit — Chapter 8

PROVISION OF POSTAL SERVICES

Summary

1. The aims of the Hongkong Post (HKP) are to meet Hong Kong's postal needs and fulfil Hong Kong's international postal obligations by providing reliable, efficient and universal postal services at reasonable and affordable prices. In August 1995, it began operating as a trading fund (the Post Office Trading Fund — POTF). As a trading fund department, the HKP is expected to provide its services on a self-financing basis plus a reasonable return on the fixed assets employed. The Audit Commission (Audit) has recently conducted a review of the HKP's provision of postal services.

Business planning

2. *Annual business planning of the HKP.* According to the Framework Agreement signed by the then Secretary for Economic Services and the Postmaster General: (a) the HKP submits each year a Medium Range Corporate Plan and an Annual Business Plan at the beginning of October for approval not later than the end of January in the following year; and (b) the Commerce and Economic Development Bureau (CEDB), with the approval of the Financial Services and the Treasury Bureau (FSTB), authorises the HKP to proceed in accordance with the Plans. In 2008-09 and 2009-10, the FSTB approved the Plans 37 and 8 days respectively after the relevant financial year had commenced. Authorisations for the HKP to proceed in accordance with the Plans were given by the CEDB 93 and 104 days respectively after the relevant financial year had commenced. *Audit has recommended that the Postmaster General should, in consultation with the CEDB and the FSTB, determine a practical submission time of the Plans so that the necessary approval and authorisation can be given to the HKP before the commencement of the relevant financial year.*

Postal operations

3. *Financial viability of post offices.* The HKP considers that financial viability is one of the factors which it should take into account in the provision of post offices. In 2008-09, 97 (77.6%) of the 125 post offices operated by the HKP incurred a loss, ranging from \$13,000 to \$6.8 million. The losses totalled \$117.2 million. Of the 97 post offices, 18 post offices earned revenue of less than \$500,000 each and incurred operating loss of more than \$1 million each. *Audit has recommended that the Postmaster General should:*

(a) 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 is justified; and (b) critically explore the feasibility of closing down loss-making post offices with low demand for postal services.

4. ***Underpayment of postage.*** For mail placed directly into posting boxes, there is a risk that the senders may not have affixed stamps of the correct amounts on their mail. Audit checked 1,299 mail items and found that the amount of underpaid postage was as high as 37.7% of the correct postage. Since a significant proportion of the HKP's revenue is derived from postage for mail posted through posting boxes, the financial impact of underpaid mail on the operating result of the HKP could be substantial. *Audit has recommended that the Postmaster General should: (a) devise an effective system to detect and deter the underpayment of postage; and (b) step up the HKP's publicity efforts to remind the public of their responsibility to pay sufficient postage for their mail.*

5. ***Revision of the Local Bulk Mail Scheme.*** In July 1997, the HKP introduced the Local Bulk Mail Scheme (LBMS) to offer discounts in the postage rates of certain categories of local mail posted in bulk volume. With the enhanced efficiency of the new Mechanised Letter Sorting System (MLSS) installed in June 2009, the HKP found that the discounts given under the LBMS were no longer justified. In June 2008, the HKP sought the CEDB's endorsement on a proposal to revise the LBMS. It estimated that the proposal would increase the POTF's revenue by \$88 million a year and would increase the POTF's rate of return for 2009-10 from 3.2% to 5.6%. In view of the global financial crisis in 2008, the CEDB and the HKP agreed that it was not an appropriate time to take forward the proposal. *Audit has recommended that the Postmaster General should, in consultation with the CEDB, revisit the proposed revision of the LBMS.*

6. ***Testing and maintenance of postal scales.*** According to the HKP's Departmental Rules: (a) all postal scales should be tested on the first working day of every week; (b) scales should be tested at specified weighing points; and (c) the maintenance contractor should clean, inspect and carry out safety test regularly. Audit found that: (a) King's Road Post Office and Lam Tin Post Office did not fully comply with the requirement on testing of scales on the first working day of every week; (b) King's Road Post Office did not test the scales by a proper method; and (c) documentary evidence was not available to show that regular maintenance was performed. *Audit has recommended that the Postmaster General should: (a) ensure that the requirements relating to the testing and maintenance of postal scales stipulated in the Departmental Rules are complied with; and (b) issue guidelines to post offices on the proper method of scale testing.*

7. **Supervisory checks on mail.** According to the Departmental Rules, daily supervisory checks should be conducted on specified types of mail. Audit found that there were cases in which the numbers of items checked at the Air Mail Centre and the General Post Office were less than those required. Audit also found that for bulk posting, the supervisory check requirements specified in the HKP's Bulk Mail Checking Manual are different from those specified in the Departmental Rules. *Audit has recommended that the Postmaster General should ensure that: (a) the requirements specified in the Departmental Rules and the Bulk Mail Checking Manual are consistent with each other; and (b) supervisory checks are conducted according to the requirements of the Departmental Rules and the Bulk Mail Checking Manual.*

8. **Post office box service.** The HKP incurred a loss of \$4 million in 2007-08 in providing the post office box service. In 2008-09, the loss increased to \$4.9 million. As at 31 December 2009, 3,437 (6.9%) of the total 49,565 post office boxes were vacant, and three post offices with more than 200 post office boxes had a vacancy rate higher than 10%. *Audit has recommended that the Postmaster General should take expeditious measures to reduce the loss incurred for the post office box service.*

9. **Sorting of letters.** The MLSS can only handle letters with English addresses. Letters with Chinese addresses are sorted manually. About 7% of the letters suitable for machine sorting are with Chinese addresses. For letters that can be handled by the MLSS, if it fails to read any parts of the addresses, it will transmit the images of the addresses to its video coding stations. The staff manning the stations will key in the address information not recognised by the MLSS. The HKP deploys Postmen and non-civil service contract staff to operate the video coding stations. Video coding requires virtually no training in postal operations nor complex knowledge of streets and buildings that comprise a delivery beat. From June to November 2009, it deployed an average of 7,580 man-hours each month to perform video coding. *Audit has recommended that the Postmaster General should: (a) continue to keep in view the latest development of technology in the mechanised sorting of letters with Chinese addresses and explore the feasibility of automating the sorting of such letters; and (b) review the cost-effectiveness of deploying Postmen and non-civil service contract staff to perform video coding function, and explore the feasibility of performing the function by more cost-effective alternatives.*

10. **Transportation of mail.** As at 31 December 2009, the HKP had a fleet of 295 vehicles. In 2008-09, a total of 497,015 vehicle hours were hired at a cost of \$50 million to supplement the fleet. A departmental transport review by the Government Logistics Department may be able to identify savings and room for improvement. Moreover, Audit estimates that the HKP's costs of using hired vehicles are much lower than the costs of using its own vehicles. *Audit has recommended that the Postmaster General should consider inviting the Government Logistics Department to conduct a departmental transport review of the HKP's vehicle fleet and the arrangements for the hiring of vehicles.*

Financial performance

11. **Financial performance of the HKP.** The POTF's target rate of return was set at 8.4% on its average net fixed assets. According to its financial budget/forecast, the POTF's rate of return will decrease to 3.2% in 2009-10, and it will incur operating losses in 2010-11 to 2013-14. *Audit has recommended that the Postmaster General should: (a) review the sustainability of the POTF; and (b) in consultation with the CEDB, formulate a viable plan to enhance the sustainability of the POTF.*

12. **Determination of postage rates.** The HKP aims to meet Hong Kong's postal needs and fulfil Hong Kong's international postal obligations by providing reliable, efficient and universal postal services at reasonable and affordable prices. As a trading fund department, the HKP is expected to provide its services on a self-financing basis plus a reasonable return. The HKP has not been able to recover the full cost of providing the local mail services. The HKP needs to ensure the achievement of the postal policy objectives as well as its financial objectives. *Audit has recommended that the Postmaster General should: (a) consider conducting a review to determine the postage rates that are considered reasonable and affordable to the public; and (b) formulate a pricing strategy for the postal services.*

13. **Revision of postage rates.** In October 2007, the HKP submitted to the CEDB a proposal to increase the postage rates with effect from 1 October 2008. It considered that the postage rate revision, which would result in a weighted average increase of 9.4% over the existing postage rates, was crucial to the financial sustainability of the POTF. As over two years have elapsed, the HKP needs to submit to the CEDB a new proposal on postage rate revision. *Audit has recommended that the Postmaster General should take action to formulate a new proposal on postage rate revision for submission to the CEDB, taking into account the latest economic outlook and the improvement in the HKP's financial position brought about by the implementation of the audit recommendations in this audit report.*

Performance management and reporting

14. **Performance pledges.** In 2008-09, the HKP's performance pledges included 19 items on the provision of postal services. Performance targets of six services were consistently achieved and exceeded over the last four years. The HKP's performance measuring procedures only covered 18 of the 19 services. The performance of the seven delivery offices on outlying islands was not selected for performance measurement relating to the delivery of local mail. The performance on Saturdays, Sundays and public holidays was excluded from the performance measurement relating to the waiting time for over-the-counter services. The performance relating to telephone hotlines reported by the HKP did not cover all the hotlines. Information on actual performance on processing the applications for HKP Circular Service was not kept to support the reported performance. Furthermore, the current year's performance targets were not disclosed in its 2007-08 and 2008-09 Annual

Reports together with the actual performance. *Audit has recommended that the Postmaster General should: (a) consider setting more challenging targets; (b) review the measuring procedures so that they cover all the services in the performance pledges; (c) ensure that the performance measurement relating to the delivery of local mail by delivery offices on outlying islands is covered; (d) ensure that the performance measurement relating to the waiting time for over-the-counter services includes Saturdays, Sundays and public holidays; (e) ensure that all hotlines are covered in the performance measurement; (f) ensure that documentary evidence is kept showing the actual performance relating to the processing of HKP Circular Service applications; and (g) include the performance targets of the current year in the HKP's Annual Report.*

Response from the Administration

15. The Postmaster General agrees with the audit recommendations.

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